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

# Exhibits of the Staff Unbundling Panel

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**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: IT costs

Request #: DPS-139

Response Date: October 26, 2006

Respondent: J. Bodanza, R. Lukas, M. Smith, F. Mangano

Q:

1. Reference page 31. Demonstrate and explain the rationale for the split of Customer Information costs between distribution and billing and payment processing (BIPP) functions. The answer should include the total number of dollars, both rate base and expense, and the amount reflected in the rate year revenues. It should also reflect the breakdown of these costs between those allocated to the unbundled BIPP function/charge and distribution.

2. Reference page 31. Demonstrate how the Gas Business Unit Information Systems costs are allocated to revenue functions, with an explicit demonstration of how these costs are proposed to influence the fees for reconnection and suspension. The answer should reflect the incremental amount proposed for these charges related to these costs and the detail of how these costs result in that proposal.

A:

1. In the COSS, Customer Information Systems capitalized costs are included in Account numbers 301 – 3( special study referenced in Mr. Lukas' testimony. The result of this allocation was to charge the systems costs to the areas that were the primary users of those systems. The percentages are as follows: Distribution - 82.4%, Billing and Payment Processing - 11.5% and Collections - 6.2%.

2. Because the reconnection and suspension fees are existing fees there are no incremental Gas Business Unit Information Systems costs associated with them and, therefore, they do not impact any allocations. Please note the reconnection and suspension fees were not increased.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: ECOS

Request #: DPS-142

Response Date: October 26, 2006

Respondent: J. Trainor, T. Madeo

Q:

1. Reference page 7. You list the functions used in the first step of the embedded COSS process as: supply/storage, collection costs related to supply, transmission, distribution and billing/payment. Are all GAC costs contained in the supply/storage function? If not, indicate what other functions are included in KEDNY's calculation of the GAC.

2. Reference page 7. Provide the percentage of IT costs, customer service costs, and customer call center costs allocated to the GAC in the embedded COSS.

3. Reference page 11. (a) Provide the percentage of uncollectible expense allocated to the GAC under KEDNY's allocation based on write-offs.

   (b) Provide the percentage of uncollectible expense that would be allocated to the GAC under a straight revenue approach.

   (c) Provide these answers both in total KEDNY expense numbers and as broken down into individual rate service classes within that total.

4. Reference page 7. Provide any and all links between the embedded COSS study and the ESCO fees and charges made by KEDNY for competitive services, including suspension, billing, special meter reads, and preparation of a comparison bill under the HEFPA "lesser of" rule for reconnection of residential accounts.

A:

1) All GAC costs are included in the supply and storage functions.

2) No IT, call center or customer service costs are allocated to the GAC in the embedded cost study. The unbundled supply rate does include an allocation of supply-related procurement costs, collection costs, promotional advertising, uncollectibles, and working capital related to lead-lag studies

3) (a) The GAC is currently calculated without any uncollectible expenses; however 66% of uncollectible expense in the COSS was allocated to the Supply/Storage function, based on revenues.

   (b) Both companies used revenues to functionalize uncollectible expense between supply and distribution.

   (c) (See 3B). The allocation of total dollars between distribution and supply will not change. The total uncollectible expense for KEDNY is $42.5 Million. See Attached Spreadsheet.

4) Exhibit RGL-3 and RGL-4 were derived from the cost of service study and present a break-down of competitive services. The links between the COSS and competitive services can be found in the workpapers to the exhibits. There is no linkage between the COSS and the comparison bill under the HEFPA "lesser of" rule.

**KEDNY Uncollectible Accounts**
**Allocation of Charges**
**December 31, 2005**

| Calculation of Percentages Using Uncollectibles from Special Study | Total Company | Residential Non-Heat | Residential Heat | General Service | Multi Family | High Load Factor | Temp Control | Other |
|---|---|---|---|---|---|---|---|---|
| Total Uncollect | 42,478,516 | 8,174,765 | 23,503,980 | 5,555,604 | 1,724,923 | 54,571 | 3,464,141 | 533 |
| Gas Uncollect | 28,107,867 | 3,376,930 | 16,191,241 | 4,008,111 | 1,356,401 | 49,235 | 3,125,470 | 481 |
| Gas as a % of Total | 66% | 41% | 69% | 72% | 79% | 90% | 90% | 90% |
| | | | | | | | | |
| Calculation of Percentages Using Uncollectibles based on Revenues | | | | | | | | |
| Total Uncollect | 42,478,516 | 4,864,740 | 19,187,692 | 4,192,486 | 2,227,383 | 899,872 | 5,953,318 | 5,152,925 |
| Gas Uncollect | 28,107,867 | 1,105,308 | 11,416,204 | 2,764,561 | 1,546,581 | 782,207 | 5,285,374 | 5,101,502 |
| Gas as a % of Total | 66% | 23% | 59% | 66% | 69% | 87% | 89% | 99% |

