

Niagara Mohawk Power Corporation
d/b/a National Grid

PROCEEDING ON MOTION OF THE
COMMISSION AS TO THE RATES,
CHARGES, RULES AND
REGULATIONS OF NIAGARA
MOHAWK POWER CORPORATION
FOR ELECTRIC AND GAS SERVICE

Rebuttal Testimony and Exhibits of:

Joseph F. Gredder
Shared Services and Customer Panel
Gas Rate Design Panel
Gas Infrastructure and Operations Panel
Maureen Heaphy

Book 1

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Submitted to:
New York State Public Service Commission
Case 12-E-0201
Case 12-G-0202

Submitted by:
Niagara Mohawk Power Corporation

Before the Public Service Commission

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of

Joseph F. Gredder

Case 12-E-0201

Rebuttal Testimony of Joseph F. Gredder

1 **Q. Please state your name and business address.**

2 A. My name is Joseph F. Gredder and my business address is 175 East Old
3 Country Road, Hicksville, NY 11801.

4

5 **Q. Are you the Joseph F. Gredder who provided direct testimony**
6 **regarding the Electric Sales forecast?**

7 A. Yes.

8

9 **Q. Do you sponsor any exhibits?**

10 A. Yes. I'm sponsoring Exhibit __ (JFG-1R): Forecast Comparisons, Fiscal
11 Year 2014, Post-Energy Efficiency Sales (gWh).

12

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

14 A. I am responding to the Department of Public Service Staff's ("Staff")
15 testimony regarding the electric sales forecast.

16

17 **Q. Does the Company agree with Staff's electric sales forecast?**

18 A. No. Exhibit __ (JFG-1R) shows that the aggregate difference between the
19 Company's and Staff's sales forecasts is only one percent. Although the
20 two forecast models produce similar results, the Company maintains that

Rebuttal Testimony of Joseph F. Gredder

1 its forecast methodology most accurately projects electric sales in the Rate
2 Year.

3

4 **Q. Please explain.**

5 A. The Company’s and Staff’s forecast models calculate the primary growth
6 drivers for electric sales using econometric regression analysis. In this
7 type of model, economic variables determine the growth in sales per
8 customer. Specifically, coefficients for these variables determine the
9 relationship between growth in sales per customer and economic growth
10 as a means of predicting sales.

11

12 Initially, Staff’s model was based on recent historical sales data through
13 December 2011, but the “Real per Capita Income” and “Gross Domestic
14 Product” variables that Staff used in modeling SC1 and SC3A, which are
15 two of the largest rate classes, were not statistically significant. Staff
16 therefore replaced the coefficients for these variables with information
17 from the 2010 Electric Rate Case to produce its desired result. Staff’s
18 analysis thus ignores the last two and half years of sales data and is
19 dependent upon subjectively selected inputs for the key growth drivers in
20 its models.

21

Rebuttal Testimony of Joseph F. Gredder

1 The Company's model, however, does not rely on subjectively selected
2 inputs to determine growth. Rather, the sales growth in the Company's
3 model is determined entirely and objectively by the model itself using
4 current sales data, which produces a more appropriate result.

5
6 Accordingly, for this reason and the reasons set forth in the Company's
7 direct testimony, the Company maintains that its electric sales forecast
8 should be accepted.

9

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

11 A. Yes.

Rebuttal Testimony of Joseph F. Gredder

Exhibit __ (JFG-1R)

Forecast Comparisons, Fiscal Year 2014
Post-Energy Efficiency Sales (gWh)

**Niagara Mohawk Power Corporation
Forecast Comparisons, Fiscal Year 2014**

Post-Energy Efficiency Sales (gWh)

a	b	c	d = (c / b) - 1
<u>Rate Class</u>	Company (7/16/12) (1) <u>FY2014, Post-EE</u>	Staff's (9/10/12) (2) <u>FY2014, Post-EE</u>	% Different <u>Companand vs. Staff Growth</u>
SC1	11,470	11,511	0.4%
SC2nd	631	635.0	0.6%
SC2D	4,348	4,267	-1.9%
SC3	6,211	6,080	-2.1%
SC3A	4,447	4,343	-2.3%
<u>SL</u>	<u>203</u>	<u>199</u>	<u>-2.0%</u>
Subtotal	27,310	27,035	-1.0%

- (1) Exhibit __ (JFG-13CU)
(2) Exhibit __ (GPS-1_Corrected)

Rebuttal Testimony of
Shared Services and Customer Panel

Before the Public Service Commission
NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID
Rebuttal Testimony
of
The Shared Services and Customer Panel

Rebuttal Testimony of the Shared Services and Customer Panel

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Rebuttal Testimony of the Shared Services and Customer Panel

1 **I. Introduction**

2 **Q. Please identify the members of the Shared Services and Customer**
3 **Panel.**

4 A. The Shared Services and Customer Panel (the “Panel”) consists of
5 Rudolph L. Wynter Jr., Evelyn Kaye, and Edward H. White, Jr.

6
7 **Q. Is this the Shared Services and Customer Panel that previously filed**
8 **testimony in these proceedings?**

9 A. Yes. This Panel provided direct testimony and corrections and updates
10 testimony as part of Niagara Mohawk’s April 27, 2012 and July 16, 2012
11 filings in these proceedings.

12
13 **Q. What is the purpose of the Panel’s rebuttal testimony?**

14 A. The Panel is responding to testimony from the Staff Accounting,
15 Consumer Issues, Retail Access, and Alternate Fuel Vehicle Panels, along
16 with testimony of Staff Witness Michael Colby, UIU Witness Gregg C.
17 Collar and PULP Witnesses Barbara Alexander and William Yates. The
18 topics addressed in the Panel’s rebuttal include: (1) Staff’s forecast of
19 property tax expense; (2) Staff’s forecast of uncollectible account
20 expense; (3) Staff and PULP proposals to modify the Company’s service
21 quality assurance program; (4) PULP proposals on the Company’s low

Rebuttal Testimony of the Shared Services and Customer Panel

1 income programs; (5) Staff, UIU and PULP proposals regarding Customer
2 Outreach and Education; (6) Staff, UIU and PULP proposals regarding
3 enhanced delivery of ESCO pricing information to customers; and (7)
4 Staff's recommendations on alternate fuel vehicle programs.

5

6 **Q. Does the Panel sponsor any exhibits?**

7 A. Yes. The Panel sponsors the following exhibits, which were prepared by
8 the Panel or under its direction and supervision:

- 9 Exhibit __ (SSCP-1R) Electric and Gas Transmission & Distribution
10 CapEx Property Tax Impact Analysis
11
12 Exhibit __ (SSCP-2R) Calculation of natural growth rate for property
13 tax expense and backcast results using 1.06%
14 and 3.2% growth factors
15
16 Exhibit __ (SSCP-3R) Uncollectible rates for the three most recent
17 rolling 12-month periods
18
19 Exhibit __ (SSCP-4R) Study of the impact of removing CTC Revenues
20 on uncollectible rate
21
22 Exhibit __ (SSCP-5R) Copy of customer bill showing both electric and
23 gas low income discounts
24
25 Exhibit __ (SSCP-6R) The Company's proposal to enhance delivery of
26 ESCO pricing information to customers
27

28 **II. Forecast of Property Tax Expense**

29 **Q. Does the Company agree with Staff's property tax growth factor of**
30 **1.06 percent based on fiscal year 2012 data?**

Rebuttal Testimony of the Shared Services and Customer Panel

1 A. No. The Company does not believe that Staff's 1.06 percent growth
2 factor was calculated properly. The Company is not opposed to using a
3 comparison of fiscal year data instead of calendar year data to determine
4 the growth factor for property tax expense, as Staff proposes. However,
5 the figures compared need to be on the same basis. Staff compares fiscal
6 year 2011 with fiscal year 2012, but fails to account for the fact that
7 differing obsolescence rates are reflected in the two years. Embedded in
8 the fiscal year 2012 property tax expense is a 23 percent economic
9 obsolescence rate, while only a 21 percent rate is embedded in the fiscal
10 year 2011 expense. By normalizing out the effects of changes in
11 economic obsolescence, the Company determined that the actual growth
12 factor from fiscal year 2011 to fiscal year 2012 is 3.68 percent, as shown
13 in column (e) of Page 1 of 3 of Exhibit __ (SSCP-2R).

14
15 In calculating its proposed growth factor of 3.2 percent, the Company
16 utilized the most recent five year average economic obsolescence to
17 normalize year-on-year swings in economic obsolescence.

