

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

**EnergyNorth Natural Gas, Inc.  
d/b/a KeySpan Energy Delivery New England**

**Re: Northern Utilities, Inc.; 2007 Summer Cost of Gas**

**DG 07-033**

**Prefiled Testimony of Ann E. Leary**

**October 15, 2007**

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

2 A. My name is Ann E. Leary. My business address is 52 Second Avenue, Waltham,  
3 Massachusetts 02451.

4

5 **I. BACKGROUND**

6

7 **Q. Please state your position with KeySpan Energy Delivery New England**  
8 **(“KeySpan” or the “Company”).**

9 A. I am the Manager of Rates and Regulatory Affairs for KeySpan Energy Delivery  
10 New England.

11

12 **Q. How long have you been employed by KeySpan or its affiliates and in what**  
13 **capacities?**

14 A. In 1985, I joined the Essex County Gas Company as Staff Engineer. In 1987, I  
15 became a planning analyst and later became the Manager of Rates. Following the  
16 acquisition of Essex by Eastern Enterprises in 1998, I became Manager of Rates  
17 for Boston Gas and then subsequently for KeySpan Energy Delivery New  
18 England after Eastern was acquired by KeySpan Corporation. Since the  
19 acquisition of EnergyNorth Natural Gas, Inc. by KeySpan Corporation, I have  
20 been responsible for these matters for EnergyNorth as well.

21

1 **Q. What do your responsibilities as Manager of Rates include?**

2 **A.** As the Manager of Rates, I am responsible for preparing and submitting various  
3 regulatory filings with both the New Hampshire Public Utilities Commission and  
4 the Massachusetts Department of Telecommunications and Energy on behalf of  
5 KeySpan’s New England local distribution companies, including Boston Gas  
6 Company, Essex Gas, Colonial Gas, and EnergyNorth. This includes Cost of Gas  
7 (“COG”) filings, Local Distribution Adjustment Charge (“LDAC”) filings and  
8 reconciliations, energy conservation, performance-based revenue calculations,  
9 lost-base revenues, and exogenous cost filings.

10

11 **Q. Please summarize your educational background.**

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

14

15 **Q. Have you previously testified in regulatory proceedings?**

16 **A.** I have testified in a number of regulatory proceedings before the Massachusetts  
17 Department of Telecommunications and Energy in rate matters, including  
18 providing testimony relating to cost allocation studies, rate design, cost of gas  
19 adjustment clause proposals, and exogenous cost filings. I have testified before  
20 the New Hampshire Public Utilities Commission in numerous cost of gas and  
21 other regulatory proceedings.

22

1 **II. SUMMARY OF ISSUE FOR REHEARING**

2

3 **Q. What is the purpose of your testimony?**

4 A. My testimony addresses one issue that arises from Commission Order No. 24,786  
5 in this docket, namely how to transition from the use of billed revenues to the use  
6 of accrued revenues for purposes of calculating the balance in the deferred gas  
7 cost reconciliation account on which interest is calculated when determining the  
8 cost of gas for Northern Utilities. KeySpan expects a substantially similar issue to  
9 arise in Docket DG 07-050, KeySpan's indirect gas cost proceeding, but because  
10 of the potentially precedential nature of this docket, KeySpan thought it would be  
11 best if it called the issue to the Commission's attention at this time, rather than  
12 simply litigating the issue at the hearing in DG 07-050.

13

14 **Q. What is the Company's concern regarding how any transition from the use  
15 of billed revenues to accrued revenues should work?**

16 A. It is not clear from Order No. 24,786 how the Commission expects the transition  
17 to be made from the use of billed to accrued revenues for purposes of calculating  
18 the gas cost reconciliation balance used in the cost of gas mechanism. The way in  
19 which such a transition is made is critical because a change in the beginning  
20 balance will directly affect the level of interest that accrues on a going-forward  
21 basis. If the beginning balance is wrong, the interest will be incorrect on a  
22 permanent basis, and the rates set by the Commission will be confiscatory.