**Cases: 06-M-0878
06-G-1185
06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Unbundling

Request #: DPS-143

Response Date: October 26, 2006

Respondent: R. Lukas

Q:

1. Reference page 13. (a) Explain how the actual gas-cost related costs will be reconciled to the amounts in the GAC.

   (b) Describe the methodology and mechanism, as well as the time lag, between cost incurrence and the reflection of the difference in rates.

2. Reference page 16. (a) Is it correct that KeySpan proposes to unbundle commodity supply through two mechanisms, the GAC and TAC, where the former is a charge to KEDNY supply customers and the latter is a credit to ESCO supply customers?

   (b) If so, why is not more appropriate to structure the TAC as a charge to KEDNY supply customers that would be avoided, as in the case of the GAC, by customers migrating to ESCO commodity supply?

3. Reference page 16. How would the proposed bills to customers "fully" inform customers "as to the potential savings from purchasing supply from an ESCO."

4. Reference page 17. (a) Is it correct that KEDNY plans to "credit" ESCO customers under consolidated billing as opposed to posting a charge on KEDNY supply customers that would not be paid by ESCO customers under consolidated billing?

(b) If so, why isn't a charge being unbundled from delivery rates?

5. Reference page 19. Explain why KEDNY could not go forward with compliance with the February 18, 2005 Commission Order on Unbundled Bills in 00-M-0504 - Unbundling Track. Specifically, why couldn't KEDNY file the "unbundled bill formats for full-service sales customers," "consumer outreach and education plans to explain the billing format to customers and draft tariff amendments necessary to conform current tariffs to the revised bill formats?" Such provisions seem to be generic and unrelated to the issues surrounding IT and the merger proposal and only the "timetables for implementation" would seem tied to any particular IT solution.

6. Reference page 19. Indicate why KEDNY could not unbundle its bills with its current system.

7. Reference page 19. Provide an example of how net lost revenues would be recovered from customers. Include the type of customer being charged (delivery only, and delivery and supply) and the lag between migration and net lost revenue recovery.

8. Reference page 20. (a) Explain in detail KEDNY's proposal for an intermediate plan to display on its commodity supply sales customers' bills the prices to compare for competitive services.

   (b) Provide draft bill formats showing clearly "the merchant function back-out credit and consolidated bill credit" along with this response.

9. Reference page 20. (a) Explain why KEDNY proposes to continue to use credit language (e.g. merchant function back-out credit and billing credit) on bills and in tariffs.

   (b) How does this comply with the Commission's Unbundling Orders?

1. (a) and (b).

Gas-related costs will be forecast prior to each GAC year. The reconciliation mechanism and timing of such will be consistent with the current annual reconciliation mechanism in the GAC. The forecast amount will be unitized and included in the GAC or TAC, as applicable, for the GAC gas year. By October 15th of each year, gas-related cost recoveries will be compared to actual costs incurred during the previous GAC year. Over and under-recoveries will be credited or surcharged beginning January 1st of the following calendar year.

2. (a) and (b).

The only gas-related cost that KeySpan proposes to recover through both the GAC and TAC is the return on storage inventory. It is appropriate to recover the return on storage inventory from both sales and transportation customers because the Company uses storage to provide daily balancing to both sales and transportation customers. In addition, the Company will provide storage pricing to ESCOs beginning November 1, 2006 through its Virtual Storage program. Accordingly, the return on storage inventory costs should not be avoided by transportation customers.

3. The disclosure of the unbundled supply rate and the unbundled billing and payment processing rate will provide customers with the necessary information to determine their savings if they purchased the commodity from an ESCO.

4.a. Yes.

4.b. Until we reformat the bill this remains a credit. KEDNY has requested to defer unbundled bill formats pending review of the KEDNY billing system by the IT Integration Team.