18
19 **Q. Did the Company perform a backcast of property tax expense to test**
20 **the accuracy of Staff's proposed growth factor?**

21 A. Yes, the Company's backcast of property tax expense is presented in

Rebuttal Testimony of the Shared Services and Customer Panel

1 Exhibit __ (SSCP-2R) and supported by Exhibit __ (SSCP-1R). The
2 backcast demonstrates that Staff’s proposed growth factor of 1.06 percent
3 understated actual property tax expense in fiscal year 2012 by 2.53
4 percent, compared to the Company’s proposed growth factor of 3.2
5 percent, which understated actual property tax expense in fiscal year 2012
6 by only 0.46 percent. The backcast demonstrates that the Company’s
7 proposed growth factor of 3.2 percent more closely approximates the
8 likely property tax expense in the Rate Year. However, the Company
9 recognizes that no forecast is certain. In the event that a multi-year rate
10 plan is negotiated in these proceedings, a property tax reconciliation
11 mechanism would be the best means to protect both Niagara Mohawk and
12 its customers.

13

14 **Q. Does the Company accept Staff’s method for calculating incremental**
15 **additions to plant in service?**

16 A. Yes. Staff used the most recent one year data to calculate the incremental
17 additions, rather than the five year average proposed by the Company.
18 The Company accepts Staff’s approach, and uses the most recent one year
19 data for incremental additions in its revised calculation for property tax
20 expense.

21

Rebuttal Testimony of the Shared Services and Customer Panel

1 **Q. Does the Company agree with Staff's method for allocating property**
2 **tax adjustments associated with incremental net plant between**
3 **electric and gas?**

4 A. No. Staff proposes downward adjustments of \$2.0 million for electric and
5 \$0.6 million for gas. The Company believes Staff made an error in its
6 calculation and maintains that the allocation of property tax for
7 incremental plant should be consistent with the underlying electric and gas
8 capital forecast, as was the allocation in its initial filing. The appropriate
9 allocation is thus a downward adjustment of \$3.3 million for electric and
10 an upward adjustment of \$0.7 million for gas.

11

12 **Q. Did the Company incorporate in its revised property tax expense**
13 **forecast the changes in forecast capital expenditures and incremental**
14 **net additions?**

15 A. Yes. The Company calculated a revised property tax expense forecast
16 reflecting the flow-through of adjustments to capital expenditures and
17 revised incremental net additions to net plant in service. The Revenue
18 Requirements Panel provides the revised property tax expense.

19

20 **III. Forecast of Uncollectible Accounts Expense**

21 **Q. Please explain Staff's adjustment to uncollectible account expense.**

Rebuttal Testimony of the Shared Services and Customer Panel

1 A. Staff proposes to reduce the Company's Rate Year uncollectible account
2 expense by \$7.115 million and \$4.839 million for the electric and gas
3 businesses, respectively. Staff agrees with the Company's method of
4 calculating uncollectible account expense by dividing twelve months of
5 net write-offs by revenues to arrive at a percentage (uncollectible rate) and
6 multiplying that rate by Rate Year revenues. Staff, however, disagrees
7 with the Company's use of the latest twelve months information to
8 calculate the rate. Instead, Staff proposes using a three year aggregate
9 rate.

10

11 **Q. Does the Company agree with Staff's proposal to use a three year**
12 **aggregate rate?**

13 A. No. A one year aggregate rate is more reflective of the current trend for
14 Niagara Mohawk, especially considering that the Company stopped
15 collecting revenue from competitive transition charges ("CTC") at the
16 beginning of 2012. Further, the one year aggregate rate was adopted by
17 the Commission in the Company's 2010 Electric Rate Case and the 2008
18 Gas Rate Case.

19

20 **Q. Why is Staff opposed to using a one year aggregate rate?**

21 A. Staff contends that using the most recent twelve months data to calculate

Rebuttal Testimony of the Shared Services and Customer Panel

1 the uncollectible rate produces an abnormally high rate compared to prior
2 periods. Staff concludes that because the level of net write-off is higher
3 than the average net write-off for similar periods from 2008 through 2012,
4 it must not be representative of the Rate Year. Staff attributes the higher
5 rate, in part, to the impact of the manual phase of the “Transfer to Active
6 Project” (“TAP”).

7

8 **Q. Does the Company agree with Staff’s assessment of the impacts of the**
9 **TAP on the uncollectible rate?**

10 A. No. During 2010 and through early 2011, the manual phase of the TAP
11 reinstated \$9 million from the uncollectible reserve to active accounts,
12 which reduced uncollectible write-offs in the near term. Staff argues that
13 net write-offs in the twelve month period used to calculate the
14 uncollectible rate reflect not only current bills, but also amounts written
15 off again under the TAP. While the Company acknowledges that amounts
16 reinstated under the TAP and then written off again impacted the
17 uncollectible rate, Staff grossly overstates the impact. As provided in
18 Attachment 3 to GRW-1 (May 2012 Update), the manual phase of TAP
19 reinstated \$9 million and the test phase of the project reinstated
20 approximately \$7.5 million. The maximum amount subject to write-off
21 again under the TAP was therefore \$16.5 million. Staff mistakenly

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1 includes all dollars tied to reinstated customers in the relevant period,
2 including current bills that are in no way related to any phase of the TAP,
3 which totals approximately \$35 million. Accordingly, Staff's calculation
4 more than doubles the maximum potential TAP-related amounts subject to
5 write-off during the twelve month period used for the Company's
6 forecast.

7

8 **Q. Is Staff's use of a three year aggregate rate an appropriate way to**
9 **normalize the effects of the TAP on uncollectible rates?**

10 A. No. Staff proposes to use a three year aggregated uncollectible rate to
11 reflect the lower level of write-offs at the beginning of the TAP process
12 and the higher level of write-offs at the end of the process. As Staff
13 acknowledges, however, the TAP concluded in February 2011.
14 Accordingly, the impacts of the manual and test phases of the TAP were
15 largely eliminated from the net write-offs for rolling twelve month periods
16 ending February 2012 and thereafter. Thus, the most effective way to
17 normalize the impact of the TAP would be to use a twelve month rolling
18 rate ending February 2012 or thereafter, as the Company proposes.

19

20 **Q. Has the Company quantified the remaining net write-off impact of**
21 **the TAP on the most recent twelve months of arrears?**

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1 A. Yes. Based on analysis of all amounts reinstated from the TAP,
2 approximately \$15.7 million (of the total \$16.5 million) has been
3 recovered or written off again. Applying the current average recovery rate
4 of 53 percent to the remaining \$0.8 million results in a maximum potential
5 impact of \$0.38 million from the TAP in the most recent twelve month
6 period.

7

8 **Q. Is it possible to use a one year aggregate uncollectible rate and**
9 **normalize the impact of the TAP?**

10 A. Yes. As shown in the Company's response to IR DPS-13 (GRW-1),
11 adjusting the Company's forecast to remove the lingering effects of the
12 TAP from the most recent twelve month period (ended August 2012)
13 results in an uncollectible rate of 1.5696 percent for electric and 2.8431
14 percent for gas. The Revenue Requirements Panel provides the adjusted
15 Rate Year uncollectible expense for the electric and gas businesses.

16

17 **Q. Does the Company agree with Staff's conclusion that the current**
18 **uncollectible rates are abnormally high compared to levels over the**
19 **last five years?**

20 A. No. While current rates are higher than prior periods, the increase is
21 mitigated when the impact of the TAP is removed. As shown in Exhibit

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1 __ (SSCP-3R), when the impact from the TAP is removed, the current
2 electric and gas uncollectible rates are in line with the rates in 2009 and
3 2010.

4
5 **Q. Are the most recent twelve months of data representative of the**
6 **uncollectible rates the Company expects in the Rate Year?**

7 A. Yes. As Staff and the Commission have recognized in the Company's
8 most recent electric and gas rate proceedings, the most recent twelve
9 month uncollectible rate is generally the best predictor of the uncollectible
10 rate in the Rate Year. The removal of CTCs from electric rates further
11 supports this methodology. CTCs were removed from customers' electric
12 bills in January 2012, which resulted in a material decrease in revenues.
13 Because CTCs were largely borne by non-residential customers, who are
14 responsible for less than ten percent of net write-offs, the elimination of
15 CTCs has minimal impact on net write-offs. Accordingly, all else being
16 equal, the decrease in revenues coupled with a relatively constant level of
17 net write-offs will increase the uncollectible rate in 2012 and beyond. As
18 shown in Exhibit __ (SSCP-4R), the Company performed a study to
19 assess the impact of removing CTC revenues on the electric uncollectible
20 rate. The study further supports using the most recent twelve months
21 aggregated uncollectible rate to calculate uncollectible expense.