23

1 **Q. Why would the rates set by the Commission be confiscatory if the beginning**  
2 **balance is incorrect?**

3 A. The gas cost reconciliation balance is like a bank account, which has credits and  
4 debits over time. If the initial balance in the account is too low, then even though  
5 all deposits and withdrawals (i.e., gas revenues received and gas costs incurred)  
6 are correctly reflected after that, the balance itself will remain too low on a  
7 permanent basis. As a result, the interest that accrues on the balance will always  
8 be too low. In the case of the gas cost reconciliation account, the amount "in the  
9 bank" at any particular point in time may be in favor of customers (i.e., there is a  
10 net overcollection owed to customers) or it may be favor of the Company (i.e.,  
11 there is a net undercollection owed to the Company). If the beginning balance in  
12 this account is artificially reduced at the outset, any subsequent balance in favor  
13 of customers will always be too high (and the corresponding interest that accrues  
14 in favor of customers will also be too high) or any balance in favor of the  
15 Company will be too low (and the corresponding interest that accrues in favor of  
16 the Company will also be too low).

17  
18 **Q. How could the Commission's order lead to an artificial reduction of the**  
19 **beginning gas cost reconciliation balance?**

20 A. It is unclear from the Commission's order exactly how the transition from billed to  
21 accrued revenues for purposes of calculating the deferred gas cost reconciliation  
22 balance is to be accomplished. However, if not done correctly, the transition  
23 could result in Northern being required to include 12.5 months of revenue, but

1 only 12 months of gas costs, in its reconciliation account for the period prior to  
2 the transition date. The extra half month of revenue would improperly reduce the  
3 balance in the deferred gas cost reconciliation account. That incorrect lower  
4 balance would then be carried forward on a permanent basis. At this point, my  
5 understanding of how the transition is to be accomplished is based only on  
6 discussions with the Commission staff ("Staff"). Based on those discussions, my  
7 understanding is that the Staff in fact expects Northern to implement the transition  
8 in the way I have just described. My concern, of course, is that this is Staff's  
9 expectation for KeySpan as well.

10  
11 **III. SUMMARY OF GAS COST RECONCILIATION MECHANISM**

12  
13 **Q. Please describe how the gas cost reconciliation mechanism works.**

14 **A.** As the Commission is aware, the Northern and KeySpan recover their actual gas  
15 costs from customers on a dollar for dollar basis, barring a disallowance by the  
16 Commission. Each month the gas utilities true up the variance between their  
17 actual gas costs and the amount billed to customers. Although there is a delay  
18 between when customers are billed and when the bills are actually paid by  
19 customers, the utilities record the amount due from customers as revenue when  
20 the bills are rendered to customers, not when they are paid. The Staff and the  
21 utilities have referred to revenue booked on this basis as "billed revenues" for  
22 shorthand. Under the Commission's order in this docket, Northern will need to

1 begin booking these revenues when gas is consumed by customers (i.e., on an  
2 accrual basis), not when the bill for that gas usage is generated.

3 Currently, if the utilities' COG billed revenues exceed their actual gas costs, they  
4 refund the overcollection with interest to their customers in the next month by  
5 netting the amount of the excess plus the associated interest against the gas costs  
6 that are used to set the COG rate. If actual gas costs incurred by the Company  
7 exceed COG revenues, the excess, along with interest on this deferred balance, is  
8 instead added to the costs used to set the COG rate in the next month, and the  
9 amount is collected from customers. Under the Commission's order, this same  
10 methodology will continue to be used, but Northern will be required to book  
11 customer revenues when gas is consumed by customers, rather than when a bill is  
12 generated. This will have the effect of accelerating the booking of revenues  
13 relative to the current methodology. The Company is not contesting this  
14 particular change in the cost of gas mechanism because, as previously noted in  
15 Docket DG 07-050, it has agreed to accept the Commission's ultimate decision on  
16 this issue in this proceeding.

17  
18 **Q. Is the deferred gas cost reconciliation balance you just described treated the**  
19 **same for both the winter (peak) and summer (off-peak) periods?**

20 A. The same mechanism applies for both the peak and off-peak periods, but the  
21 Company maintains two separate gas cost reconciliation subaccounts, referred to  
22 as Peak Acct. 175.20 and Off-Peak Account 175.40, because the two periods have  
23 separately identifiable costs and revenues. Although these accounts are labeled

1 peak and off-peak, they actually record activity during all twelve months of the  
2 year. For example, during the off-peak period (May through October), the  
3 Company books underground storage demand charges to the peak period  
4 reconciliation account because these costs relate to providing service during the  
5 peak period, rather than the off-peak period.

