Exhibit No. DG-10-017
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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

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

Docket No. DG 10-017

Rebuttal Testimony
of
Ann E. Leary

December 7, 2010

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I. INTRODUCTION AND BACKGROUND

Q. 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. Have you previously provided testimony in this docket?

A. Yes, I provided prefiled testimony on February 26, 2010 on behalf of EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (the "Company"). My education and professional experience are described in that testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is twofold: (1) to recalculate the revenue adjustment proposed by Mr. Frink on behalf of the Public Utilities Commission staff ("Staff") for growth- related mains and services associated with year-end rate base and (2) to respond to the statement by Roger D. Colton on behalf of Pamela Locke that low income customers use less gas.

II. REVENUE ADJUSTMENT

Q. Please summarize Staff's proposed revenue adjustment associated with year-end rate base.

A. Staff is proposing a revenue increase of $739,822, of which $70,384 is related to customers switching from non-heat to heat service and $669,438 is related main and service extensions installed during the test year.

Q. Does the Company support these revenue adjustments?

A. Although the Company does not object to a revenue adjustment to reflect additional revenues associated with growth-related rate base additions during the test year, the methodology and assumptions used by Staff to calculate this revenue adjustment include flaws that must be corrected in order to calculate the adjustment properly.

Q. Please describe how Staff calculated this adjustment.

A. Staff assumed that all growth-related investment in mains and services satisfies the 25 percent test for main and service extensions in the Company's tariff. That provision requires that projected revenue over the first four years for an extension must equal or exceed the capital cost of the extension. Based upon this assumption, Staff first calculated the annual incremental revenue required for an extension by multiplying the monthly growth- related capital cost by 25 percent. Staff then calculated the portion of this annual revenue that could be assumed to have occurred during the test year in order to determine the amount that was already reflected in the Company's test year revenues.

Staff then calculated the difference between this amount and the full 25 percent (i.e., a full year of revenue from the extension) to determine the incremental revenue adjustment that needed to be made to the test year revenues for ratemaking purposes.

Q. Please explain why the Company does not support Staff's calculation.

A. There are two problems with Staff's revenue adjustment calculation. First, the analysis assumes an even revenue spread throughout the year and does not reflect the monthly variation due to weather. Second, the initial assumption regarding the 25 percent test used to calculate the incremental revenue is not correct. In the revenue adjustment calculation, Staff assumed that the incremental revenues generated from test year-ending rate base occurred evenly throughout the year. Attachment AEL-2 (included with my direct testimony) shows that both the normal throughput and normalized revenues vary throughout the year. Attachment AEL-R1, included with this rebuttal testimony, demonstrates that the average monthly use as a percent of total use varies from a high of 17 percent in February to a low of 3 percent in August. In Exhibit SPF-5, Staff instead assumed that the monthly usage is 8.33 percent every month throughout the year. By applying each month's actual volumetric percentage, instead of the average 8.33 percent used by Staff, the amount of the revenue adjustment proposed by Staff decreases from $669,438 to $508,252, which represents a decrease of $161,187 to Staff's proposed revenue adjustment.

The Company's second concern regarding Staff's revenue adjustment calculation is with Staff's initial assumption regarding the use of the 25 percent test. In the Company's last rate case, DG 08-009, the Commission approved a revision to Section 7(B) of the Company's tariff, the provision that included the 25 percent test I discussed above. Until it was revised in DG 08-009, Section 7(B) did not included the capital cost of new residential services in the 25 percent test. It is that earlier version of Section 7(B) that was in effect during the test year used in the current rate case (the new provision became effective July 1, 2009). Therefore, since residential services were not included in the 25 percent test during the test year, it is erroneous to calculate the associated revenue by including their cost in the calculation. By removing the capital costs for residential services from Mr. Frink's calculation in Exhibit SPF-5 and using a volumetric spread of annualized revenues as I discussed earlier, rather than the 8.33 percent average used by Staff, the amount of the revenue adjustment proposed by Staff drops from $669,438 to $203,502, a decrease of $465,937 to Staff's proposed revenue adjustment.

Q. Please explain how the Company calculated its proposed revenue adjustment to match year end rate base with revenues.

A. Since it is erroneous for the reasons discussed above to calculate incremental revenues by simply applying the 25 percent test rule against test year capital costs associated with services, the Company took a different approach to identify incremental test year revenues. Instead, the Company calculated incremental revenues by annualizing the revenues associated with year-end customer counts. In other words, the Company calculated the additional revenues that would have been generated during the test year as if those customers who were on the system as of June 2009 had been active customers for the entire year. The Company calculated this incremental revenue by first identifying the incremental number of customers at year end by comparing the June 2009 customer counts for each rate class with the average number of customers for the test year. The Company then determined the incremental revenues associated with this increase in customers by multiplying the incremental number of customers by the average margin for each rate class. See Attachment AEL-R2. This produced an incremental revenue figure of $227,552, which is $441,886 less than the revenue adjustment proposed by Staff. This amount is very close to the revenue adjustment proposed by Staff once the capital costs for services not subject to the 25 percent test during the test year are removed from Staff's analysis.

III. <u>LOW INCOME CUSTOMER USE</u>

Q. Does the Company agree with Mr. Colton's statement that low income customers use less gas?

A. No, in fact the test year data indicate that in total the average use for low income customers is slightly higher than the average use for non-discounted heating customers.

Q. Please compare the average use per customer for the low income rate class with the residential heating rate class.

A. Using the information provided in Attachment AEL-1 from my direct testimony, I calculated the average normalized use per customer for residential heating and residential heating low income customers. As demonstrated in the table below, the use per customer for low income customers is *higher* than the use per customer for non-discounted customers.

	Normalized Use	Attachment AEL-1 Average No. Cust.	Use/Customer
Residential Heating	51,659,668	63,898	808.5
Residential Low Income	4,679,981	5,558	842.0
Variance			33.6
% Variance			4.2%

Q. Does this conclude your testimony?

A. Yes, this concludes my testimony.