

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

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

**Docket DG 08-009**

**Direct Testimony  
Of  
John E. O'Shaughnessy and Ann E. Leary  
Regarding Temporary Rates**

**February 25, 2008**

1 **Q. Please state your names and business addresses.**

2 A. My name is John E. O'Shaughnessy. My business address is One MetroTech  
3 Center, Brooklyn, New York 11201. My name is Ann E. Leary. My business  
4 address is 52 Second Avenue, Waltham, Massachusetts 02451.

5 **Q. Are you the same John E. O'Shaughnessy and Ann E. Leary who submitted**  
6 **other direct testimony in this case?**

7 A. Yes. Our educational backgrounds and qualifications are set forth in our  
8 individual prefiled direct testimonies in support of the Company's permanent rate  
9 filing.

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

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

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

15 A. The Company is requesting temporary rates at a level that would generate  
16 additional annual gross operating revenue of \$6,620,440. This would result in a  
17 3.75% increase in customers' overall bills. The Company is requesting that  
18 temporary rates take effect on August 24, 2008 on a service-rendered basis, and  
19 that they be applied to customers based on the rate design set forth in the  
20 Company's filing in support of permanent rates. This rate design is described in  
21 detail in the testimony of Gary L. Goble.

22 **Q. Why is the Company requesting temporary rates?**

1 A. The Company is seeking temporary rates because it is earning significantly less  
2 than its allowed rate of return. As described in more detail below, the Company  
3 is earning 589 basis points below its last allowed return and 532 basis points  
4 below the rate of return being proposed in this case. This primarily results from  
5 the fact that rate base has more than doubled since the last rate filing more than 15  
6 years ago. During that time, the Company has made significant investments in  
7 non-revenue producing assets. In addition, the cost to serve customers has  
8 increased significantly. Over the past 15 years, inflation has increased nearly  
9 50%. Not surprisingly, the Company has experienced increases in the cost of  
10 labor, benefits and most other operating expenses, despite achieving significant  
11 cost savings through merger synergies and other efficiencies. The impact of these  
12 factors has been further compounded by a decline in average use per customer as  
13 a result of customer conservation and energy efficiency improvements to homes  
14 and natural gas heating equipment.

15 Temporary rates are a way of mitigating, to some degree, the problems associated  
16 with regulatory lag, while enabling the Commission and parties to the proceeding  
17 to consider the details of the Company's permanent rate request. Implementation  
18 of temporary rates at the level requested by the Company will create a smoother  
19 transition to any new permanent rates ordered in this case. Moreover, the  
20 settlement agreement in the KeySpan/National Grid merger specifically  
21 contemplated that the Company would make a temporary rate filing, with rates to  
22 be effective one year after consummation of the merger (i.e., August 24, 2008).

1 **Q. Did the Company earn its allowed rate of return in the test year ended**  
2 **June 30, 2007?**

3 A. No. Exhibit EN 2-2-1A, which is submitted as part of the permanent rate case  
4 filing, shows that the Company earned a rate of return of 3.94% for the test year  
5 ended June 30, 2007, which is substantially less than the last allowed overall rate  
6 of return of 9.83% and is also below the 9.26% rate of return requested by the  
7 Company.

8 **Q. How was the temporary increase of \$6,620,440 calculated?**

9 A. As shown on Attachment JOS/AEL-1: Computation of Temporary Rate Increase,  
10 the proposed increase of \$6,620,440 is based on the test year rate base of  
11 \$148,037,338, as shown on Exhibit EN 2-4 (which is part of the permanent rate  
12 filing), an overall rate of return of 9.26% and the test year net operating income of  
13 \$5,833,244, as shown in column 1 of EN-2-2-1. For this purpose, no pro forma  
14 adjustments were made to the test year figures. The calculated deficiency was  
15 then reduced by 50% in order to provide a gradual transition to the level of rates  
16 proposed by the Company in its permanent rate filing.

17 **Q. How did you calculate the rate of return of 9.26%?**

18 A. The rate of return is taken from Exhibit EN 3-1 of the Company's permanent rate  
19 filing, where the calculation is shown.

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

22 A. The increase is approximately 3.75% on average over the current bills on a burner  
23 tip basis, and 16.1% based on delivery rates only. The residential heating

1 customer charge would change from \$9.88 per 30 day month to \$19.18 per month,  
2 and for the winter period the first block would change from \$0.2945 per therm to  
3 \$0.2290 per therm, while the second block would change from \$0.1711 per therm  
4 to \$0.1330 per therm. For low income residential heating customers, the  
5 customer charge would change from \$3.95 per 30 day month to \$7.67 per month,  
6 and for the winter period the first block would change from \$0.1178 per therm to  
7 \$0.0916 per therm, while the second block would change from \$0.0684 per therm  
8 to \$0.0532 per therm. As described in the Report of Proposed Rate Changes –  
9 Temporary Rates, which is attached to our testimony as Attachment JOS/AEL-2,  
10 the increase for the average residential customer will be approximately \$10.96 per  
11 month, while the increase for the average low income residential heating customer  
12 will be \$4.51 per month.

