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:

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1 Q. Please state your full name and business
2 address.
3 A. Michael W. Wayand, Three Empire State Plaza,
4 Albany, NY 12223.
5 Q. Mr. Wayand, by whom are you employed and in what
6 capacity?
7 A. By the Department of Public Service of the State
8 of New York. I am a Utility Engineer 3 on the
9 staff of the Office of Gas & Water, Policy
10 Section.
11 Q. Please state your educational background and
12 professional experience.
13 A. I received a Bachelor of Science degree in
14 Mechanical Engineering from Union College in
15 Schenectady, New York in 1977. I have been
16 employed continuously since that time in the
17 Department of Public Service as an engineer in
18 the Office of Gas & Water. My duties in the
19 Policy Section relate to gas utility matters,
20 including the review of rate filings.
21 Q. Have you previously testified before the
22 Commission?

A. Yes.

Q. What is the purpose of your testimony?

A. I will address the following items contained in the merger filing and pre-filed testimony of witnesses Melissa Nairn and Lee Klosowski, who are representing KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island ("KeySpan") and National Grid PLC (collectively "the companies" or "the LDCs"):

- Peak Day Operating Reserve Margin Synergy Savings
- Seasonal Gas Supply Synergy Savings
- Transfer of Gas Asset Contracts

Q. Do you have any exhibits?

A. Yes, I am sponsoring two exhibits, labeled Exhibit ___ MWW-1 and Exhibit ___ MWW-2.

<u>Peak Day Operating Reserve Margin Synergy Savings</u>

Q. Does KeySpan have a capacity reserve margin in place for peak day gas demand planning purposes?

A. Yes. KeySpan currently utilizes a five percent (5%) operating reserve margin, which means that its projected peak day requirement is increased

by 5%. The company obtains enough peak day supply/capacity to meet this higher requirement for two reasons:

1. The reserve reduces the risk of underestimating peak day requirements by providing a band around the results of the peak day demand regression analysis. Such operating reserve provides a supply cushion that could be dispatched in the event demand is higher than predicted.
2. The reserve reduces the risk of a force majeure supply disruption on a peak day. Maintaining the additional peak day capacity increases the supply options available to KeySpan to dispatch gas from supply sources not affected by a supply emergency.

Q. Does KeySpan plan to modify its reserve margin if it merges with National Grid?

A. Yes. Under its merger plans, beginning in 2007/08, KeySpan would reduce the reserve margin from 5% to 2.5% over a four year period (about

59,000 dekatherms per day when fully phased in). It projects the total resulting cost savings to be $56.4 million, all of which would go to KeySpan customers during the ten year period 11/1/07 through 10/31/17.

Such reduction in capacity is claimed to be equivalent to the supply support that National Grid could provide to KeySpan in the event of a supply contingency under non-coincident and certain coincident peak conditions. Company witnesses Nairn/Klosowski state on page 12 of their pre-filed testimony that "our analysis of historical weather data shows that the Companies will simultaneously experience peak day conditions less than 25% of the time."

In response to Staff Information Request DPS-182 (Exhibit ___ MWW-1), the companies provided a copy of the above-referenced analysis. It shows that KeySpan and National Grid have simultaneously experienced their coldest winter days 22% of the time since 1970 (i.e., the coldest day for KeySpan was coincident with the

1 coldest day for National Grid in 8 of the last
2 36 winters).
3 Q. Do you have any comments on the companies'
4 presentation/proposal?
5 A. Yes. First, the 22% figure is unacceptably high
6 as far as reliability is concerned, since it
7 indicates a probability of coincident peaks
8 occurring, on average, once every four or five
9 winters.
10 Second, the 22% figure is based on a comparison
11 of Central Park (for KeySpan territory weather)
12 coldest day temperatures versus the coldest days
13 in both Albany and Syracuse (for National Grid
14 territory weather). A further review of the
15 analysis shows that KeySpan's coldest day
16 matched National Grid's in either Albany or
17 Syracuse during an additional 17 of the last 36
18 winters. Also, during 2 of the last 36 winters,
19 KeySpan's coldest day was within one day of
20 National Grid's. Thus, during 27 (8+17+2) of
21 the last 36 winters, or 75% of the time, the

coldest days were coincident or nearly coincident for the two companies. This raises serious doubt in Staff's mind as to whether National Grid would in fact be able to offer supply assistance to KeySpan on a peak day, and should not serve as a justification for lowering the reserve margin, or as a definitive benefit of a merger between the two companies.