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1 **IV. Proposals to Modify Service Quality Assurance Program**

2 **Q. Please describe the service quality issues raised by Staff and PULP.**

3 A. The Staff Consumer Issues Panel accepts the Company's Service Quality
4 Assurance Program proposals, but adds a new service quality metric
5 relating to missed appointments. Staff recommends a \$30 bill credit to
6 customers if the Company misses a scheduled appointment. Staff also
7 recommends that the allocation of negative revenue adjustment ("NRA")
8 amounts associated with the Service Quality Assurance Program be
9 established in this proceeding and not subject to annual recalculation.
10 Staff proposes that the allocation be fixed at 75 percent and 25 percent to
11 electric and gas, respectively. PULP proposes a new service quality
12 metric for call abandonment and recommends that the Company report its
13 busy-out rate. PULP also proposes new metrics for the termination rates
14 for residential and low income customers.

15
16 **Q. Does the Company agree with Staff's proposal to add a bill credit for
17 missed appointments?**

18 A. Staff's recommendation is reasonable provided that the credit is similar to
19 those in effect at other utilities in New York State. In particular, the credit
20 should not apply to same day appointments or if events beyond the
21 Company's control, such as severe weather, prevent the Company from

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1 keeping a scheduled appointment. These limitations are reflected in the
2 tariffs of other companies (for example, New York State Electric & Gas,
3 Rochester Gas & Electric, KeySpan Energy Delivery Long Island, and
4 KeySpan Energy Delivery New York) that offer similar appointment
5 guarantees.

6

7 **Q. Does the Company agree with Staff's proposal regarding the**
8 **allocation of NRAs?**

9 A. Yes. The Company agrees that Staff's proposed percentage split between
10 electric and gas is appropriate and that fixing the allocation percentage is
11 preferable to recalculating it annually.

12

13 **Q. Does the Company agree with PULP's proposal for a new service**
14 **quality metric for call abandonment?**

15 A. No. PULP's recommendation to add a service quality metric for the
16 percentage of abandoned calls, which are those calls terminated by the
17 customer while waiting in the queue for a representative, would
18 substantially increase costs without significant service quality benefits.
19 To ensure that abandoned calls do not exceed three percent, as proposed
20 by PULP, the Company would have to add call center FTEs and increase
21 call center vendor services. The Company has estimated that the

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1 incremental costs associated with these changes would be approximately
2 \$827,000 per year. Niagara Mohawk estimates up to nine incremental
3 FTEs (eight call center representatives and one supervisor) would be
4 required at a total cost of approximately \$477,000 per year plus
5 approximately \$350,000 of additional annual call center services
6 (additional vendor agents plus associated overhead) from Nationwide
7 Collections, Inc., the Company's call center service provider. Moreover,
8 the metric would not provide significantly greater benefits than the
9 existing metric of calls answered within 30 seconds ("30s Metric"). The
10 30s Metric measures a customer's wait time experience and is comparable
11 to a call abandonment metric. Importantly, Niagara Mohawk has
12 achieved its 30s Metric since its 2005 implementation. In light of the
13 substantial costs to implement and maintain PULP's proposed metric and
14 the Company's 30s Metric performance, PULP's proposal should be
15 rejected.

16

17 **Q. Does the Company agree with PULP's recommendation that the**
18 **Company report its busy-out rate?**

19 A. No. Busy-out calls are those calls that terminate with a busy signal.
20 There is no reliable method of calculating busy-out rates during times of
21 high call volume. Any estimate would depend on assumptions regarding

Rebuttal Testimony of the Shared Services and Customer Panel

1 the periods of time when no telephone lines are available to receive calls.

2 At most, the Company could report the time frames that customers may
3 have been receiving a busy signal. As such, PULP's proposal should be
4 rejected.

5

6 **Q. Does the Company agree with PULP's proposal for new service**
7 **quality metrics for residential and low income customer termination**
8 **rates?**

9 A. No. PULP argues that the termination rate for residential customers
10 should not exceed 3.6 percent and that the termination rate for low income
11 customers should not exceed 1.3 percent. These proposed metrics are
12 based on PULP's incorrect assumption that customer terminations are
13 significantly increasing based on the Company's request for additional
14 costs in the Rate Year associated with the reconnect waiver fee. (Shared
15 Services and Customer Panel Direct Testimony at p. 42). In the 2010
16 Electric Rate Case, the Company forecast the 2011 reconnect waiver fee
17 to be \$10,000. As described in this Panel's direct testimony, actual
18 expense during the Historic Test Year was approximately \$109,000. The
19 discrepancy, however, was the result of a forecast error, not an increase in
20 the number of reconnect waivers or terminations. Further, even if there
21 were a sharp increase in terminations, there is no indication that a service

Rebuttal Testimony of the Shared Services and Customer Panel

1 quality metric capping terminations would have any impact on those rates.
2 Customer terminations are a last resort and largely the result of customer
3 behavior, such as failure to pay past due amounts. Penalizing the
4 Company for these terminations is therefore inequitable and unwarranted.
5 Finally, PULP fails to consider the perverse incentive that would arise
6 from an inflexible cap on terminations. If the Company curtailed
7 terminations to achieve the metric, it would increase bad debt expense
8 borne by all customers. For all of these reasons, PULP's proposals should
9 be rejected.

10

11 **V. Low Income Customer Programs and HEFPA Disclosures**

12 **Q. Does the Company agree with PULP Witness Alexander's and UIU**
13 **Witness Collar's proposed expansion of and modifications to the**
14 **Company's low income discount programs?**

15 A. No. The Company has worked extensively with Staff and interested
16 parties to develop low income programs that provide meaningful
17 assistance to customers most in need, while considering the financial
18 challenges facing many non-participant customers who bear the costs of
19 these programs. The Company does not support the larger low income
20 discounts recommended by UIU and PULP because of the increased costs
21 they would impose on other customers. Indeed, the Staff Consumer

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1 Issues Panel recommends reducing the Company's proposed increased
2 credit from \$10 to \$8.50 on the grounds that the additional costs place too
3 high a burden on non-participant customers, many of whom are just above
4 eligibility guidelines. (Staff Consumer Issues Panel at 15-16). Many of
5 the modifications advocated by PULP would result in incremental costs
6 that would be borne by all customers and are not warranted. Accordingly,
7 the Company does not support the proposed modifications to its low
8 income discount programs.

9

10 **Q. Please describe PULP's other proposed modifications to the**
11 **Company's low income programs.**

12 A. Generally, PULP recommends changes to eligibility and enrollment
13 criteria and redesign of the Company's low income programs.

14

15 **Q. Does the Company agree with PULP's proposals regarding eligibility**
16 **and enrollment practices for low income programs?**

17 A. No. PULP recommends that Niagara Mohawk expand eligibility criteria
18 and explore the use of automatic enrollment mechanisms for all of its low
19 income programs. Currently, customers eligible for HEAP are
20 automatically enrolled in Niagara Mohawk's low income discount
21 program and modifying eligibility requirements to include a manual

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1 means test as proposed by PULP would add a layer of administration and
2 costs to the process that would need to be borne by customers. Regarding
3 enrollment in the AffordAbility Program, PULP concludes that more
4 intensive enrollment outreach is required. Niagara Mohawk, however,
5 consistently meets or exceeds enrollment targets for the program.
6 Importantly, as discussed below, the Company proposes to expand its
7 customer outreach and education efforts, which will increase
8 communications to low income customers. The Company maintains that
9 this additional outreach, combined with its already robust outreach for its
10 low income programs, including bill inserts and other written materials,
11 direct calling campaigns, and a “Grassroots Campaign” that leverages
12 agencies and community groups that interact with potentially eligible
13 customers, is sufficient.