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

15 A. The Company anticipates that the average increase for customers in the Residential  
16 Heating class will be approximately 5.0% on an annual basis. Customers in the  
17 Residential Non-Heating class will experience a 6.9% total bill increase on average.  
18 The Commercial and Industrial High Winter Use customers (G-40 series) will  
19 experience bill impacts ranging on average from a 1.4% increase to a 2.9% increase,  
20 while Commercial and Industrial Low Winter Use customers (G-50 series) will  
21 experience bill impacts ranging on average from a decrease of 0.4% to an increase of  
22 1.4%.

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

5 A. Yes. Because temporary rates are reconcilable once a decision on permanent  
6 rates is issued, they should allow the Company to earn a reasonable return on its  
7 investment. As described in Attachment JOS/AEL-1, whether calculated based  
8 on the Company's test year rate base or the rate base reflected in the books and  
9 records on file with the Commission, the Company's requested level of temporary  
10 rates yields a rate of return below what is currently authorized and below the rate  
11 of return sought in this proceeding. Specifically, the additional revenue that  
12 would be generated by the temporary rate increase is 44% of the increase that the  
13 Company would be entitled to receive based on the rate base and operating  
14 expenses reflected in the Company's books and records on file with the  
15 Commission and 45% of what the Company would be entitled to receive using the  
16 last allowed rate of return. As I noted earlier, the increase amounts to 50% of the  
17 revenue deficiency calculated based on the test year rate base and net operating  
18 income using the rate of return proposed by the Company in its permanent rate  
19 filing.

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

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

1 **Q. Does this conclude your testimony?**

2 A. Yes.

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**ENERGYNORTH NATURAL GAS, INC d/b/a NATIONAL GRID NH**  
**Computation of Revenue Deficiency For Temporary Rates**

	<b>Based on Books/Records on File with PUC Using Last Allowed Rate of Return</b>	<b>Test Year Based on Last Allowed Rate of Return</b>	<b>Test Year Based on Requested Rate of Return</b>
Rate Base Proposed		148,037,338	148,037,338
Rate Base as filed	167,198,750		
Rate of Return	9.83%	9.83%	9.26%
Income Required	16,441,100	14,556,907	13,708,258
Net Operating Income - Historical Test Year		5,833,244	5,833,244
Net Operating Income as Filed	7,517,879		
Deficiency	8,923,221	8,723,663	7,875,014
Tax Effect	1.6814	1.6814	1.6814
<b>Revenue Deficiency</b>	<b>15,003,313</b>	<b>14,667,782</b>	<b>13,240,881</b>
% Requested			50%
<b>Request for Temporary Rates</b>			<b>6,620,440</b>

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

Line No.	Puc 1604.02 (a)(2)	a. Rate Class Designation	RESIDENTIAL			C & I High Winter Use				C & I Low Winter Use				Combined	
			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 Low Winter Use	Factor <90%	Factor <110%	Factor >110%	Large Load Factor >90%
1		RNSH	RSH	RLIAP	LH	ML	LLL90	LLG10	LLG90						
2		R-1	R-3	R-4	G-41	G-42	G-53	G-63	G-63						
3		\$ 135,480	\$4,157,194	\$ 119,710	\$ 795,390	\$ 630,207	\$ 176,522	\$ (19,164)	\$ 31,263	\$ 166,163	\$ 3,279	\$ 74,786	\$ 78,228		
4		4,975	63,221	4,530	7,277	1,464	43	1,356	300	38	1	16	83,221		
5		1,957,025	83,715,561	5,009,696	27,439,051	42,495,615	6,980,652	5,509,807	8,435,263	11,515,095	260,410	14,187,145	14,447,556		
6		2,092,505	87,872,755	5,129,406	28,234,441	43,125,821	7,157,174	5,490,643	8,466,525	11,681,257	263,690	14,261,931	14,525,784		
7		\$ 32.78	\$ 110.35	\$ 92.16	\$ 314.20	\$ 2,418.69	\$ 13,672.36	\$ 338.57	\$ 2,345.32	\$ 25,050.97	\$ 21,057.57	\$ 74,097.15	\$ 14.47		
8		\$ 35.05	\$ 115.83	\$ 94.36	\$ 323.31	\$ 2,454.56	\$ 14,018.10	\$ 337.40	\$ 2,354.01	\$ 25,412.45	\$ 21,322.72	\$ 74,487.75	\$ 14.55		
9		\$ 2.27	\$ 5.48	\$ 2.20	\$ 9.11	\$ 35.87	\$ 345.74	\$ (1.18)	\$ 8.69	\$ 361.49	\$ 265.15	\$ 390.59	\$ 0.08		
10		6.92%	4.97%	2.39%	2.90%	1.48%	2.53%	-0.35%	0.37%	1.44%	1.26%	0.53%	0.54%		
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NOTES:  
Data above imputes gas supply costs for transportation customers equal to current COG rates for both present and proposed rates.