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

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Prepared Testimony of:
STAFF UNBUNDLING PANEL

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Q. Mr. Berger, please state your full name and business address.

A. Stephen A. Berger, Three Empire State Plaza, Albany, New York 12223.

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

A. I am a Utility Consumer Policy Specialist 4 in the New York State Department of Public Service.

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

A. My individual testimony includes my educational and professional experience.

Q. Mr. Rider, please state your full name and business address.

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

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

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

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

A. My testimony on weather normalization and rate design includes my educational and professional experience.

Q. What is the purpose of the Unbundling Panel's testimony in this proceeding?

A. We are responsible for the review of both KeySpan Energy Delivery New York's (KEDNY) and KeySpan Energy Delivery Long Island's (KEDLI) filed gas rate presentations in the general areas of rate unbundling. We will also recommend specific adjustments to the Companies' calculations of charges and fees.

Q. Are you sponsoring any exhibits?

A. Yes, we are sponsoring one exhibit, Exhibit No.___ (SUP-1) - IR responses relied upon by the Staff Unbundling Panel in developing its testimony.

Unbundling Rates and Fees

Q. What is the purpose of the Staff Unbundling

Panel's testimony on unbundling in this proceeding?

A. The goal of unbundling is to implement rates and fees that are both cost-based and fully allocated between competitive and non-competitive functions (i.e. unbundled). With that goal in mind, we will address KeySpan's proposals concerning unbundling in its testimony based on its 2005 Embedded Cost of Service (ECOS) study and make recommendations in the following areas: the ECOS study's calculations and principles; the development of its Unbundled Supply Rate and Unbundled Billing Rate; the bifurcation of the unbundled supply rate into two charges, one for residential customers and one for commercial customers; the need to unbundle charges on customer bills to clearly delineate between charges that are paid by all customers and those which are paid by utility commodity service customers solely; the true-up of unbundled supply costs recovered through the

GAC; the net lost revenue recovery mechanism (NLRRM); and the fees charged to ESCOs for services (billing, suspension, and bill calculation) as they are related to the costs incurred by the utility.

Q. What guidance or directive has the Commission provided on the topic of energy-related unbundling?

A. On August 25, 2004, the Commission issued its Statement of Policy on Unbundling and Order Directing Tariff Filings in Case 00-M-0504. In the Unbundling Policy Statement and Order, the Commission provided guidance on the allocation of utility costs between regulated and competitive functions. The Commission also provided guidance on unbundling of utility charges in its Unbundled Bill Format Order in Case 00-M-0504, issued February 18, 2005 Finally, additional guidance can be found in the Commission's October 25, 2004 Order in Case 03-M-0117 on fees charged to ESCOs for billing, suspension, and the calculation of the "lesser than" bill amount for reconnection after a suspension.

Q. What is KeySpan's proposal for unbundled supply and billing charges in response to the Commission's Unbundling Policy Statement and Order?

A. Using the KEDLI ECOS study, Witness Lukas developed an unbundled supply rate of $0.22/dth. This charge is comprised of $0.169/dth of gas-uncollectible and working capital expenses which is proposed to be collected within the gas adjustment clause (GAC) and be reconciled to actual costs. This charge also includes $0.049/dth of gas procurement, collection, and promotional advertising expenses which would remain in delivery rates and be provided to customers through a backout credit.

Using the KEDNY ECOS study, Witness Lukas developed an unbundled supply rate of $0.53/dth. This charge is comprised of $0.415/dth of gas-uncollectible and working capital expenses proposed to be collected within the gas adjustment clause (GAC) and be reconciled to actual costs. This charge also includes $0.113/dth of gas procurement, collection, and promotional advertising expenses which would remain in delivery rates and be provided to customers through a backout credit.

The ECOS studies also determined the costs for bill issuance and payment processing (BIPP), and the Companies propose to apply this amount as a credit to the bills of customers enrolled with ESCOs, who receive a consolidated bill. The proposed BIPP for KEDLI is $0.65/bill and for KEDNY is $0.76/bill.

Q. How does the BIPP credit proposed by the Companies comply with the Commission's unbundling orders and policy statements?

A. The Commission required that charges for full service customers (i.e. those receiving commodity from the utility) be unbundled to provide customers with price comparison information. We do not take exception to the calculation of the BIPP costs. Those costs should be identified for full service customers on their bills. The proposal of the Companies to charge ESCOs these amounts as a fee for consolidated billing is appropriate and complies with Commission orders and policy statements.

Q. How were costs functionalized to the various services provided by KEDLI and KEDNY?

A. The costs were functionalized by competitive and non-competitive services in the categories of supply, storage, transmission, distribution, and billing and payment processing. KEDLI and KEDNY do not perform energy service functions, therefore no costs were allocated to that category.

Q. What is your assessment of the Companies' unbundling proposals?

A. The Staff Unbundling Panel believes that modifications need to be made to the Companies' proposals in the following areas: creation of a merchant function charge (MFC) to be included in the GAC, the number of MFCs to be created; costs to be included in the MFC; true-ups of costs included in the MFC; the costs avoided when a customer migrates from utility commodity service to ESCO service; and the treatment of net lost revenues created by customer migration to an ESCO.

Q. Please explain Staff's assessment of the Companies' proposals to include competitive related supply costs in the GAC.

A. In general, Staff supports this proposal. The Companies need to develop an MFC to contain all competitive-related supply costs and to include the MFC as a separate component of the GAC. The MFC would not appear as a separate line item on the bill, but as a separate component of the monthly GAC statement.