Seasonal Gas Supply Synergy Savings

Q. Has KeySpan projected any merger-related gas supply synergy savings related to seasonal supplies?

A. Yes. National Grid has about 60,000 dt/day of Dominion Transmission, Inc. receipt point capacity that is needed to serve its firm customers on about 20 peak or near-peak days per year. Currently, on days when such capacity is not needed, it is marketed to off-system customers to generate gas cost credits, or used for dispatch flexibility to reduce variable gas costs. If a merger were to occur, KeySpan states that, starting in 2012/13, it would

utilize some of National Grid's excess winter supply on all but the 20 coldest days, thereby deferring the need for it to purchase the incremental storage service or year-round pipeline capacity necessary to satisfy system growth. Witnesses Nairn/Klosowski, on page 6 of their pre-filed testimony, state that KeySpan would augment this purchase with a 20-day peaking supply from a third party. The total estimated net gas cost savings are projected to be $89.6 million through 10/31/17, all of which would go to KeySpan customers.

KeySpan would reimburse National Grid for that company's actual asset costs, including the variable cost of dispatching more expensive assets. Also, to ensure that National Grid's customers would be adequately compensated for the level of optimization credits they would have received if their winter capacity was sold off-system rather than to KeySpan, the companies would implement an annual true-up mechanism. Prior to the start of each year, the companies

would collaborate to develop a base line optimization strategy for National Grid's portfolio. The companies would estimate the representative market value of any gas assets that would have been sold off-system absent a merger, and estimate the annual revenues that would have been credited to National Grid's customers from the off-system transactions (i.e., a "target"). During the year, the companies would track total customer gas cost credits generated from the sale of National Grid's winter supply to KeySpan and the off-system sale of National Grid assets not related to the KeySpan sale. To the extent that these credits fall below the target, KeySpan customers would compensate National Grid customers for the difference.

Q. Do you have any comments on the companies' presentation/proposal?

A. Yes. I note that company witnesses Nairn/Klosowski, on page 4 of their pre-filed testimony, state that:

"The savings presented in our testimony are based on consideration of today's marketplace and may change in the future due to the dynamic and evolving nature of the market, the long-term outlook for new supply, infrastructure expansion projects and natural gas prices."

The uncertainty factors that the witnesses cite above regarding the calculation of future savings can be applied as well to the uncertainty regarding whether KeySpan would purchase supplies from National Grid. As noted previously, such sale would not commence until 2012/13 at the earliest, and many things can change in the interim. Thus their proposal is very speculative in nature, and should not be considered a definitive benefit of a merger between the two companies. Staff also believes that the proposed seasonal supply transaction can be accomplished without a merger, via an off-system sales transaction between National Grid and KeySpan. Further, Staff believes that

the proposed target mechanism could be difficult to develop, and its assumptions, estimates and results subject to uncertainty and interpretation.

Transfer of Gas Asset Contracts

Q. What are the LDC's proposing with regard to their gas asset contracts pursuant to a merger?

A. As discussed in the companies' responses to Staff Information Requests DPS-48 and DPS-181 (Exhibit ___ MWW-2), KeySpan is proposing to transfer any or all of their gas contracts for supply, transportation and storage to an affiliate, which it expects would be an unregulated entity. Transfer of National Grid's contracts to such affiliate is also under consideration. At such time as the transfers occur, KeySpan would be authorized to guarantee the payment obligations under any or all of the contracts transferred to the affiliate.

The companies state that the affiliate chosen would manage only the portfolio contracts of regulated companies, and would not mix regulated

assets with unregulated assets. Further, they state that such a transfer is solely to facilitate administration of the combined portfolio, not to avert regulatory oversight.

Q. Do you have any comments on the companies' presentation/proposal?

A. Yes. Even with the assumption that the Public Service Commission (Commission) would retain legal authority over the contracts, the proposal raises reliability, accountability and administrative concerns. Delegating the regulated reliability function to an unregulated entity raises serious concerns. I note that the Commission, in its November 3, 1998 "Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment" in Cases 93-G-0932 and 97-G-1380, stated that:

"No compromise in system reliability will be permitted. We take very seriously the issues raised regarding system reliability."

Until such time as an agreement between the LDC and unregulated entity is negotiated and executed, there remains uncertainty as to whether LDC customers will (1) receive supplies that are reliable, and (2) at what price. If such entity is not directly accountable to the Commission or Department of Public Service, Staff has concerns regarding possible delays in obtaining the information necessary to carry out its statutory obligations, as well as the completeness of the information to be provided. Having to interact with non-utility personnel could hinder Staff's review of activities and invoices related to gas supply, transportation and storage contracts; asset management agreements; capacity release and off-system sales transactions; and hedging activities. Until the companies offer a specific proposal that details these issues and addresses these concerns, Staff cannot support this proposal.

Q. Does this conclude your testimony at this time?

A. Yes.