14

15 **Q. Does the Company agree with PULP’s proposals regarding the design**
16 **of its low income discount programs?**

17 A. No. PULP urges the Company to provide two credits to combined electric
18 and gas customers. As shown on Exhibit __ (SSCP-5R), which is a copy
19 of a customer bill, two credits are already provided to low income
20 customers receiving gas and electric services and thus no change is
21 necessary. PULP also advocates for changing the Company’s gas low

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1 income discount program to provide a block rate reduction or per therm
2 discount. Niagara Mohawk's gas low income programs provide arrears
3 forgiveness and a flat rate reduction in monthly basic service charges.
4 Redesigning the current gas discount program as PULP suggests would
5 require significant system changes, as the mechanisms for calculating
6 block or per therm reductions are more complicated than the flat rate
7 discounts the Company currently provides. PULP's recommendation
8 would also cause Niagara Mohawk to incur additional administrative costs
9 associated with communication and billing materials, as well as additional
10 labor costs to develop the program, system and customer communications.
11 In light of the incremental costs involved, PULP's proposal should be
12 rejected.

13

14 **Q. What other PULP proposals require incremental costs to implement?**

15 A. The following proposals require incremental costs to implement: 1)
16 adding descriptions of low income programs to the Company's tariffs; 2)
17 expanding monthly arrears forgiveness; and 3) directing combined
18 customers' partial payments to electric service. Because Niagara Mohawk
19 does not believe that the costs associated with PULP's proposals are
20 warranted by the incremental benefits, it does not support them.

21

Rebuttal Testimony of the Shared Services and Customer Panel

1 **Q. Please explain the incremental costs associated with adding**
2 **descriptions of low income programs to the Company's tariffs.**

3 A. Incorporating and maintaining descriptions of low income programs in the
4 tariff would require incremental administrative and labor costs. Typically,
5 program details are not included in tariffs and the Company would incur
6 incremental costs associated with filing, maintaining, and updating the
7 electric and gas tariffs if this proposal were accepted. The Company
8 maintains that outreach and education tailored to reach low income
9 customers is more effective and efficient than incorporating program
10 details in a lengthy document available only on the internet.

11

12 **Q. Please explain the incremental costs associated with implementing a**
13 **new or expanded arrears forgiveness program.**

14 A. PULP urges the Company to enlarge its arrears forgiveness program to
15 make it similar to programs in Massachusetts. Implementing a similar
16 program would require additional resources and system design changes
17 and impose greater costs on customers.

18

19 **Q. Please explain the incremental costs associated with directing partial**
20 **bill payments to electric service.**

21 A. PULP proposes that if a combined customer makes a partial payment for

Rebuttal Testimony of the Shared Services and Customer Panel

1 service, the payment should be applied first to the balance for electric
2 service in lieu of the Company's current practice to prorate the payment
3 based on the percentage of electric and gas charges on the total bill.

4
5 Payment posting priority and partial payment proration is a complex
6 process and any changes could require modifications to the Company's
7 billing and payment systems and could impact the purchase of receivables
8 ("POR") program as well. In addition, directing partial payments to
9 electric service could significantly increase termination expenses for
10 customers. Generally, combined customers who fall into arrears do so for
11 both gas and electric services. Under the existing payment proration
12 methodology, the Company is usually permitted to terminate/reconnect
13 either or both services. Typically, the Company terminates and
14 reconnects electric service first because it is less labor intensive and less
15 expensive than terminating and reconnecting gas service. If customers
16 who fall into arrears choose to direct partial payments to electric service to
17 delay or avoid termination of electric service, gas terminations and
18 reconnections will increase. This could increase overall costs to
19 customers. For these reasons, PULP's proposal should be rejected.

20

21 **Q. Does the Company agree with PULP's recommendation that the**

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1 **Commission review the Company’s and NYSERDA’s energy**
2 **efficiency and weatherization programs to increase coordination and**
3 **availability of these programs for low income customers in this**
4 **proceeding?**

5 A. No. Niagara Mohawk has historically supported NYSERDA’s energy
6 efficiency programs by referring customers who have enrolled in the
7 Company’s AffordAbility Program. The Company submits that this
8 proceeding is not the appropriate forum to address energy efficiency and
9 weatherization programs or any modifications to the NYSERDA referral
10 practice and that any modifications be addressed in a rulemaking
11 proceeding where all stakeholders, including NYSERDA and other
12 utilities, may participate.

13

14 **Q. PULP alleges that Niagara Mohawk’s customer rights disclosures and**
15 **down payment requirements do not comply with the Home Energy**
16 **Fair Practices Act (“HEFPA”). Does the Company agree with**
17 **PULP’s assertions?**

18 A. No. PULP’s purported examples of non-compliance are largely
19 semantics, style, and formatting issues that do not rise to the level of non-
20 compliance. PULP’s recommendations regarding the notices are merely
21 PULP’s opinions of what should be included and not issues of statutory or

Rebuttal Testimony of the Shared Services and Customer Panel

1 regulatory compliance. With respect to down payments, for example,
2 PULP asserts that a down payment requirement of half the customer's
3 arrears or three times the average bill, whichever is less, is non-compliant.
4 However, Public Service Law Section 31(1)(b) specifically allows for
5 such down payments. Similarly, while PULP might prefer that a down
6 payment requirement not apply when a customer changes residences, the
7 Company's practice is consistent with HEFPA.

8

9 **VI. Customer Outreach and Education Initiative**

10 **Q. Please explain Staff's response to Niagara Mohawk's proposed**
11 **customer outreach and education initiative.**

12 A. The Staff Consumer Issues Panel supports the Company's proposed
13 initiative to broaden its customer outreach and education, but recommends
14 an increase of \$0.9 million, which is \$0.5 million less than the Company's
15 proposed increase of \$1.4 million. Staff's total proposed allowance of
16 \$3.0 million is based on the Company's historic annual spend of
17 approximately \$2.1 million plus an incremental \$0.9 million for the
18 Company's proposed new initiative. Staff notes that while the Company
19 has on average spent approximately \$2 million in the past several years,
20 the most the Company has recently spent on outreach and education was
21 \$2.69 million in 2009. Staff therefore concludes that \$3 million is

Rebuttal Testimony of the Shared Services and Customer Panel

1 adequate for the Company's expanded outreach and education effort and
2 represents the amount Staff expects, with reasonable certainty, the
3 Company will spend.

4

5 **Q. Is the \$0.9 million increase sufficient to achieve the Company's**
6 **customer outreach and education initiative goal?**

7 A. The \$0.9 million will go a long way toward meeting the Company's goal
8 to improve the effectiveness of customer outreach and education through
9 broader use of modern media and social media tools in key areas. The
10 Company, however, maintains that its requested increase of \$1.4 million
11 is appropriate. Importantly, the Company's initiative at its requested
12 funding level will address various requests by other parties for
13 incremental outreach and education.

14

15 As Staff notes, the incremental funding is designed to increase outreach
16 and education spending in four key areas: safety, storm readiness,
17 customer education, and benefits of natural gas. Exhibit __ (SSCP-15)
18 provides the proposed breakdown of how the additional money is
19 expected to be spent on all four categories. Any increase to the historic
20 test year amount for education and outreach will be divided similarly, as
21 shown on Exhibit __ (SSCP-15).

Rebuttal Testimony of the Shared Services and Customer Panel

1 The Company’s goal to improve the effectiveness of its outreach and
2 education in these areas is supported not only by Staff, but by other
3 intervenors. (PULP Witness Alexander’s Testimony at 23 – 24 and UIU
4 Collar Testimony at 20). The requested \$1.4 million would enable a
5 significant increase in spending for communications regarding the benefits
6 of natural gas component (\$35,000 historic spend would be increased to
7 \$270,000 for this category) and provide substantial benefits, as identified
8 in Staff’s testimony. (Consumer Issues Panel at 18-20). Exhibit __
9 (SSCP-15) shows that the category of “customer education” includes
10 enhanced communications regarding options for low income customers,
11 which are advocated by PULP and UIU.

12
13 Any reduction from the proposed \$1.4 million increase will require
14 Niagara Mohawk to reduce the media channels and frequency of its
15 messaging, thereby reducing overall customer benefits in these areas. The
16 Company believes that its incremental funding request is relatively
17 modest in light of the customer benefits from enhanced communications,
18 as recognized by Staff, PULP and UIU.

19
20 **Q. Does the Company agree with the basis for Staff’s recommended total**
21 **budget of \$3.0 million?**

Rebuttal Testimony of the Shared Services and Customer Panel

1 A. No. While historic spend is often a fair indicator of future needs, for this
2 initiative, the historic spend is not the best indicator of the dollars needed
3 to bring Niagara Mohawk’s outreach and education to a comparable level
4 with other utilities and to leverage the modern communication tools
5 customers expect and can most easily access. The Company intends
6 through its initiative to use new media channels as well as to expand its
7 use of existing channels to broaden its customer outreach, and this broader
8 approach requires the additional funding the Company requested.