Q. Please explain Staff's assessment of the Companies' proposal to have just one unbundled supply rate.

A. The Companies proposal creates rate inequities when service classes have different cost characteristics. Staff notes that in the recently approved Central Hudson case (Cases 05-E-0934, 05-G-0935) the parties agreed to and the Commission approved the development of two MFCs, one for residential customers and one for commercial customers.

Staff recommends that two MFCs be developed for each of the Companies: one MFC for SC-1a - Residential non-heat and SC-1b - Residential heat; and one MFC for SC-2 - Commercial and SC-3 Multi-family. Multiple MFCs are needed because there are different cost characteristics, such as uncollectibles, between these classes of customers.

Q. How should the uncollectible rates be calculated for this purpose??

A. We recommend that the Companies use the actual three year experienced uncollectible rate for each of the classes with an MFC.

Q. The Companies propose to place some competitive-related costs in the GAC and to place others in a backout credit. What is Staff's assessment of this proposal?

A. The Companies have not adequately explained why a bifurcated approach to unbundling is warranted or how this approach is consistent with the principles of unbundling. The costs that the Companies propose be included in a backout credit: collection costs, promotional advertising, and gas procurement are just as appropriately included in the GAC as the uncollectibles, working capital and return on gas storage which they propose to include there. These costs are all relevant to the provision of competitive commodity service.

Q. Does Staff have an adjustment to reflect the transfer of these additional commodity related costs from delivery rates to the GAC?

A. Yes. Adjustments of $4,077,000 and $13,505,000 should be made for KEDLI and KEDNY, respectively, to reflect the transfer of cost recovery responsibility from the delivery revenue requirement to commodity revenues.

True-Ups and the Net Lost Revenues

Q. The Companies have proposed truing-up the unbundled competitive supply costs to be included in the GAC with the actual expended amounts. Does Staff agree with this proposal?

A. No. Staff recommends that there be no true-up of these amounts. Permitting true-ups for these costs diminishes the Companies' cost control incentives for this area. Setting a fixed rate gives the Companies motivation to find creative ways to manage and possibly reduce these costs for shareholder benefit. Staff recommends that a fixed rate be established and that no modification of the MFC rate, except as discussed below for net lost revenues, be entertained until the Companies' next rate case.

Q. In proposing a net lost revenue recovery mechanism (NLRRM), the Companies have developed and proposes to use avoided cost curves to represent the amount of collection, promotional advertising, and gas procurement costs which it can avoid as customers migrate from utility commodity service to an ESCO's service. What is Staff's assessment of this proposal?

A. Staff agrees that, unlike uncollectibles and working capital, the Companies cannot avoid these costs entirely in the short run when a customer enrolls with an ESCO for commodity service and that the use of avoided cost curves is an appropriate and administratively simple procedure for estimating short-run avoided costs. However, Staff believes that the cost curves presented by the Companies may not reasonably represent the rate at which the Companies can avoid these costs in the long run. However, it is unlikely that migration would occur at levels where significant amounts of these costs could be avoided within the rate year. Therefore, no avoided costs were considered for the purposes of calculating lost revenues for a one year rate case.

Q. What is the Companies' proposal for the recovery of net lost revenues?

A. The Companies propose to recover unavoided costs (net lost revenues) through a balancing account established in Case 99-G-1469.

Q. What is Staff's assessment of this proposal?

A. Staff recommends that 50% of the net lost revenues incurred be recovered from sales customers and recovered as part of the Companies' next GAC annual reconciliation filings. The other 50% of net lost revenues should be recovered from delivery customers and recovered through the GAC and TAC. Only customers in service classifications that are subject to the MFC would pay the net lost revenue amounts. The Companies would also file for the recovery as part of the next GAC annual reconciliation filing. This sharing percentage of net lost revenues is consistent with recent rate orders and conforms with the orders and policy statements issued in Case 00-M-0504 (see specifically the Commission Order issued March 21, 2002). The company's filings pursuant to this recommendation on net lost revenue recovery should fully support their claim of lost revenues.

Q. Do the Companies propose to recover net lost revenues if they are overearning?

A. The Companies' net lost revenue recovery proposal is constructed to recover all net lost revenues related to customer migration, regardless of the financial position of the utility. Staff's interpretation of the Commission's Policy Statements on Unbundling (Case 00-M-0504) is that a utility would not be entitled to recovery of unavoided competitive-related costs if the Companies were over-earning. Staff therefore recommends that no recovery be granted if the Companies are in an over-earnings situation. The Companies would be entitled to recover unavoided costs only to the extent that the disallowance of rate recovery reduced the Companies' earnings to a level below the cost of equity. We recommend that the earnings test be made prior to the reflection of any revenue adjustments. For example, if the Companies did not meet a customer service target which subsequently reduced the earnings level, the earnings test would be based on earnings before any revenue adjustment was made.

ESCO Fees

Q. What have KEDLI and KEDNY proposed for fees charged to ESCOs for the various services the Companies perform?

A. The Companies have proposed to charge ESCOs for BIPP services the same amount that customers would no longer pay the utility. They have also proposed to charge ESCOs for carrying out a suspension at their request and for calculating the "lesser of" bill for ESCO-issued residential customer suspension notices and reconnection purposes under applicable Home Energy Fair Practices Act (HEFPA) statute and regulations.

Q. What is the Staff Unbundling Panel's position on these proposals?

A. As stated above, we agree with the ESCO BIPP fee as proposed by KEDLI and KEDNY. As well, KEDLI and KEDNY have proposed to keep the suspension and "lesser of" bill calculation fees at their current levels, which we also find acceptable.

Q. Does this conclude your testimony at this time?

A. Yes.