STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH

Docket DG 10-017

Direct Testimony
of
Frank Lombardo and Ann E. Leary
Regarding Temporary Rates

February 26, 2010

Q. Please state your names and business addresses.

A. My name is Frank Lombardo. My business address is One MetroTech Center, Brooklyn, New York 11201.

My name is Ann E. Leary. My business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

Q. Are you the same Frank Lombardo and Ann Leary who submitted other direct testimony in this case?

A. Yes. Our educational backgrounds and qualifications are set forth in the prefiled direct testimonies that we submitted on behalf of EnergyNorth Natural Gas, Inc. d/b/a National Grid NH ("National Grid NH" or the "Company") in support of the Company's permanent rate filing.

Q. What is the purpose of your testimony?

A. Our testimony explains the level of temporary rates sought by the Company, the reasons for the request and the impact to customers.

Q. What action is the Company proposing to the Commission with regard to temporary rates?

A. The Company is requesting temporary rates at a level that would generate additional annual gross operating revenue of $5,711,359. This would result in a

3.47% increase in customers' overall bills. The Company is requesting that temporary rates take effect as of June 1, 2010 on a service-rendered basis, and that they be applied to customers in accordance with the existing rate design on an equiproportional basis, rather than based on the rate design set forth in the Company's filing in support of permanent rates. The Company recognizes that a temporary rate hearing generally does not provide a sufficient opportunity for the Commission and parties to review proposed rate design changes, and therefore the Company is not proposing to implement any such changes in the temporary rate phase of this docket.

Q. Why is the Company requesting temporary rates?

A. The Company is seeking temporary rates because it is earning significantly less than its allowed rate of return, and without temporary rates it will be unable to earn a reasonable return until a permanent rate order becomes effective. Temporary rates will establish the effective date of the rates approved in the Commission's final order in this case, and therefore should provide the Company with the opportunity to earn the return ultimately found by the Commission to be reasonable.

As described in more detail below, the Company is earning approximately 500 basis points below its current authorized rate of return. This under-earning is the direct result of a material increase in rate base since the Company's last rate

proceeding (i.e., Docket No. DG 08-009), and in particular the substantial level of non-revenue producing investment made by the Company to replace aging portions of its distribution system. In addition to the capital investment that the Company has made since the test year in its last rate case, the Company's operating expenses have increased significantly across numerous expense categories such as the cost of labor, benefits, uncollectible accounts, pension and other post-employment benefits and most other operating expenses. This is further compounded by a flattening trend in average use per customer as a result of customer conservation and energy efficiency improvements to homes and natural gas heating equipment. All of these factors are described in more detail in the direct testimony filed with the Company's request for a permanent rate increase. Because the Company is continuing to invest significant amounts of capital in non-revenue producing projects and its overall throughput is relatively flat, the failure to authorize temporary rates will harm the Company financially and, therefore, is not in the interests of either the Company's customers or its shareholders. Temporary rates are a way of mitigating, to some degree, the problems associated with regulatory lag, while providing the Commission and parties to the proceeding sufficient opportunity to consider the details of the Company's permanent rate request. Implementation of temporary rates at the level requested by the Company will also create a smoother transition to the level of permanent rates proposed by the Company in this case.

Q. You indicated earlier that the Company has not been earning its allowed rate of return. Please provide more detail on the Company's earned return relative to its last authorized rate of return.

A. Exhibit EN 2-2-1A, which is being submitted as part of the permanent rate case filing, shows that the Company earned an overall rate of return of 3.35% for the test year ended June 30, 2009, which is substantially less than the overall rate of return of 8.28% that was authorized by the Commission in its Order No. 24,972 in Docket DG 08-009, the Company's last general rate case. It is also below the proposed overall rate of return of 9.09% that the Company is seeking in this case. The Company's earned return on equity for the calendar years that encompass the test year was 3.9% for calendar 2009 and 4.4% for calendar 2008, as compared to the authorized return on equity of 9.54% established by the Commission in DG 08-009.