9

10 In light of calls for increased outreach and education from UIU and
11 PULP, as well as Staff, and the increased scope and cost associated with
12 this broader communications effort, Staff’s \$0.5 million adjustment to
13 reduce the Company’s proposed \$1.4 million increase should be rejected.

14

15 **VII. Proposals Regarding Disclosure of ESCO Pricing Information**

16 **Q. Please describe Staff, UIU and PULP’s proposals regarding retail**
17 **access.**

18 A. Staff, UIU and PULP recommend that the Company provide information
19 to residential consolidated bill ESCO customers regarding the amount
20 these customers would have been billed had they purchased commodity
21 from the Company. The Staff Retail Access Panel recommends the

Rebuttal Testimony of the Shared Services and Customer Panel

1 Company deliver this information in three ways: (1) printed on monthly
2 consolidated bills; (2) through a web-based historical utility bill
3 calculator; and (3) printed on termination and deferred payment
4 agreement default notices. Staff proposes that incremental costs
5 associated with its proposals be identified and supported by the Company
6 and recovered from ESCOs and/or ESCO customers. Staff proposes a
7 collaborative to develop the materials to be provided to customers and to
8 determine how costs will be recovered from ESCOs or ESCO customers.
9 PULP speculates as to the possibility of funding the incremental costs
10 with net profits from the Company's POR program. In addition to
11 supporting a bill comparison tool on the Company's website, UIU
12 recommends that the Company launch a smart phone bill calculator
13 application.

14
15 **Q. Does the Company support the proposals of Staff, PULP and UIU to**
16 **provide bill comparison information to residential ESCO customers?**

17 A. Yes, for the most part. The Company agrees that providing comparative
18 billing information on its website would help residential customers make
19 informed choices about energy supply. The Company supports Staff's
20 proposal to provide the information in monthly consolidated bills,
21 termination notices and deferred payment agreement default notices to

Rebuttal Testimony of the Shared Services and Customer Panel

1 residential ESCO customers. The Company also supports a collaborative
2 to develop the material to be provided to customers and to determine the
3 mechanism for recovering incremental costs. Exhibit __ (SSCP-6R)
4 provides the Company’s preliminary proposals regarding the information
5 to be provided to customers to facilitate the collaborative discussions.

6

7 **Q. How does the Company propose to deliver the web-based bill**
8 **comparison tool?**

9 A. The Company proposes to create a new function in the “My Account”
10 section on its website to display a comparative bill chart. This section of
11 the Company’s website requires customers to sign in using online account
12 information and a password, thereby limiting access to the information.
13 Details regarding the Company’s proposal are provided in Exhibit __
14 (SSCP-6R).

15

16 **Q. How does the Company propose to deliver the information to**
17 **residential customers in printed materials?**

18 A. The Company proposes to add a new section to residential consolidated
19 bills to display a comparative bill chart for the current billing period and
20 the most recent 12 months of data, as Staff suggests. The Company
21 proposes to provide the same information in termination notices and

Rebuttal Testimony of the Shared Services and Customer Panel

1 deferred payment agreement default letters. As Staff also recommends,
2 the Company proposes to provide comparative bill information in a one-
3 time letter sent to all consolidated billing residential customers who
4 currently participate in a low income assistance program or are on a
5 deferred payment agreement. Details regarding the Company's proposals
6 are provided in Exhibit __ (SSCP-6R).

7

8 **Q. Does the Company agree with Staff's recommendation that bill**
9 **comparison information should be provided during calls with ESCO**
10 **residential customers?**

11 A. Yes. The Company believes that the development of an online bill
12 calculator will provide customers and the Company's call center
13 representatives with an additional tool that could be used to analyze and
14 respond to customer bill inquiries. Staff suggests that customers who
15 make such calls be informed that the Company will send the customer the
16 comparative billing information. However, not all customers will want
17 information mailed to them. The Company proposes that its call center
18 representatives offer to provide the information directly to customers
19 calling with bill inquiries and to follow up with an email or letter at the
20 customer's request.

21

Rebuttal Testimony of the Shared Services and Customer Panel

1 **Q. Would implementing these proposals result in incremental costs?**

2 A. Yes. The Company would incur incremental costs to implement and
3 maintain these proposals for communicating ESCO billing information to
4 residential customers. The Company estimates the cost to provide the
5 tools and communications described in the proposals above to be
6 approximately \$298,000. Details of the estimated cost to address each
7 proposal are provided in Exhibit __ (SSCP-6R). To the extent the
8 Company is directed to begin incurring these costs prior to a Commission
9 determination with respect to cost recovery, the Company requests
10 authority to defer the costs for future recovery from ESCOs and/or ESCO
11 customers or as otherwise determined by the Commission.

12
13 **Q. How does the Company's estimate of incremental costs described in**
14 **Exhibit __ (SSCP-6R) compare to previous estimates?**

15 A. In response to a discovery request, the Company provided an initial
16 estimate of \$400,000 to \$900,000 to create a web-based calculator. That
17 estimate, however, was not based on a design specification and assumed
18 the new function would be required to perform significant calculations.
19 The Company is now proposing a design that uses historical account-level
20 data already available in the billing system. Thus, the resulting estimate
21 to provide the web-based calculator is lower. The Company proposes that

Rebuttal Testimony of the Shared Services and Customer Panel

1 additional functions, such as the on-bill printed charts requested by Staff,
2 could also use existing data. To the extent the Commission requires the
3 Company to implement tools with different design specifications, the
4 Company's cost estimate may differ as well.

5

6 **Q. Does the Company agree with PULP Witness Yates' assertion that it**
7 **may be possible for the Company to fund website bill calculation**
8 **functions using net profits from Niagara Mohawk's POR program**
9 **(PULP Witness Yates at 13)?**

10 A. No. Niagara Mohawk does not earn any net profit from the POR
11 program. The POR program is designed to pass through the costs of
12 credit and collections, bad debt and other expenses associated with
13 providing consolidated billing service for ESCO customers. These costs
14 are periodically updated based on the Company's credit and collections
15 costs and uncollectible accounts expense. While the Company reports
16 revenues from the POR program, there is no profit or return involved.

17

18 **Q. Does the Company agree with UIU's proposal that the Company**
19 **develop and launch a smart phone bill calculator application?**

20 A. The Company appreciates that UIU's intent is to maximize customer
21 access to comparative billing information. However, development of a

Rebuttal Testimony of the Shared Services and Customer Panel

1 smart phone application in addition to the tools described above would
2 introduce another layer of complexity and require resources that the
3 Company believes are better deployed to launch tools that more customers
4 would have access to, such as the website tool. Accordingly, the
5 Company does not support development of a smart phone application at
6 this time.

7

8 **VIII. Alternate Fuel Vehicle Programs**

9 **Q. What is Staff's position regarding the Company's natural gas vehicles**
10 **("NGV") and plug-in electric vehicles ("EV") grant programs?**

11 A. For a number of reasons, Staff does not support the Company's NGV and
12 EV grant programs as currently designed. Staff therefore proposes a \$1.7
13 million adjustment to the revenue requirement.

14

15 **Q. Does the Company agree with Staff's adjustment?**

16 A. The Company believes there is an opportunity in the current market place
17 for the Company to help customers build important alternate fuel vehicle
18 infrastructure in pursuit of the Commission's and New York State's
19 environmental objectives. However, the Company understands Staff's
20 concerns and welcomes additional dialogue with Staff to explore
21 opportunities to develop alternative fuel vehicle programs that are

Rebuttal Testimony of the Shared Services and Customer Panel

1 beneficial to customers.

2

3 **Q. Has the Company removed the costs associated with the NGV and EV**
4 **grant programs from its revenue requirements?**

5 A. Yes. As reflected in the rebuttal testimony of the Revenue Requirements
6 Panel, the Company has adjusted its revenue requirements to remove the
7 costs of these programs.