5. The Company is willing to draft a preliminary mock-up of an unbundled bill pending resolution of the review of the existing billing system by the IT Integration Team.

6. Please see response to Part 5.

7. Merchant function costs for Gas Procurement, Collections and Promotional Advertising are included in base rates and will be credited to transportation customers at a rate of $0.113 per dth through the TAC. The $0.113 per dth will be charged to the Balancing Account. Based on levels of migration, the avoided portion of those costs will be credited to the Balancing Account, leaving only the lost revenue portion in that account. The Company proposes to calculate migration levels in August and credit any avoided costs to the TBA by the end of that year. Because the TBA account is currently in a payable position and

because of the one year nature of the rate plan, the Company has not asked for any recovery in this TBA account.

8. (a) As explained in Answer #3 , the Company's bill message will reflect the unbundled supply rate and the unbundled billing and payment processing rate to allow customers to determine their savings if they purchased the commodity from an ESCO.

   (b) KEDNY's existing bill informs customers as to the savings available to customers when they purchase from ESCOs.

9. (a) KEDNY proposes to change the language of the bill message to reflect the unbundled supply rate and the unbundled billing and payment processing rate as well as in the appropriate tariffs.

   (b) Customers are clearly informed as to the savings available when they purchase from ESCOs and KEDNY is minimizing its costs of implementation.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: IT costs, unbundling, POR, retail access

Request #: DPS-145

Response Date: October 26, 2006

Respondent: J. Bodanza, R. Lukas, N. Cianflone

Q:

1. Reference page 28. Demonstrate and explain the rationale for the split of Customer Information costs between distribution and billing and payment processing (BIPP) functions. The answer should include the total number of dollars, both rate base and expense, and the amount reflected in the rate year revenues. It should also reflect the breakdown of these costs between those allocated the unbundled BIPP function/charge and distribution.

2. Reference page 28. Demonstrate how the Gas Business Unit Information Systems costs are allocated to revenue functions, with an explicit demonstration as to how these costs are proposed to influence the fees for reconnection and suspension. The answer should reflect the incremental amount proposed for these charges related to these costs and the detail of how these costs result in that proposal.

A:

1. In the COSS, Customer Information Systems capitalized costs are included in Account numbers 301 – : special study referenced in Mr. Lukas' testimony. The result of this allocation was to charge the systems costs to the areas that were the primary users of those systems. The percentages are as follows: Distribution - 82.4%, Billing and Payment Processing - 11.5% and Collections - 6.2%.

2. Because the reconnection and suspension fees are existing fees, there are no incremental Gas Business Unit Information Systems costs associated with them and, therefore, they do not impact any allocations. Please note the reconnection and suspension fees were not increased.

**Cases: 06-M-0878
06-G-1185
06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: ECOS, Unbundling

Request #: DPS-148

Response Date: October 26, 2006

Respondent: J. Trainor, R. Lukas, T. Madeo

Q:

**In reference to KEDLI Testimony in Case 06-G-1186:**

1. Reference page 7. You list the functions used in the first step of the embedded COSS process as: supply/storage, collection costs related to supply, transmission, distribution and billing/payment. (a) Are all GAC costs contained in the supply/storage function?

   (b) If not, indicate what other functions are included in KEDLI's calculation of the GAC.

2. Reference page 7. Provide the percentage of IT costs, customer service costs, customer call center costs allocated to the GAC in the KEDLI embedded COSS.

3. Reference page 11. (a) Provide the percentage of uncollectible expenses allocated to the GAC under KEDLI's allocation based on revenues.

   (b) Explain why KEDLI used the Commission's approach based on revenues, where KEDNY used a different methodology based on uncollectible write-offs.

   (c) Provide the percentage of uncollectible expenses that would be allocated to the GAC under the KEDNY uncollectible write-off approach. Provide these answers both in total KEDLI expense numbers and as broken down into individual rate service classes within that total.

4. Reference page 7. Provide any and all links between the embedded COSS study and the ESCO fees and charges made by KEDLI for competitive services, including suspension, billing, special meter reads, and preparation of a comparison bill under the HEFPA "lesser of" rule for reconnection of residential accounts.

A:

1) All GAC costs are included in the supply and storage functions.

2) No IT, call center or customer service costs are allocated to the GAC in the embedded cost study. The unbundled supply rate does include an allocation of supply-related procurement costs, collection costs, promotional advertising, uncollectibles, and working capital related to lead-lag studies

3) (a) The GAC is currently calculated without any uncollectible expenses; however 66.7% of uncollectible expense in the COSS was allocated to the Supply/Storage function, based on revenues.

