STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

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

Summer 2011 Cost of Gas
DG 11-______

Prefiled Testimony of Ann E. Leary

March 15, 2011

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Q. Ms. Leary, please state your full name and business address.

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

Q. Please state your position with National Grid NH ("National Grid" or the "Company").

A. I am the Manager of Pricing-New England for the National Grid USA regulated gas companies including EnergyNorth Natural Gas, Inc. d/b/a National Grid NH.

Q. How long have you been employed by National Grid or its affiliates and in what capacities?

A. In 1985, I joined the Essex County Gas Company as Staff Engineer. In 1987, I became a planning analyst and later became the Manager of Rates. Following the acquisition of Essex County Gas Company by Eastern Enterprises in 1998, I became Manager of Rates for Boston Gas Company and then subsequently for KeySpan Energy Delivery New England after Eastern was acquired by KeySpan Corporation. Since the acquisition of EnergyNorth Natural Gas, Inc. by KeySpan Corporation, I have been responsible for rates related matters for National Grid NH as well. My responsibilities remained the same following the acquisition of KeySpan by National Grid.

Q. What do your responsibilities as Manager of Pricing-New England include?

A. As the Manager of Pricing-New England, I am responsible for preparing and submitting various regulatory filings with both the New Hampshire Public Utilities Commission and the Massachusetts Department of Public Utilities on behalf of the Company's New England local distribution companies, including Boston Gas Company, Colonial Gas Company, and National Grid NH. This includes Cost of Gas ("COG") filings, Local Distribution Adjustment Charge ("LDAC") filings and reconciliations, energy conservation, performance-based revenue calculations, lost-base revenues, and exogenous cost filings.

Q. Please summarize your educational background.

A. I received a Bachelor of Science in Mechanical Engineering from Cornell University in 1983.

Q. Have you previously testified in regulatory proceedings?

A. I have testified in a number of regulatory proceedings before Commission and the Massachusetts Public Utilities on a variety of rate matters that include cost allocation studies, rate design, cost of gas adjustment clause proposals, and exogenous cost filings.

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Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the Company's proposed firm sales cost of gas rates for the 2011 Summer (Off Peak) Period to be effective beginning May 1, 2011.

COST OF GAS FACTOR

Q. What are the proposed 2011 summer firm sales cost of gas rates?

A. The Company proposes a firm sales cost of gas rate of $0.7326 per therm for residential customers, $0.7256 per therm for commercial/industrial low winter use customers and $0.7365 per therm for commercial/industrial high winter use customers as shown on Proposed Twenty-Second Revised Page 87.

Q. Would you please explain tariff page Proposed Fourth Revised Page 86 and Proposed Twenty-Second Revised Page 87?

A. Proposed Fourth Revised Page 86 and Proposed Twenty-Second Revised Page 87 contain the calculation of the 2011 Summer Period Cost of Gas Rate and summarize the Company's forecast of firm gas sales, firm gas sendout and gas costs. For example, Proposed Twenty-Second Revised Page 87 shows that the 2011 Average Cost of Gas of $0.7326 per therm is derived by adding the Direct Cost of Gas Rate of $0.7143 per therm to the Indirect Cost of Gas Rate of $0.0183 per therm. The estimated total Anticipated Direct Cost of gas is $13,951,294 and the estimated Indirect Cost of Gas is $357,952. The Direct Cost of Gas Rate and the Indirect Cost of Gas Rates are determined by dividing each of these total cost figures by the projected firm sales volumes of 19,531,283 therms. Proposed Twenty-Second Revised Page 87 further shows that the Residential Cost of Gas Rate, $0.7326 per therm, is equal to the Average Cost of Gas for all firm sales customers. It also shows the calculation of the Commercial/Industrial Low

Winter Use Cost of Gas Rate, $0.7256 per therm, and the Commercial/Industrial High Winter Use Cost of Gas Rate, $0.7365 per therm.

The calculation of the Anticipated Direct Cost of Gas is shown on Proposed Fourth Revised Page 86. To derive the total Anticipated Direct Cost of Gas of $13,951,294 the Company starts with the Unadjusted Anticipated Cost of Gas of $14,424,328 and adds the Net Adjustment totaling $(473,034).

$14,424,328 + $(473,034) = $13,951,294.

Q. What are the components of the Unadjusted Anticipated Cost of Gas?

A. The Unadjusted Anticipated Cost of Gas consists of the following:

1.	Purchased Gas Demand Costs	$5,012,821
2.	Purchased Gas Supply Costs	9,072,210
3.	Produced Gas Cost	58,036
4.	Hedged Contract Costs	281,261
	Total Unadjusted Anticipated Cost of Gas	**$14,424,328**

Q. What are the components of the allowable adjustments to the cost of gas?

A. The adjustments to gas costs, listed on Proposed Fourth Revised Page 86 are as follows:

1.	Prior Period (Over)/Under Collection	$(463,417)
2.	Interest	(9,617)
3.	Prior Period Adjustment	0
Total Adjustments		**$(473,034)**

Q. **Please briefly discuss the status of prices in the gas commodity market that provides the basis for your initial cost of gas rate for the Summer Period.**

A. As of March 9, 2011, the six-month NYMEX futures price strip for the 2011 summer is $0.4097 per therm. The NYMEX strip for this summer reflects current and projected market conditions in the gas industry nationally. The current COG reflects a decrease from 2010 primarily resulting from the decrease in NYMEX pricing and reduction in hedging costs.