Q. How was the temporary increase of $5,711,359 calculated?

A. As shown on Attachment FL/AEL-1, the proposed temporary increase of $5,711,359 is 50% of the Company's proposed permanent rate increase, which is based on a rate base of $169,006,099 (as shown on Exhibit EN 2-4 in the materials filed with the Company's permanent rate filing), a proposed overall rate of return of 9.09%, and test year net operating income before income taxes of $8,576,532 (as shown in column 3 of EN-2-2-1A). The calculated deficiency was

reduced by 50% for purposes of temporary rates to provide a gradual transition to the level of rates proposed by the Company in its permanent rate filing.

Q. How did you calculate the rate of return of 9.09%?

A. National Grid NH's historic and pro forma cost of long term debt, capital structure, and overall rate of return for the test year, are discussed in the prefiled direct testimony of Company witness Robert Hevert. This information is also presented in Exhibit EN 3-1 of the Company's permanent rate filing, where the calculation of the rate of return is shown.

Q. If the Commission approves the Company's temporary rate request, how will the Company's overall rate of return compare to the return approved in the Company's last rate case?

A. In the Commission's Order No. 24,972, issued on May 29, 2009, the Company was authorized to earn an overall rate of return of 8.28%. The temporary rates being proposed by the Company in this case would result in a return of 7.08%.

Q. What percentage increase does the Company's temporary rate request represent?

A. The increase is approximately 3.47% on average over the current bills on a burner tip basis, and 13% based on delivery rates only. The residential heating customer charge would change from $14.03 per 30-day month to $15.85 per month, and for

the winter period the first block would change from $0.2467 per therm to $0.2787 per therm, while the second block would change from $0.1859 per therm to $0.2100 per therm. For low income residential heating customers, the customer charge would change from $5.61 per 30-day month to $6.34 per month, and for the winter period the first block would change from $0.0987 per therm to $0.1115 per therm, while the second block would change from $0.0744 per therm to $0.0840 per therm. As described in the Report of Proposed Rate Changes – Temporary Rates, which is attached to our testimony as Attachment FL/AEL-2, the increase for the average residential customer will be approximately $3.80 per month, while the increase for the average low income residential heating customer will be $1.56 per month.

Q. Please describe the estimated bill impacts resulting from the temporary rate changes being proposed by the Company.

A. The Company anticipates that the average increase for customers in the Residential Heating class will be approximately 4.2% on an annual basis. Customers in the Residential Non-Heating class will experience a 5.6% total bill increase on average. The Commercial and Industrial High Winter Use customers (G-40 series) will experience bill impacts ranging on average from a 2.0% increase to a 3.9% increase, while Commercial and Industrial Low Winter Use customers (G-50 series) will experience bill impacts ranging on average from a decrease of 0.5% to an increase of 3.3%.

Q. Are the proposed temporary rates sufficient to yield not more or less than a reasonable return on the cost of the property used and useful in the public service less accrued depreciation, as shown by the reports of the Company filed with the Commission?

A. Yes. Because temporary rates are reconcilable once a decision on permanent rates is issued, they should allow the Company to earn a reasonable return on its investment. As described in Attachment FL/AEL-1, whether calculated based on the books and records on file with the Commission (the Company's most recent annual report is the report for the year 2008 because the report for 2009 is not yet due) or the information filed by the Company in this case, the Company's requested level of temporary rates yields a rate of return below what is currently authorized and below the rate of return sought in this proceeding. Specifically, the additional revenue that would be generated by the temporary rate increase is 37% of the increase that the Company would be entitled to receive based on the rate base and operating expenses reflected in the Company's books and records on file with the Commission and 63% of what the Company would be entitled to receive using the last allowed rate of return, applied to the rate base filed in the permanent rate filing As we noted earlier, the increase amounts to 50% of the revenue deficiency calculated based on the test year rate base and net operating income using the rate of return proposed by the Company in its permanent rate filing.