   (b) Both companies used revenues to functionalize uncollectible expense between supply and distribution.

   (c) (See 3B). The allocation of total dollars between distribution and supply will not change. The total uncollectible expense for KEDLI is $6.2 Million. See Attached Spreadsheet.

4) Exhibit RGL-3 and RGL-4 were derived from the cost of service study and present a break-down of competitive services. The links between the COSS and competitive services can be found in the workpapers to the exhibits. There is no linkage between the COSS and the comparison bill under the HEFPA "lesser of" rule.

**KEDLI Uncollectible Accounts**
**Allocation of Charges**
**December 31, 2005**

| Calculation of Percentages Using Uncollectibles based on Revenues | Total Company | Residential Non-Heat | Residential Heat | General Service | Multi Family | High Load Factor | Temp Control | Other |
|---|---|---|---|---|---|---|---|---|
| Total Uncollect | 6,194,114 | 463,245 | 2,993,648 | 1,188,021 | 111,716 | 30,186 | 167,775 | 1,239,524 |
| Gas Uncollect | 4,131,189 | 103,260 | 1,762,165 | 772,052 | 83,094 | 25,594 | 155,613 | 1,229,412 |
| Gas as a % of Total | 67% | 22% | 59% | 65% | 74% | 85% | 93% | 99% |

**Cases: 06-M-0878
06-G-1185
06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Unbundling

Request #: DPS-149

Response Date: October 26, 2006

Respondent: R. Lukas

Q:
**In reference to KEDLI Testimony in Case 06-G-1186:**

1. Reference page 13. Explain how the actual gas-cost related costs will be reconciled to the amounts in the GAC. Describe the methodology and mechanism, as well as the time lag between cost incurrence and the reflection of the difference in rates.

2. Reference page 15. (a) Is it correct that KeySpan proposes to unbundle commodity supply through two mechanisms, the GAC and TAC, where the former is a charge to KEDLI supply customers and the latter is a credit to ESCO supply customers?

   (b) If so, why is not more appropriate to structure the TAC as a charge to KEDLI supply customers that would be avoided, as in the case of the GAC, by customers migrating to ESCO commodity supply?

3. Reference page 15. How would the proposed bills to customers "fully" inform customers "as to the potential savings from purchasing supply from an ESCO?"

4. Reference page 17. (a) Is it correct that KEDLI plans to "credit" ESCO customers under consolidated billing as opposed to posting a charge on KEDLI supply customers that would not be paid by ESCO customers under consolidated billing?

(b) If so, why isn't a charge being unbundled from delivery rates?

5. Reference page 17. (a) Explain why the KEDLI unbundled billing rate fell from $0.78 to $0.65, when the comparable values for KEDNY were $0.78 to $0.76.

   (b) Fully explain the additional decline of $0.11 per account, per month.

6. Reference page 19. Explain why KEDLI could not go forward with compliance with the February 18, 2005 Commission Order on Unbundled Bills in 00-M-0504 - Unbundling Track. Specifically, why couldn't KEDLI file the "unbundled bill formats for full-service sales customers," "consumer outreach and education plans to explain the billing format to customers and draft tariff amendments necessary to conform current tariffs to the revised bill formats?" These areas seem to be generic and unrelated to the issues surrounding IT and the merger proposal. Only the "timetables for implementation" would seem to be tied to any particular IT solution.

7. Reference page 19. Indicate why KEDLI could not unbundle its bills with its current system.

8. Reference page 19. Provide an example of how net lost revenues would be recovered from customers. Include the type of customer being charged (delivery only, and delivery and supply) and the lag between migration and net lost revenue recovery.

9. Reference page 20. (a) Explain in detail KEDLI's proposal for an intermediate plan to display on its commodity supply sales customers' bills the prices to compare for competitive services.

   (b) Provide draft bill formats showing clearly "the merchant function back-out credit and consolidated bill credit" with this response.

10. Reference page 20. (a) Explain why KEDLI proposes to continue to use credit language (e.g. merchant function back-out credit and billing credit) on bills and in tariffs?

(b) How does this comply with the Commission's Unbundling Orders?