6 Because the peak and off-peak accounts are maintained separately, the deferred  
7 gas cost balance in each account (whether positive or negative) also accrues  
8 interest during all twelve months of the year. Thus, the positive or negative  
9 deferred gas cost balance in the peak and off-peak subaccounts at the end of each  
10 period continues to accrue interest each month during the rest of the year until the  
11 balance and the accrued interest can be charged or credited to customers the  
12 following year in the proper period. Obviously, with regard to revenues from  
13 amounts billed to customers, each subaccount includes only 6 months of activity,  
14 with interest normally being the only revenue item occurring during the other 6  
15 months of the year. On a combined basis, however, the peak and off-peak  
16 subaccounts include twelve full months of revenues from customer billings, just  
17 as one would expect.

18  
19 **Q. What is the mechanism by which the balance from the peak or off-peak**  
20 **period for the prior year is carried forward?**

21 A. After the conclusion of each season (peak and off-peak), the Company prepares a  
22 COG reconciliation filing that it submits to the Commission. This filing shows  
23 the balance from the prior period and, therefore, the amount that needs to be

1 carried forward to the next peak or off-peak period, as applicable. This balance  
2 continues to accrue interest until it is flowed back to or collected from customers.  
3 As noted above, the balance for the peak and off-peak seasons are maintained in  
4 separate subaccounts. When the Company makes its COG rate filing for the next  
5 peak or off-peak period, the reconciliation balance from the prior peak or off-peak  
6 period (including accrued interest) is added to or subtracted from the costs to be  
7 collected from customers.

8  
9 **IV. DESCRIPTION OF MISMATCH CREATED BY STAFF'S PROPOSED**  
10 **TRANSITION METHODOLOGY**  
11

12 **Q. Why would a change from using billed revenues to accrued revenues create a**  
13 **mismatch of revenues and gas costs?**

14 A. Based on discussions with Staff, it is the Company's understanding that the Staff  
15 believes the Commission's order in this proceeding requires Northern to begin  
16 using accrued revenues instead of billed revenues in November 2005, and that the  
17 change should be accomplish by adjusting the balance in the off-peak  
18 reconciliation subaccount as of October 2005. The problem with this approach is  
19 that the off-peak subaccount for the period November 2004 through October 2005  
20 would then reflect 6.5 months of COG revenues from customer billings but the  
21 costs associated with providing only 6 months of service. This mismatch arises  
22 because the Staff is proposing that a half month of November 2005 billings  
23 should simply be moved into the off-peak reconciliation subaccount as of October  
24 2005. (The problem occurs only in the off-peak subaccount because the

1 adjustment to accomplish the transition is made on a one-time basis, which in this  
2 case is to the balance in the off-peak subaccount. I should also note that, because  
3 the adjustment relates to the off-peak subaccount, it is simpler for discussion  
4 purposes to focus on the six months of customer billings and associated gas costs  
5 that belong in that subaccount, rather than the full twelve months of billings and  
6 gas costs that are reflected in the combined peak and off-peak reconciliation  
7 account. This does not change the fact that, as I previously described, each  
8 subaccount actually has twelve months of entries of one kind or another.)  
9

10 **Q. How is it that such a mismatch would arise under Staff's proposal?**

11 A. As I noted earlier, in maintaining the gas cost reconciliation accounts, each month  
12 the Company records one month of COG revenues and one month of gas costs.  
13 As I have also discussed, there are two different reconciliation subaccounts, one  
14 for the peak period (November through April) and the other for the off-peak  
15 period (May through October). Because customers are charged different rates for  
16 gas during the peak and off-peak periods, bills that relate to shoulder months (i.e.,  
17 billing cycles ending in November or May that include days from both the peak  
18 and off-peak periods) are prorated, so that customers are billed at the proper rate  
19 depending on the day on which gas was used. For example, consumption shown  
20 on a customer's November bill is allocated between the months of October and  
21 November based on degree days and the number of days in the billing cycle that  
22 occur in each of those months. Consumption attributed to October is billed at the  
23 off-peak rate, and consumption attributed to November is billed at the peak rate.