8

9 **IX. Conclusion**

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

11 A. Yes.

Rebuttal Testimony of the Shared Services and Customer Panel

List of Exhibits

Exhibit __ (SSCP-1R)	Electric and Gas Transmission & Distribution CapEx Property Tax Impact Analysis
Exhibit __ (SSCP-2R)	Calculation of Natural Growth Rate for Property Tax Expense and Backcast Results Using 1.06% and 3.2% Growth Factors
Exhibit __ (SSCP-3R)	Uncollectible Rates for the Three Most Recent Rolling 12-Month Periods
Exhibit __ (SSCP-4R)	Study of the Impact of Removing CTC Revenues on Uncollectible Rate
Exhibit __ (SSCP-5R)	Copy of Customer Bill Showing Both Electric and Gas Low Income Discounts
Exhibit __ (SSCP-6R)	Company Proposal to Enhance Delivery of ESCO Pricing Information to Customers

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-1R)

Electric and Gas Transmission & Distribution CapEx Property Tax Impact
Analysis

Other Than Income Taxes - Real Estate Taxes
For the Historic Fiscal Year 2007 through Fiscal Year 2012
Electric and Gas Transmission & Distribution CapEx Property Tax Impact Analysis

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) (i) (j) (k) (l) (m) (n) (o)									
							FY06	FY07	FY08	FY09	FY10	FY11	FY12	Tax Impact CY Totals		
1	CY05	\$50,864,136	\$40,304,245	\$65,694,087	33.11	(\$2,174,969)	75% FY06; 25% FY07	(\$543,742)								
2	CY06	\$66,103,761	\$59,825,908	(\$46,172,424)	31.73	(\$1,464,978)	75% FY07; 25% FY08	(\$366,244)								
3	CY07	\$53,291,993	\$47,013,141	(\$58,985,191)	31.01	(\$328,874)	75% FY08; 25% FY09	(\$1,371,655)								
4	CY08	\$105,978,526	\$95,189,472	(\$10,808,860)	29.92	(\$323,389)	75% FY09; 25% FY10	(\$457,218)								
5	CY09	\$74,028,791	\$10,079,814	\$63,948,977	30.36	(\$1,276,523)	75% FY10; 25% FY11	(\$242,542)								
6	CY10	\$169,872,180	\$24,948,463	\$144,923,717	31.29	\$1,218,079	75% FY11; 25% FY12									
7	CY11	\$128,577,430	\$93,023,203	(\$12,975,129)	31.29	(\$406,026)	75% FY12; 25% FY13									
8																
9																
10																
11																
12																
13																
14	CY05	\$182,377,698.0	\$176,805,830.0	(\$4,418,046.3)	33.11	(\$146,271)	75% FY06; 25% FY07	(\$36,568)								
15	CY06	\$198,534,496.0	\$182,408,856.0	\$1,849,979.8	31.73	\$37,598	75% FY07; 25% FY08	\$9,399								
16	CY07	\$184,374,774.0	\$149,432,404.0	(\$11,791,472.3)	31.01	(\$365,602)	75% FY08; 25% FY09	(\$274,202)								
17	CY08	\$200,866,599.0	\$164,883,041.0	\$184,383,558.0	29.92	\$94,534	75% FY09; 25% FY10	\$70,901								
18	CY09	\$187,422,942.0	\$33,203,738.0	\$154,219,204.0	30.36	(\$819,801)	75% FY10; 25% FY11									
19	CY10	\$240,760,301.0	\$23,247,992.0	\$217,512,309.0	31.29	\$1,135,561	75% FY11; 25% FY12									
20	CY11	\$201,967,756.0	\$32,840,024.0	(\$12,096,144.3)	31.29	(\$378,520)	75% FY12; 25% FY13									
21																
22																
23																
24																
25																
26																
27	CY05	\$64,272,235	\$62,731,515	\$21,621,953	33.11	\$715,849	75% FY06; 25% FY07	\$178,962								
28	CY06	\$58,071,427	\$4,363,138	\$12,598,727	31.73	\$399,738	75% FY07; 25% FY08	\$299,803								
29	CY07	\$46,455,104	\$5,848,684	(\$903,142)	31.01	(\$15,600)	75% FY08; 25% FY09	(\$9,934)								
30	CY08	\$66,835,689	\$4,388,042	\$52,447,647	29.92	\$39,223	75% FY09; 25% FY10	(\$3,900)								
31	CY09	\$61,590,153	\$6,554,448	\$55,035,705	30.36	\$422,766	75% FY10; 25% FY11	\$254,417								
32	CY10	\$50,935,346	\$7,168,299	\$43,767,047	31.29	\$83,160	75% FY11; 25% FY12									
33	CY11	\$46,391,144	\$6,167,410	(\$885,828)	31.29	(\$27,720)	75% FY12; 25% FY13									
34																
35																
36																
37																
38																
39																

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) (i) (j) (k) (l) (m) (n) (o)									
							FY06	FY07	FY08	FY09	FY10	FY11	FY12	Tax Impact CY Totals		
14	CY05	\$182,377,698.0	\$176,805,830.0	(\$4,418,046.3)	33.11	(\$146,271)	75% FY06; 25% FY07	(\$36,568)								
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27	CY05	\$64,272,235	\$62,731,515	\$21,621,953	33.11	\$715,849	75% FY06; 25% FY07	\$178,962								
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31	CY09	\$61,590,153	\$6,554,448	\$55,035,705	30.36	\$422,766	75% FY10; 25% FY11	\$254,417								
32	CY10	\$50,935,346	\$7,168,299	\$43,767,047	31.29	\$83,160	75% FY11; 25% FY12									
33	CY11	\$46,391,144	\$6,167,410	(\$885,828)	31.29	(\$27,720)	75% FY12; 25% FY13									
34																
35																
36																
37																
38																
39																

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) (i) (j) (k) (l) (m) (n) (o)									
							FY06	FY07	FY08	FY09	FY10	FY11	FY12	Tax Impact CY Totals		
27	CY05	\$64,272,235	\$62,731,515	\$21,621,953	33.11	\$715,849	75% FY06; 25% FY07	\$178,962								
28	CY06	\$58,071,427	\$4,363,138	\$12,598,727	31.73	\$399,738	75% FY07; 25% FY08	\$299,803								
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34																
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39																

Plant Closings from PSC Annual Reports

10/11 Net Change to Ratebase \$105,998,332

10/11 Net Change to Ratebase \$181,223,876

10/11 Net Change to Ratebase \$41,109,562

Column (b) Lines 1 through 7 - Exhibit RRP-5CU Workpaper 2 Line 1 for corresponding year
 Column (c) Lines 1 through 7 - Exhibit RRP-5CU Workpaper 2 Line 4 for corresponding year
 Column (d) Lines 14 through 20 - Exhibit RRP-5CU Workpaper 2 Line 2 for corresponding year
 Column (e) Lines 14 through 20 - Exhibit RRP-5CU Workpaper 2 Line 5 for corresponding year
 Column (f) Lines 27 through 33 - Exhibit RRP-5CU Workpaper 2 Line 3 for corresponding year
 Column (g) Lines 27 through 33 - Exhibit RRP-5CU Workpaper 2 Line 6 for corresponding year
 Column (h) Line 9 - 25% of Column (d) Line 6 and 75% of Column (d) Line 2
 Column (i) Line 22 - 25% of Column (d) Line 19 and 75% of Column (d) Line 2
 Column (j) Line 35 - 25% of Column (d) Line 32 and 75% of Column (d) Line 3
 Column (k) - Exhibit RRP-5CU Workpaper 3 Line 5 for corresponding year

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-2R)

Calculation of Natural Growth Rate for Property Tax Expense and Backcast
Results Using 1.06% and 3.2% Growth Factors

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID (COMPANY 36)
Taxes Other Than Income Taxes - Real Estate Taxes
For the Historic Fiscal Year 2007 through Fiscal Year 2012

Calculation of natural growth rate for property tax expense

Gas

Forecast Year	Actual Expense (a)	Obsolescence in Year (%) (b)	Expense without Obsolescence (c) (a) / [1-(b)]	Natural Growth (\$) (d)	Natural Growth (%) (e)
1 FY2007	\$33,189,392	15%	\$39,046,343		
2 FY2008	\$31,938,350	17%	\$38,479,939	(\$566,404)	-1.45%
3 FY2009	\$36,381,136	21%	\$46,052,071	\$7,572,132	19.68%
4 FY2010	\$36,311,313	23%	\$47,157,549	\$1,105,478	2.40%
5 FY2011	\$39,113,831	21%	\$49,511,178	\$2,353,629	4.99%
6 FY2012	\$39,526,800	23%	\$51,333,507	\$1,822,329	3.68%

Electric

7 FY2007	\$132,768,814	15%	\$156,198,605		
8 FY2008	\$127,764,989	17%	\$153,933,721	(\$2,264,884)	-1.45%
9 FY2009	\$128,210,094	21%	\$162,291,258	\$8,357,537	5.43%
10 FY2010	\$131,021,926	23%	\$170,158,346	\$7,867,088	4.85%
11 FY2011	\$141,134,238	21%	\$178,650,934	\$8,492,589	4.99%
12 FY2012	\$142,624,354	23%	\$185,226,433	\$6,575,499	3.68%

Notes:

Column (a) from Attachment 1 to DPS-281 (RLC-14).