A:

1. Gas-related costs will be forecast prior to each GAC year. The reconciliation mechanism and timing of such will be consistent with the current annual reconciliation mechanism in the GAC. The forecast amount will be unitized and included in the GAC or TAC, as applicable, for the GAC gas year. By October 15th of each year, gas-related cost recoveries will be compared to actual costs incurred during the previous GAC year. Over and under-recoveries will be credited or surcharged beginning January 1st of the following calendar year.

2. (a) and (b).

The only gas-related cost that KeySpan proposes to recover through both the GAC and TAC is the return on storage inventory. It is appropriate to recover the return on storage inventory from both sales and transportation customers because the Company uses storage to provide daily balancing to both sales and transportation customers. In addition, the Company will provide storage pricing to ESCOs beginning November 1, 2006 through its Virtual Storage program. Accordingly, the return on storage inventory costs should not be avoided by transportation customers.

3. The disclosure of the unbundled supply rate and the unbundled billing and payment processing rate will provide customers with the necessary information to determine their savings if they purchased the commodity from an ESCO.

4.a. Yes.

b. Until we reformat the bill this remains a credit. KEDLI has requested to defer unbundled bill formats pending review of the KEDLI billing system by the IT Integration Team.

5. The original $0.78 for KEDLI was ordered by the Commission in the March 14, 2002 Order in Case 99-M-0631 and in Case 98-M-1343. As required, the proposed rate was developed based on the COSS studies for New York and Long Island.

6. The Company is willing to draft a preliminary mock-up of an unbundled bill pending resolution of the review of the existing billing system by the IT Integration Team.

7. Please see response to part 6.

8. Merchant function costs for Gas Procurement, Collections and Promotional Advertising are included in base rates and will be credited to transportation customers at a rate of $0.113 per dth through the TAC. The $0.113 per dth will

be charged to the Balancing Account. Based on levels of migration, the avoided portion of those costs will be credited to the Balancing Account, leaving only the lost revenue portion in that account. The Company proposes to calculate migration levels in August and credit any avoided costs to the TBA by the end of that year. Because the TBA account is currently in a payable position and because of the one year nature of the rate plan, the Company has not asked for any recovery in this TBA account.

9. (a) As explained in Answer #3 , the Company's bill message will reflect the unbundled supply rate and the unbundled billing and payment processing rate to allow customers to determine their savings if they purchased the commodity from an ESCO.

(b) KEDLI's existing bill informs customers as to the savings available to customers when they purchase from ESCOs.

10. (a) KEDLI proposes to change the language of the bill message to reflect the unbundled supply rate and the unbundled billing and payment processing rate as well as in the appropriate tariffs.

(b) Customers are informed as to the savings available when they purchase from ESCOs and KEDLI is minimizing its costs of implementation.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: IT Costs and Unbundled Rates

Request #: DPS-245

Response Date: December 11, 2006

Respondent: A. Dinkel, R. Lukas

Q:
**In reference to KEDLI Testimony in Case 06-G-1186:**

1. Reference Response to DPS-145(1).

   (a) Explain the lack of assignment of CIS costs to supply. Why are no costs assigned to the GAC?

   (b) Explain how this assignment complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states "it does not seem reasonable that no IR costs should be allocated to a competitive service commodity..." (page 23).

2. Reference Response to DPS-145(4). Indicate what "external clients' software and files" are incompatible with the current PC inventory of KEDLI.

3. Reference Response to DPS-145(4). Indicate what security features are not compatible with existing PC hardware.

4. Reference Response to DPS-145(4). Explain the need for all new PCs to have CDRW/DVD capability. Provide a list of all requirements and how the new PCs address current limitations.

5. Reference Response to DPS-145(6).

   (a) How are incremental IT costs treated in the rate case? Are they proposed to be deferred for future recovery?

(b) If not, how are they distributed between delivery, billing, and supply costs?

(c) Why didn't KEDLI adjust the ECOS study for known changes in IT costs from those in the historic test year?

6. Reference Response to DPS-139(6) and DPS-145(6). Why is KEDLI's computer system incapable of implementing a purchase of receivables (POR) program?

A.

1.

(a)

Exhibit RGL-3 presents the Unbundled Supply Rate. It consists of two components: Merchant Function (I) and Other Commodity-Related Costs (II). Merchant Function related IT costs, including Customer Information System Costs, are included in the Merchant Function (I), and credits included in the TAC. IT costs include, for example, capitalized software costs (as part of rate base) and allocated IT administrative and general expense.