1           Although the Company assigns a portion of the COG revenues to the off-peak  
2           period reconciliation account and a portion to the peak period reconciliation  
3           account, in total the Company books only one month of COG revenue for the  
4           entire month of November. The same type of proration/allocation occurs with  
5           regard to bills issued in May because they reflect usage in both April and May.  
6           (April is in the peak period, while May is in the off-peak period.)

7           The problem with Staff's position is that, to accomplish the transition from billed  
8           to accrued revenues, Staff would have Northern book to the off-peak deferred gas  
9           cost reconciliation account as of October 2005 those revenues that were billed in  
10          November 2005 that are attributable to gas used by customers in October 2005.

11          While Staff's position may appear logical at first blush, it fails to take into  
12          account that the off-peak account for the year November 2004 through October  
13          2005 already includes six months of revenues from COG billings to customers.

14          By allocating the November 2005 COG billings back to October 2005 in addition  
15          to the revenues already booked, the off-peak COG revenues for the year  
16          November 2004 through October 2005 will include an extra half month of  
17          customer billings/revenues (i.e., 6.5 months of billed revenues) At the same time,  
18          the costs associated with providing only 6 months of service are included.

19  
20       **Q.   How is it that the off-peak reconciliation account for the period November**  
21       **2004 through October 2005 already includes six month of revenues from**  
22       **customer billings?**

1 A. The mismatch occurs because, for the twelve month period November 2004  
2 through October 2005, the off-peak account includes the half month of revenue  
3 that was billed in November 2004 but that related to gas used by customers in  
4 October 2004. In addition, it includes a half month of revenue for gas that was  
5 billed in May 2005 since half of May 2005's billings are booked to the peak  
6 period account because they relate to April 2005 usage. In addition to these two  
7 half months of revenues, the account includes the revenues from the five months  
8 of billings for June through October 2005. This totals six months of revenues  
9 from customer billings. If the additional half month of billings from November  
10 2005 are then added, the result would be 6.5 months of billed revenues. At the  
11 same time, there is no similar inclusion of an extra half month of gas costs  
12 because gas costs have always been booked on an accrual basis. The result would  
13 be a mismatch of revenues and costs, with the excess revenues artificially  
14 reducing the balance in the deferred gas cost balance for the period.

15

16 **Q. Your testimony appears to indicate that the Company already attributes**  
17 **about half of its November COG revenues to October. If that's the case, why**  
18 **would the Staff's approach create a problem?**

19

20 A. Even though half of November's billings are allocated to the off-peak subaccount,  
21 they are still booked to the account in the month of November. They are not  
22 pushed back to the month of October. As I mentioned earlier, the peak and off-  
23 peak subaccounts each have twelve months of activity. The Staff's approach cuts

1 off the off-peak subaccount as of October and moves November 2005 revenues to  
2 October 2005. As I noted above, because the period November 2004 to October  
3 2005 already includes six months of billed revenues and the associated six months  
4 of gas costs, Staff's proposal incorrectly results in a mismatch by adding an  
5 additional half month of revenues without adding any offsetting costs.

6  
7 **Q. What would be the financial harm to the Company arising from this**  
8 **methodological error?**

9 A. Implementing the transition in the manner proposed by Staff would reduce the  
10 November 2005 beginning balance of the off-peak reconciliation account by  
11 \$4.461 million because of the inclusion of the extra half month of revenue from  
12 the prior year's off-peak reconciliation account. Such an error would result in a  
13 \$471,230 reduction in interest expense in the first year alone. (Schedule AEL-1  
14 sets forth the basis for this calculation.) Even though the gas costs and COG  
15 revenues booked to the account would match on a going-forward basis, the  
16 reduction in the beginning balance would result in an ongoing loss of interest that  
17 would recur perpetually on a going-forward basis. The annual impact of this error  
18 in the future cannot be calculated precisely on a prospective basis, but it will be  
19 substantial.

20

1 V. KEYSPAN'S PROPOSAL TO TRANSITION TO THE USE OF ACCRUED  
2 REVENUES WITHOUT A CONFISCATORY IMPACT; CONCLUSION  
3

4 Q. How does the Company believe the transition from the use of billed to  
5 accrued COG revenues should be accomplished for purposes of calculating  
6 the deferred gas cost reconciliation balance?