Q. How does the proposed average cost of gas rate in this filing compare to the initial cost of gas rate approved by the Commission for the 2010 Summer Period?

A. The cost of gas rate proposed in this filing is $0.0117 per therm higher than the initial rate approved by the Commission for the 2010 Summer Period ($0.7326 vs. $0.7209). This $0.0117 per therm increase is the result of a $0.0265 per therm decrease in prior period reconciliation adjustments and associated interest, a $0.0356 per therm increase in gas costs (a $0.1048 per therm increase in demand costs offset by a $0.0692 per therm decrease in commodity costs), and a $0.0026 per therm increase in indirect gas costs. The 2011 Off Peak COG prior period reconciliation balance is approximately $.5 million lower than the prior period reconciliation balance reflected in the 2010 Off Peak COG factor.

Q. Please explain the variance in the Company's demand charges.

A. As indicated in Mr. Poe's testimony, the Company has updated its Tennessee demand charges to reflect the November 30th, 2010 tariff rates as filed by Tennessee Gas Pipeline in their current rate case before the F.E.R.C. While settlement negotiations are still on-going and the final rates are unknown, the Company included these proposed rates for the months of June 2011 through October 2011 as its best estimate for the upcoming off-peak period. As a result of this increase, the demand charges for the Off Peak 2011 season are approximately $1.8 million higher than Off Peak 2010.

Q. What was the actual weighted average firm sales cost of gas rate for the 2010 Summer Period?

A. The weighted average cost of gas rate for the 2010 Summer Period was approximately $0.7288 per therm. This was determined by applying the actual monthly cost of gas rates for May 2010 through October 2010 to the monthly therm usage of a typical residential heating customer using 1,250 therms per year, or 318 therms for the six summer period months, for heat, hot water and cooking.

Q. Has the Company made changes to the 2011 Off Peak COG to reflect the recent approval of the settlement agreement in Order No. 25,202 in DG 10-017?

A. Yes, in accordance with Sections II. B. and C. of the approved Settlement Agreement, the Company has revised the indirect gas costs and the prior period over/under recoveries for the period May through October 2010. For the indirect gas costs the Company made the following changes: (1) updated the working capital to reflect the net lag of 14.273 days divided by 365 which equated to working capital percentage of 3.9104%, (2) revised the Miscellaneous Overhead to reflect the annual amount of $13,170 of which only $2,534 is being recovered during the Off Peak period; and (2) incorporated an Off Peak bad debt commodity percentage of 2.5%. The Company also updated its Gas cost Reconciliation Filing originally submitted on January 31, 2011 to reflect the changes to the working capital and miscellaneous overhead for the period May 2010 through October 2010. In addition, in accordance to the Settlement agreement, the Company will no longer be reconciling its bad debt on a seasonal basis but instead will be moving to an annual reconciliation of bad debt beginning in November 2011. Therefore the Off Peak 2010 bad debt reconciliation has been eliminated from this filing and the reconciliation of the period May 2010 through October 2010 will be included in the Company's 2011-12 Peak Filing with the reconciliation of the 12-month period May 2010 – April 2011.

Q. Please describe how the Company derived the 2.5% bad debt percentage for the 2011 Off peak COG Filing.

A. Based on the Company's calculation of its most recent annual bad debt percentage of 2.66% as of February 2011, the Company is projecting that it bad debt reconciliation percentage for the period May through October 2011 will be between 2.5%-2.9%. Therefore in accordance with the Settlement Agreement, the bad debt percentage will be set at 2.5%.

PRIOR PERIOD OVER COLLECTION

Q. Please describe the changes the Company has made to the prior period over collection for the period May 2010 through October 2010.

A. The Company has revised its Off Peak 2010 prior period over collection to include the changes in its indirect gas costs as approved in DG 10-017 and to revise its occupant adjustment to show as a credit to the Company and not a disallowance as originally filed. As a result of these changes, the 2010 Off Peak gas cost reconciliation is now an over collection of $463,417 resulting in a decrease of $1,225 as compared to the original gas cost over collection of $462,192 filed on January 31, 2011. In addition, the 2010 Off Peak gas cost working capital is now an over collection of $12,092 resulting in an increase of $4,620 as compared to the original working capital over collection of $16,712. Finally, the 2010 Off Peak bad debt reconciliation has now been eliminated from the Off Peak COG filing and will be reflected in the Company's 2011-12 Peak COG Filing.