(b)

By including both Customer Information Costs and other IT costs in the Merchant Function above, KeySpan is complying with the Commission's requirements of Case 00-M-0504.

2.

Machines in the system that currently run with a Microsoft Windows Operating System version of 95, 98, or NT are not capable of running the current versions of generally accepted standard versions of Office Productivity software. In particular, the now current Microsoft supported versions of Microsoft Office, versions XP, 2003 and 2007, will not run on the older systems. External clients including customers, vendors and contractors will most likely use one of the supported versions for electronic correspondences and attachments. Incompatibility between newer file types and old software versions may result. In addition to Microsoft Office, other software titles that are incompatible with Windows 95 and 98 include current versions of Microsoft Visio and Project. Microsoft Internet Explorer and Netscape are other examples. Older systems contain IE version 5.5 and Netscape version 4.7. These systems cannot support the now standard IE version 6 (or 7) or Netscape version 7. Many internet web sites and applications are being written to be compatible with these new versions and abandoning support for the older browser versions.

3.

McAfee is the corporate anti-virus suite. McAfee does not support machines in the system that currently run with a Microsoft Windows Operating System version of 95, 98, or NT. In addition Microsoft has ceased support for these operating systems, which indicates that Microsoft will no longer provide patches for any defects or security lapses discovered in these operating systems. Microsoft Active Directory security features are also not part of the Windows 95, 98, or NT Operating System.

4.

In 2006, it was decided that going forward, all new desktops and laptops would not incorporate the use of the obsolete 3.5" floppy drive. Current applications and files typically exceed the 1.44 MB capacity of a floppy drive. The need for an alternative backup device resulted in the upgrade of the CD drive. The deletion of a floppy drive offsets the cost of the upgrade to a CDRW drive. In addition, a growing number of training and application software is being provided on the DVD platform.

<u>Other requirements:</u>
Upgraded Operating System (OS) – moving to a completely Windows XP environment will provide for a fully vendor supported platform. This will provide for patching of any defects and security lapses. This is also necessary to allow for compatibility with the current versions of Productivity Software such as Microsoft Office, Visio and Project.

Upgraded memory – the new OS as well as current software requires a level of memory to run effectively. Older machines having 256MB of Ram do not adequately meet the requirement of the multitasking environment. A 512MB Ram standard was determined as an effective minimum. In addition, the standard memory proposed is the de facto minimum provided by the vendors.

Upgraded processor – meets the requirements of the Windows XP Operating System, while allowing it to work effectively in a multitasking role.

Upgraded removable storage – see above concerning the CDRW/DVD drive.

Upgraded hard drive storage – requirements for the XP Operating System, current productivity software and the greater file sizes created by the current software necessitate a larger size drive. In addition, the standard drive size proposed is the de facto minimum provided by the vendors.

5.

(a)

In the rate case, incremental IT cost are not deferred. They are treated as O&M or capital expense in accordance with the Uniform System of Accounts and included in the rate case cost of service.

(b)

These costs are distributed to the various functions based on the nature of the costs.

(c)

These embedded costs of service were based on a historical year. Known future changes in IT costs are included in the rate year cost of service.

6.

KeySpan's Long Island customer system is nearing the end of its useful life and will need to be replaced. Given its age and obsolesence, it would be imprudent and uneconomical to invest the substantial amount of capital in the system that would be needed to implement a purchase of receivables program.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: ECOS/Unbundled Rates

Request #: DPS-247

Response Date: December 11, 2006

Respondent: R. Lukas and J. Trainor

Q:

**In reference to KEDLI Testimony in Case 06-G-1186:**

1. Reference Response to DPS-148(2). Explain how the allocation of zero IT costs to supply/GAC complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states: "it does not seem reasonable that no IR costs should be allocated to a competitive service - commodity..."(page 23).

2. Reference Response to DPS-148(2). Explain how the allocation of zero call center and customer care costs to supply/GAC complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states: "any allocation method or theory that assigns none of the costs of credit and collections, customer contact, and consumer affairs to the utilities' competitive service may be especially suspect..." (page 21).

3. Reference Response to DPS-148(3). Explain where the 60% of uncollectible expense allocated to storage and supply is reflected in the charges and credits proposed by KEDLI.

A.

1.