Column (b) from Exhibit __ (SSCP-1).

Column (c) equals Col. (a) / [1-Col. (b)].

Column (d) equals Column (c) of current year less Column (c) of prior year.

Column (e) equals Column (d) of current year divided by Column (c) of prior year.

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID (COMPANY 36)
Taxes Other Than Income Taxes - Real Estate Taxes
For the Historic Fiscal Year 2008 through Fiscal Year 2012

Back-cast of property tax expense using Staff's proposed growth rate

	Prior Year Expense		Growth at 1.06%	Plant Adj.	Forecast Expense		Actual Expense	Variance	
	(a)	(b)			(c)	(d)			(e)
	Prior Year Expense	without	(b) * 1.06%	(d)	(b) + (c) + (d)	Forecast Expense	(g)	(h) - (g)	
		Obsolence				After Obsolescence		(f) - (g)	
								(i)	
								(%)	
Gas									
1 FY2008	\$33,189,392	\$39,046,343	\$413,891	\$88,234	\$39,548,469	\$32,825,229	\$31,938,350	\$886,880	2.78%
2 FY2009	\$31,938,350	\$38,479,939	\$407,887	\$250,517	\$39,138,344	\$30,919,292	\$36,381,136	(\$5,461,844)	-15.01%
3 FY2010	\$36,381,136	\$46,052,071	\$488,152	\$401,880	\$46,942,103	\$36,145,419	\$36,311,313	(\$165,893)	-0.46%
4 FY2011	\$36,311,313	\$47,157,549	\$499,870	\$168,061	\$47,825,481	\$37,782,130	\$39,113,831	(\$1,331,701)	-3.40%
5 FY2012	\$39,113,831	\$49,511,178	\$524,818	\$0	\$50,035,997	\$38,527,718	\$39,526,800	(\$999,083)	-2.53%
Electric									
6 FY2008	\$132,768,814	\$156,198,605	\$1,655,705	(\$2,002,702)	\$155,851,608	\$129,356,834	\$127,764,989	\$1,591,846	1.25%
7 FY2009	\$127,764,989	\$153,933,721	\$1,631,697	(\$720,260)	\$154,845,158	\$122,327,675	\$128,210,094	(\$5,882,419)	-4.59%
8 FY2010	\$128,210,094	\$162,291,258	\$1,720,287	(\$1,629,456)	\$162,382,089	\$125,034,208	\$131,021,926	(\$5,987,718)	-4.57%
9 FY2011	\$131,021,926	\$170,158,346	\$1,803,678	\$1,241,149	\$173,203,173	\$136,830,507	\$141,134,238	(\$4,303,731)	-3.05%
10 FY2012	\$141,134,238	\$178,650,934	\$1,893,700	\$0	\$180,544,634	\$139,019,368	\$142,624,354	(\$3,604,985)	-2.53%
11 Totals						\$828,768,380	\$854,027,030	(\$25,258,650)	-2.96%

Notes:
Columns (a) and (b) are from Exhibit __ (SSCP-2R), Page 1 Columns (a) and (c) respectively.
Column (d) from Exhibit __ (SSCP-1R) for appropriate year; Gas on Line 35, Electric is sum of figures on Lines 8 and 21.
Column (f) equals Column (e) * [1-obsolence factor for year from Exhibit __ (SSCP-2R), Page 1 Column (b)].
Column (g) is from Exhibit __ (SSCP-2R), Page 1 Column (a) for appropriate year.
Column (i) equals Column (h) for the current year divided by Column (g) of the prior year.

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID (COMPANY 36)
Taxes Other Than Income Taxes - Real Estate Taxes
For the Historic Fiscal Year 2008 through Fiscal Year 2012

Back-cast of property tax expense using the Company's proposed growth rate

Forecast Year	Prior Year Expense (a)	Prior Year Expense without		Growth at 3.2% (c)	Plant Adj. (d)	Forecast Expense		Forecast Expense After Obsolescence (f)	Actual Expense (g)	Variance (\$) (h)	Variance (%) (i)
		Obsolence (b)	Obsolence			Before Obsolescence (e)	After Obsolescence				
1 FY2008	\$33,189,392	\$39,046,343	\$1,249,483	\$88,234	\$40,384,061	\$33,518,770	\$31,938,350	\$1,580,421	4.95%		
2 FY2009	\$31,938,350	\$38,479,939	\$1,231,358	\$250,517	\$39,961,814	\$31,569,833	\$36,381,136	(\$4,811,303)	-13.22%		
3 FY2010	\$36,381,136	\$46,052,071	\$1,473,666	\$401,880	\$47,927,617	\$36,904,265	\$36,311,313	\$592,953	1.63%		
4 FY2011	\$36,311,313	\$47,157,549	\$1,509,042	\$168,061	\$48,834,652	\$38,579,375	\$39,113,831	(\$534,456)	-1.37%		
5 FY2012	\$39,113,831	\$49,511,178	\$1,584,358	\$0	\$51,095,536	\$39,343,563	\$39,526,800	(\$183,238)	-0.46%		
Electric											
6 FY2008	\$132,768,814	\$156,198,605	\$4,998,355	(\$2,002,702)	\$159,194,258	\$132,131,234	\$127,764,989	\$4,366,245	3.42%		
7 FY2009	\$127,764,989	\$153,933,721	\$4,925,879	(\$720,260)	\$158,139,340	\$124,930,079	\$128,210,094	(\$3,280,015)	-2.56%		
8 FY2010	\$128,210,094	\$162,291,258	\$5,193,320	(\$1,629,456)	\$165,855,122	\$127,708,444	\$131,021,926	(\$3,313,482)	-2.53%		
9 FY2011	\$131,021,926	\$170,158,346	\$5,445,067	\$1,241,149	\$176,844,562	\$139,707,204	\$141,134,238	(\$1,427,034)	-1.01%		
10 FY2012	\$141,134,238	\$178,650,934	\$5,716,830	\$0	\$184,367,764	\$141,963,178	\$142,624,354	(\$661,175)	-0.46%		
11 Totals						\$846,355,945	\$854,027,030	(\$7,671,085)	-0.90%		

Notes:

Columns (a) and (b) are from Exhibit __ (SSCP-2R), Page 1 Columns (a) and (c) respectively.
Column (d) from Exhibit __ (SSCP-1R) for appropriate year; Gas on Line 35, Electric is sum of figures on Lines 8 and 21.
Column (f) equals Column (e) * [1-obsolence factor for year from Exhibit __ (SSCP-2R), Page 1 Column (b)].
Column (g) is from Exhibit __ (SSCP-2R), Page 1 Column (a) for appropriate year.
Column (i) equals Column (h) for the current year divided by Column (g) of the prior year.

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-3R)

Uncollectible Rates for the Three Most Recent Rolling 12-Month Periods

Uncollectible Rates for the 12-Month Period Ending:

		Electric			
		May	June	July	August
(1)	2012	1.5602%	1.5441%	1.5158%	1.5696%
(2)	2011	1.0319%	1.0371%	1.0458%	1.0733%
	2010	1.5716%	1.5432%	1.5084%	1.4386%
	2009	1.4936%	1.5631%	1.6169%	1.6626%
	2008	1.1445%	1.1467%	1.1555%	1.1725%

		Gas			
		May	June	July	August
(1)	2012	2.9510%	2.8738%	2.7906%	2.8431%
(2)	2011	1.7162%	1.7514%	1.7784%	1.8525%
	2010	2.5863%	2.5602%	2.5457%	2.4757%
	2009	1.9977%	2.1027%	2.1684%	2.1969%
	2008	1.6903%	1.6590%	1.6590%	1.6855%

- (1) For the mo's beginning Nov'11, the electric gas net write-off allocation was changed from 69%-31% to 70%-30% per the outcome of the new annual assessment completed after the Oct'11.
- (2) Beginning Jan'11, the electric-gas net write-off allocation was changed from 72%-28% to 69%-31% per the outcome of the NIMO electric rate case 10-E-0050.