Q. Are customers protected from being overcharged by temporary rates if the final rate case decision is less than the level of temporary rates?

A. Yes, customers are protected because of the reconciling nature of temporary rates once permanent rates are established by the Commission.

Q. Does this conclude your testimony?

A. Yes.

NATIONAL GRID NH
Computation of Revenue Deficiency For Temporary Rates

	Based on Books/Records on File with PUC Using Last Allowed Rate of Return*	As Filed Based on Last Allowed Rate of Return**	As Filed Based on Requested Rate of Return**
Rate Base Proposed		169,006,099	169,006,099
Rate Base as filed	189,002,373		
Rate of Return	8.28%	8.28%	9.09%
Income Required	15,649,397	13,993,705	15,370,193
Net Operating Income - Historical Test Year		8,576,532	8,576,532
Net Operating Income as Filed	6,549,994		
Deficiency	9,099,403	5,417,173	6,793,661
Tax Effect	1.6814	1.6814	1.6814
Revenue Deficiency	**15,299,542**	**9,108,320**	**11,422,717**
% Requested			50%
Request for Temporary Rates			**5,711,359**

* Note : Calculation based upon 12 months ended December 2008 data filed in the Company's Annual Report to the NHPUC
** Rate Base and Net Operating Income per permanent rate case filing

National Grid NH
Rate Design Filing
Report of Proposed Rate Changes- Temporary Rates

Line No.	Puc 1604.02 (a)(2)	RESIDENTIAL			C & I High Winter Use			C & I Low Winter Use			
		Non-Heat	Heat	Low Income (After Discount)	Small High Winter Use	Med High Winter Use	Large High Winter Use	Small Low Winter Use	Med Low Winter Use	Large Load Factor <90%	*Large Load Factor >90%*
1	a. Rate Class Designation	RNSH	RSH	RLIAP	SH	MH	LH	SL	ML	LLL90	*LLG90*
2		R-1	R-3	R-4	G-41	G-42	G-43	G-51	G-52	G-53	*G-54*
3	b. Effect of Proposed Change										
4	Increase (Decrease)	$ 88,832	$ 2,913,228	$ 103,932	$ 923,603	$ 1,041,164	$ 162,006	$ 140,786	$ 143,903	$ 122,656	*$ 69,954*
5											
6											
7	c. Average Number of Customers	4,482	63,898	5,558	7,530	1,308	1,484	309	40	35	*21*
8											
9											
10	d. Estimated Annual Revenue										
11	Present Rates	1,595,318	69,880,931	5,130,016	23,752,943	35,275,661	7,890,943	4,252,700	6,685,182	8,298,298	*13,173,923*
12	Proposed Rates	1,684,150	72,794,159	5,233,949	24,676,546	36,316,825	8,052,949	4,393,485	6,829,085	8,420,955	*13,243,877*
13											
14	e. Proposed Rates, $/bill										
15	Present Rates	$ 29.66	$ 91.14	$ 76.92	$ 262.88	$ 2,247.52	$ 443.18	$ 1,146.05	$ 13,909.11	$ 19,599.19	*$ 53,552.51*
16	Proposed Rates	$ 31.31	$ 94.94	$ 78.48	$ 273.10	$ 2,313.86	$ 452.28	$ 1,183.99	$ 14,208.51	$ 19,888.88	*$ 53,836.88*
17	Increase (Decrease)	$ 1.65	$ 3.80	$ 1.56	$ 10.22	$ 66.34	$ 9.10	$ 37.94	$ 299.40	$ 289.69	*$ 284.37*
18	Percentage Increase (Decrease)	5.57%	4.17%	2.03%	3.89%	2.95%	2.05%	3.31%	2.15%	1.48%	*0.53%*

NOTES:
Data above imputes gas supply costs for transportation customers equal to CGC rates for both present and proposed rates.