7 A. The Company believes the best way to address the transition issue would be to  
8 establish a special transition account to addresses the extra half month of  
9 revenues. The Company could incorporate the ending balance for the proposed  
10 peak transition account in its next COG filing to realign the balances in its  
11 reconciliation accounts. However, as long as the total revenues (the sum of  
12 accrued revenues for both the peak and off-peak reconciliation subaccounts )  
13 reflects only one month of revenues and the beginning balances for November  
14 2005 for both the peak and off-peak reconciliation accounts (175.20 and 175.40)  
15 do not change and agree with the amount filed by KeySpan in DG 06-121 for  
16 KeySpan, the Company would be indifferent to the exact methodology used to  
17 transition from billed to accrued COG revenues. The Company would be willing  
18 to work with the Staff to resolve this issue. The Staff's current interpretation of  
19 Commission Order 24,786, however, would be confiscatory and has no apparent  
20 basis in traditional ratemaking principles.

21  
22 Q. Under the methodology proposed by the Company, does the interest  
23 associated with the peak and off-peak reconciliation account balances change

1           **as compared to the original interest amounts previously submitted in its**  
2           **COG filings?**

3    A.     Yes, the interest for the period November 2005 through October 2006 would be  
4           reduced by \$119,302 as a result of the switch from billed to accrued revenues  
5           ordered by the Commission, but the confiscatory impact of the transition would  
6           have been eliminated (see Schedule AEL-1).

7    **Q.     Does that conclude your testimony?**

8    A.     Yes, that concludes my testimony at this time.

**KeySpan Energy- Energy North**

**Acct. 175.20+175.40 Deferred Gas Cost for Nov 05-Oct 06**

	Billed Revenue	Staff's Proposal Accrued Rev	Company's Proposal Accrued Rev	Staff vs. Billed	KeySpan vs Billed
<b>Acct. 175.20</b>					
Beginning Balance	\$4,152,233	\$4,152,233	\$4,152,233	\$0	\$0
Gas Costs	\$96,926,685	\$96,926,685	\$96,926,685	\$0	\$0
Billed Revenues	(\$102,115,491)	(\$102,115,491)	(\$97,650,910)	\$0	\$4,464,581
Ending Balance w/o Interest	(\$1,036,573)	(\$1,036,573)	\$3,428,008	(\$0)	\$4,464,581
Interest Applied	\$348,216	(\$16,577)	\$319,210	(\$364,793)	(\$29,006)
Ending Balance with Interest	(\$688,357)	(\$1,053,150)	\$3,747,218	(\$364,793)	\$4,435,575
<b>Acct. 175.40</b>					
Beginning Balance	\$5,724,337	\$1,262,972	\$5,724,337	(\$4,461,365)	\$0
Gas Costs	\$20,648,879	\$20,648,879	\$20,648,879	\$0	\$0
Billed Revenues	(\$22,720,852)	(\$22,299,428)	(\$26,760,793)	\$421,424	(\$4,039,941)
Ending Balance w/o Interest	\$3,652,365	(\$387,576)	(\$387,576)	(\$4,039,941)	(\$4,039,941)
Interest Applied	\$135,465	\$32,392	\$45,170	(\$103,073)	(\$90,295)
Ending Balance with Interest	\$3,787,830	(\$355,184)	(\$342,406)	(\$4,143,014)	(\$4,130,236)
<b>Acct. 175.20+175.40</b>					
Beginning Balance	\$9,876,571	\$5,372,167	\$9,876,571	(\$4,504,404)	\$0
Gas Costs	\$117,575,564	\$117,575,564	\$117,575,564	\$0	\$0
Billed Revenues	(\$124,836,343)	(\$124,414,919)	(\$124,411,703)	\$421,424	\$424,640
Ending Balance w/o Interest	\$2,615,792	(\$1,467,188)	\$3,040,432	(\$4,082,980)	\$424,640
Interest Applied	\$483,683	\$12,453	\$364,381	(\$471,230)	(\$119,302)
Ending Balance with Interest	\$3,099,475	(\$1,454,735)	\$3,404,813	(\$4,554,210)	\$305,338

Billed Revenue Period  
Length of period- Months

Mid Oct 05- Mid Oct 06  
12

Mid Oct 05- End Oct 05  
12.5

Nov 05 - Oct 05  
12.5