Exhibit RGL-3 presents the Unbundled Supply Rate. It consists of two components: Merchant Function (I) and Other Commodity-Related Costs (II). Merchant Function related IT costs are included in the Merchant Function (I), and are a credit included in the TAC. IT costs include, for example, capitalized software costs (as part of rate base) and allocated IT administrative and general expense.

2.

Collection cost, including call center and other customer care costs, are included in the Merchant Function (I) portion of the Unbundled Supply Rate and are a credit included in the TAC.

3.

The calculation of uncollectible expense is shown in Exhibit (PJM-5), Schedule 33. The expense will be charged to bundled customers in the GAC.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Unbundled Rates and Bill Format

Request #: DPS-248

Response Date: December 11, 2006

Respondent: R. Lukas and J. Trainor

Q: See below

**In reference to KEDLI Testimony in Case 06-G-1186:**

1. Reference Response to DPS-149(2).

   (a) Could the GAC and TAC be restructured such that they only included costs that applied solely to KEDLI supply customers?

   (b) If not, explain fully.

   (c) If so, would KEDLI be willing to do so?

2. Reference Response to DPS-149(6). Provide such a preliminary mock-up of the proposed format and content of such a bill.

3. Reference Response to DPS-149(9).

   (a) Explain how KEDLI's proposals for credits and bill messages comply with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, which requires costs to be unbundled into discrete charges for customers taking both supply and delivery from the utility, which would be avoided when that customer took supply service from an ESCO.

   (b) Please explain how KEDLI's proposals for credits and bill messages comply with the Commission's Case 00-M-0504 - Unbundling Track Unbundled Bill Order of February 18, 2005, which states: "Using bill messages and bill inserts to provide specific information on charges for competitive services would not communicate the information as effectively as a direct statement on bills. Bill messages reflect rates and credits and do not provide a breakdown of the actual charges on the customer's bill. Thus, these messages require the customer to calculate the portion of the bill related to competitive service. A listing of the charges for the specific competitive services as part of the utility bill is necessary to provide direct information to consumers and encourage the development of the retail access market" (pages 8-9).

A.

1.

a.

Yes.

b.

N/A

c.

KEDLI would be willing to consider this restructuring but its base rates would have to redesigned to remove the costs in the merchant function portion of the unbundled supply rate. As stated in my testimony, given the near obsolescence of KEDLI's billing system, we believe it would be more sensible to postpone the programming effort and expense such rate restructuring would require until the schedule for replacing the billing system is decided by the IT integration team. Even with such redesign, at such time as KEDLI implements a Purchase of Receivables program, transportation customers whose ESCOs participate in the program would still need to be surcharged the collection costs portion of the merchant function charge. With the current proposed rates, these customers do not receive the credit to the TAC for these collection costs.

2.

Provision of such a mock up will be available pending resolution of the review of the existing billing system by the IT Integration Team.

3.

a.

As shown on my exhibits, RGL-3 and RGL-4, KEDLI's proposed unbundled rates are in compliance with the Commission's Order. The direct and indirect costs associated with the gas merchant function and the billing and payment processing function will be apparent via the unbundled supply rate and the billing and payment processing rate.

b.

As stated in my testimony (p.20), KEDLI is in compliance with the Commission's Order. The Commission recognized the need to coordinate utility resource planning efforts and encouraged utilities to economize and minimize costs to the customers when coordinating these efforts. To reformat the bill in accordance with the Commission's Order at this time would require a material expenditure on a billing system that must be replaced in the near future. Therefore, KEDLI is deferring discussions regarding bill reformatting until ongoing integration efforts are completed.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: IT Costs and Unbundled Rates

Request #: DPS-249

Response Date: December 11, 2006

Respondent: R. Lukas and A. Dinkel re

Q:

**In reference to KEDNY Testimony in Case 06-G-1185:**

1. Reference Response to DPS-139(1).

   (a) Explain the lack of assignment of CIS costs to supply. Why are no costs assigned to the GAC?

   (b) Explain how this assignment complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states: "it does not seem reasonable that no IR costs should be allocated to a competitive service - commodity…" (page 23).

2. Reference Response to DPS-139(4). Indicate what "external clients' software and files" are incompatible with the current PC inventory of KEDNY.

3. Reference Response to DPS-139(4). Please indicate what security features are not compatible with existing PC hardware.