Q. Please explain the prior period over collection of $(463,417).

A. The prior period over collection is detailed in the 2010 Summer Period Reconciliation Analysis included in Tab 14 of this filing. Over the 2010 Summer Period, allowable gas costs of $12,588,362 plus the prior Summer Period under collection of $42,954 was less than the Gas Cost Revenue of $13,094,734 by $(463,417). The net result is an ending over collection balance of $(463,417) as of November 1, 2010 as shown on the 2010 Summer Period Reconciliation Analysis. Comparing the actual revenues billed and the gas costs incurred to those that the Company projected in its initial 2010 Summer Period Cost of Gas filing, the over recovery of $(463,417) is the net result of the following: (i) a $2,418 decrease to interest; (ii) a 2,920 increase in prior period balance, (iii) a $662 credit to the Company for occupant billings resulting from the settlement agreement approved in DG 07-129, (iv) a $2,482,714 decrease in actual gas costs compared to projections; (v) a decrease of $2,531 in miscellaneous overhead, and (vi) a $2,020,663 reduction in gas cost revenue billed compared to projections.

<u>CUSTOMER BILL IMPACTS</u>

Q. What is the estimated impact of the proposed firm sales cost of gas rate on an average heating customer's seasonal bill as compared to the rates in effect last year?

A. The bill impact analysis is presented in Tab 8, Schedule 8 of this filing. Please note that these bill impacts include the increase resulting from the implementation of the final base distribution rates approved in Order No. 25,202 in docket DG 10-17. The approved base rates represent an increase as compared to the temporary base distribution rates approved in Order No. 25,104 also in docket DG 10-017. The total bill impact for a typical residential heating customer is an increase of approximately $25, or 6.2% of which $10 or 2.6% is from the increase in the COG and LDAC as compared to the average COG and LDAC for 2010 Off Peak season, and $15 or 3.6% is from the increase resulting from the implementation of approved base rates in DG 10-017. The total bill impact for a typical commercial/industrial G-41 customer is an increase of approximately $27, or 3.4%, of which $18 or 2.3% is from the increase in the COG and LDAC as compared to the average COG and LDAC for 2010 Off Peak season, and $8 or 1.1% is from the increase resulting from the implementation of approved base rates in DG 10-017.

OTHER ISSUES

Q. In this filing, has the Company included actual historical occupant data as specified in Section E.3 of the occupant settlement approved in DG 07-129?

A. Yes, in Tab 15, the Company has provided historical occupant data for the period November 2009 through October 2010 which details the number of open and closed occupant accounts along with detailed monthly arrearage information.

LOCAL DISTRIBUTION ADJUSTMENT CHARGE

Q. Is the Company proposing any changes to the Local Distribution Adjustment Charge in this filing?

A. Yes, the Company is proposing to add a factor to its current LDAF factor approved in DG 10-230 Order No. 25,161 to recover the difference between the delivery revenues obtained from the rates prescribed in the temporary rate order, Order No. 25,104, and the delivery revenue which was approved in DG 10-017 Order No. 25,202. As specified in the approved settlement agreement, the Company will recover this incremental revenue beginning with the first peak or off-peak filing made after Commission approval of the settlement agreement. This amount will be recovered from all customers on a volumetric basis over a twelve month period.

Q. What are the surcharges that will be billed under the LDAC?

A. The Company is submitting for approval a Local Distribution Adjustment Charge of $0.0693 for the residential non heating class and residential heating class, and $0.0474 for the commercial/industrial classes that will be billed from May 1, 2011 through October 31, 2011.

Q. How did the Company calculate this Temporary Rate Reconciliation amount of $950,274 found in Proposed Third Revised Page 92?

A. The Company calculated this reconciliation in the same manner used to calculate the rate case true-up in DG 08-009. The Company included the detail calculations in Tab 16. For the months of July 2010 through February 2011, the Company calculated the variance by comparing the rates actually billed customers with the final approved rates. For the months of July 2010-February 2011, both the temporary rates billed to customer and the actual final rates approved in DG 10-017, include the Cast Iron/bare Steel Program ("CIBS") adjustment approved in Order No. 25,127 in DG 10-139. In calculating the reconciliation adjustment for the month of June 2010, the Company used the rates provided in the Appendix 2 of the settlement agreement instead of the final rates approved by the Commission because the rates reflected in Appendix 2 do not include the CIBS adjustment approved in DG 10-139. The temporary rates billed to customers in

June 2010 did not include the CIBS adjustment and therefore the final rates used to calculate the variance must also exclude the adjustment for the CIBS.

Q. Will the Company need to update this reconciliation amount in its' 2011-12 Peak LDAF Filing?

A. Yes, the reconciliation amount included in the Off Peak LDAF only includes the base rate reconciliation through February 2011. However, since the final rates will not be implemented until April 1, 2011 the Company will need to include in its Peak 2011-12 LDAF Filing, the reconciliation amounts for March 2011 and for usage billed at temporary rates contained in the April 2011 bills.

Q. Did the Company include any other adjustments to this reconciliation amount?

A. Yes in accordance with the settlement agreement in DG 10-017, the Company reduced this reconciliation amount by $7,776. In addition, the Company included the over recovery of rate case expense/temporary rate reconciliation from DG 08-009 and the over recovery of the emergency response incentive stipulated in DG 06-107. These two reconciliation factors totaled an over collection of $143,593.

Q. Does this conclude your testimony?

A. Yes, it does.