4. Reference Response to DPS-139(4). Explain the need for all new PCs to have CDRW/DVD capability. Provide a list of all requirements and how the new PCs address current limitations.

5. Reference Response to DPS-139(6).

   (a) How are incremental IT costs treated in the rate case? Are they proposed to be deferred for future recovery?

(b) If not, how are they distributed between delivery, billing, and supply costs?

(c) Why didn't KEDNY adjust the ECOS study for known changes in IT costs from those in the historic test year?

A.

1-5.

Please see the response to DPS-245.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: ECOS/Unbundled Rates

Request #: DPS-251

Response Date: December 11, 2006

Respondent: R. Lukas and J. Trainor

Q:

**In reference to KEDNY Testimony in Case 06-G-1185:**

1. Reference Response to DPS-142(2). Explain how the allocation of zero IT costs to supply/GAC complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states: "it does not seem reasonable that no IR costs should be allocated to a competitive service - commodity..." (page 23).

2. Reference Response to DPS-142(2). Explain how the allocation of zero call center and customer care costs to supply/GAC complies with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, where it states that "any allocation method or theory that assigns none of the costs of credit and collections, customer contact, and consumer affairs to the utilities' competitive service may be especially suspect..." (page 21).

3. Reference Response to DPS-142(3). Explain where the 60% of uncollectible expense allocated to storage and supply is reflected in the charges and credits proposed by KEDNY.

A.

Please see the response to DPS-247.

**Cases: 06-M-0878**
**06-G-1185**
**06-G-1186**

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Unbundled Rates and Bill Format

Request #: DPS-252

Response Date: December 11, 2006

Respondent: R. Lukas and J. Trainor

Q:

**In reference to KEDNY Testimony in Case 06-G-1185:**

1. Reference Response to DPS-143(2).

   (a) Could the GAC and TAC be restructured to include only costs that applied solely to KEDNY supply customers?

   (b) If not, explain fully.

   (c) If so, would KEDNY be willing to do so?

2. Reference Response to DPS-143(6). Provide such a preliminary mock-up of the proposed format and content of such a bill.

3. Reference Response to DPS-143(9).

   (a) Explain how KEDNY's proposals for credits and bill messages comply with the Commission's Case 00-M-0504 - Unbundling Track Order of August 25, 2004, which required costs to be unbundled into discrete charges for customers taking both supply and delivery from the utility, which would be avoided when that customer took supply service from an ESCO.

   (b) Explain how KEDNY's proposals for credits and bill messages comply with the Commission's Case 00-M-0504 - Unbundling Track Unbundled Bill Order of February 18, 2005 which states that "Using bill messages and bill inserts to provide specific information on charges for competitive services would not communicate the information as effectively as a direct statement on bills. Bill messages reflect rates and credits and do not provide a breakdown of the actual charges on the customer's bill. Thus, these messages require the customer to calculate the portion of the bill related to competitive service. A listing of the charges for the specific competitive services as part of the utility bill is necessary to provide direct information to consumers and encourage the development of the retail access market" (pages 8-9).

A.

1.

a.

Yes.

b.

N/A

c.

KEDNY would be willing to consider this restructuring, but its base rates would have to redesigned to remove the costs in the merchant function portion of the unbundled supply rate. We believe that we should permit the IT integration team to make definitive recommendations before we undertake such an effort. Even with such redesign, transportation customers whose ESCOs participate in the Purchase of Receivables program would still need to be surcharged the collection costs portion of the merchant function charge. With the current proposed rates, these customers do not receive the credit to the TAC for these collection costs.

2.

Provision of such a mock up will be available pending resolution of the review of the existing billing system by the IT Integration Team.

3.

a.

As shown on my exhibits, RGL-3 and RGL-4, KEDNY's proposed unbundled rates are in compliance with the Commission's Order. The direct and indirect costs associated with the gas merchant function and the billing and payment processing function will be apparent via the unbundled supply rate and the billing and payment processing rate.

b.

As stated in my testimony (p.20), KEDNY is in compliance with the Commission's Order. The Commission recognized the need to coordinate utility resource planning efforts and encouraged utilities to economize and minimize costs to the customers when coordinating these efforts. To minimize costs to customers, we believe we should await the recommendations of the IT integration team before undertaking the reformatting of KEDNY's bill in accordance with the Commission's Order. Therefore, KEDNY is deferring discussions regarding bill formats and unbundled rates until ongoing integration efforts are completed.