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-4R)

Study of the Impact of Removing CTC Revenues on Uncollectible Rate

a)	<i>Non-Res CTC Revenue Allocator (as Approved in Case 10-E-0050)</i>	76.0%	<i>[Pg 2 Column B; sum of non-SC1 classes.]</i>
b)	<i>Residential CTC Revenue Allocator (as Approved in Case 10-E-0050)</i>	24.0%	<i>[Pg 2 Column B; sum of SC1 & SC1C.]</i>
c)	<i>Residential % of Write Off</i>	91.0%	<i>[Pg 3 Bottom of Column D.]</i>
d)	<i>Non-Residential % of Write Off</i>	9.0%	<i>[1 minus Pg 3 Bottom of Column D.]</i>
e)	<i>LPC % of Tariff Revenue</i>	0.5231%	<i>Attachment 1 GRW-2 or Exhibit__(E-RDP-4 Sched 5 Pg 7)</i>

Exhibit__(SSCP-4) or Attachment 1 GRW-1

	12-Mo Ending 31-Dec-11		Adjstmnts		12-Mo Ending Adjusted
	(\$000's)		(\$000's)		(\$000's)
f) <i>Normalized Bad Debt Net Write-Off</i>	\$ 42,558.0	1)	\$ (2,097.2)	(1)	\$ 40,460.7
g) <i>Total Tariff Revenue</i>	\$2,999,929.5	m)	\$ (572,387.7)	(2)	\$ 2,427,541.8
h) <i>Late Payment Revenue</i>	\$ 15,691.5	n)	\$ (2,993.9)	(3)	\$ 12,697.6
i) <i>POR Receivable Revenue</i>	\$ 333,065.6				\$ 333,065.6
j)	\$3,348,686.6				\$ 2,773,304.9
k) <i>Uncollectible Rate</i>	1.2709%				1.4589%

(1) $((m^*k)*b^*c+(m^*k)*a^*d)+((n^*k)*b^*c+(n^*k)*a^*d)$

(2) See Col D on Page 2

(3) $(m^*e)^*c+(m^*e)^*d$ -or- m^*e

Niagara Mohawk Power Corporation d/b/a National Grid

Service Class	A 2011 Fixed & Variable CTC Savings	B CTC Revenue Allocator	C 2011 Variable CTC Allocation	D 2011 Fixed CTC Savings
1. SC1	\$ 124,105,685	22.78%	\$ (6,263,817)	\$ 130,369,502
2. SC1C	\$ 6,099,365	1.12%	\$ (307,966)	\$ 6,407,331
3. SC2ND	\$ 9,115,244	1.67%	\$ (459,200)	\$ 9,574,444
4. SC2D	\$ 104,447,454	19.17%	\$ (5,271,175)	\$ 109,718,629
SC3/5				
5. Secondary	\$ 140,981,870	25.87%	\$ (7,113,474)	\$ 148,095,344
6. Primary	\$ 60,030,618	11.02%	\$ (3,030,169)	\$ 63,060,787
7. Transmission	\$ 16,022,041	2.94%	\$ (808,412)	\$ 16,830,453
8. Total	\$ 217,034,529		\$ (10,952,055)	\$ 227,986,584
SC3A				
9. Secondary	\$ 3,832,199	0.70%	\$ (192,479)	\$ 4,024,678
10. Primary	\$ 12,038,865	2.21%	\$ (607,684)	\$ 12,646,549
11. Subtransmission	\$ 25,071,603	4.60%	\$ (1,264,862)	\$ 26,336,465
12. Transmission	\$ 43,145,778	7.92%	\$ (2,177,762)	\$ 45,323,540
13. Total	\$ 84,088,445		\$ (4,242,787)	\$ 88,331,232
14. Total PSC 220	<u>\$ 544,890,721</u>	100.00%	<u>\$ (27,497,000)</u>	<u>\$ 572,387,721</u>

- A Total CTC Savings per Attachment 1, Schedule 1, Page 1 of the Company's 7/29/11 Deferral Filing (in compliance with Case 10-E-0050)
- B CTC Revenue allocator per Case 10-E-0050
- C Column C, line 14 allocated to service class using Column B class allocators
- D Column A - Column C

A B C D E F G H I J

Gas GROSS Write Off

Class	12-Mo End Dec08	12-Mo End Dec09	12-Mo End Dec10	12-Mo End Dec11	12-Mo End Jan12	12-Mo End Feb12	12-Mo End Mar12	12-Mo End Apr12	12-Mo End May12	12-Mo End Jun12
SC1	\$26,548.1	\$32,571.6	\$27,375.2	\$30,559.2	\$31,004.9	\$31,377.7	\$31,499.7	\$30,548.1	\$30,844.5	\$30,348.7
SC2	\$1,452.8	\$2,335.8	\$2,266.2	\$2,677.2	\$2,675.6	\$2,615.2	\$1,798.8	\$1,759.3	\$1,751.1	\$1,672.9
SC7	\$0.0	\$159.9	\$56.3	\$142.0	\$142.0	\$142.0	\$142.0	\$142.0	\$142.0	\$142.0
SC5	\$0.0	\$22.4	\$37.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SC8	\$6.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SC9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SC3	\$0.0	\$0.0	\$7.3	\$0.0	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
SC11	\$0.0	\$4.5	\$77.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
	\$28,007.1	\$35,094.1	\$29,820.0	\$33,378.4	\$33,823.2	\$34,135.6	\$33,441.2	\$32,450.2	\$32,738.3	\$32,164.3

Elec GROSS Write Off

Class	12-Mo End Dec08	12-Mo End Dec09	12-Mo End Dec10	12-Mo End Dec11	12-Mo End Jan12	12-Mo End Feb12	12-Mo End Mar12	12-Mo End Apr12	12-Mo End May12	12-Mo End Jun12
SC1	\$56,435.9	\$62,998.3	\$63,630.3	\$73,271.2	\$74,778.4	\$75,230.0	\$75,478.5	\$74,131.9	\$74,864.9	\$73,717.6
SC2	\$4,390.1	\$6,325.1	\$5,060.5	\$5,283.1	\$5,224.9	\$5,223.3	\$5,121.6	\$4,813.8	\$4,790.2	\$4,640.4
SC3	\$835.0	\$2,055.4	\$2,505.0	\$1,504.9	\$1,506.3	\$1,880.7	\$1,914.9	\$1,923.9	\$2,442.9	\$2,032.9
SC4	\$0.0	\$0.0	\$19.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SC7	\$1,147.5	\$0.0	\$0.0	\$75.5	\$75.5	\$75.5	\$75.5	\$75.5	\$75.5	\$75.5
SC11	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Strt Lght	\$92.9	\$27.1	\$123.2	\$219.4	\$220.0	\$219.0	\$221.2	\$199.8	\$211.0	\$77.3
	\$62,901.5	\$71,405.9	\$71,338.3	\$80,354.2	\$81,805.2	\$82,628.5	\$82,811.7	\$81,144.9	\$82,384.5	\$80,543.8

	12-Mo End Dec08	12-Mo End Dec09	12-Mo End Dec10	12-Mo End Dec11	12-Mo End Jan12	12-Mo End Feb12	12-Mo End Mar12	12-Mo End Apr12	12-Mo End May12	12-Mo End Jun12
Residential Gas Write Off % of Gas Write Off Total										
SC1	94.8%	92.8%	91.8%	91.6%	91.7%	91.9%	94.2%	94.1%	94.2%	94.4%
Residential Elec Write Off % of Elec Write Off Total										
SC1	89.7%	88.2%	89.2%	91.2%	91.4%	91.0%	91.1%	91.4%	90.9%	91.5%
Residential Elec&Gas Write Off % of Elec&Gas Write Off Total										
SC1	91.3%	89.7%	90.0%	91.3%	91.5%	91.3%	92.0%	92.2%	91.8%	92.3%
				91.0%						

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-5R)

Copy of Customer Bill Showing Both Electric and Gas Low Income Discounts



www.nationalgrid.com

CUSTOMER SERVICE
1-800-642-4272

AUTOMATED SERVICES
1-888-932-0301

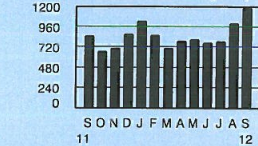
GAS EMERGENCIES
1-800-892-2345
(Does not replace 911 emergency medical service)

OUTAGE AND ELECTRIC EMERGENCIES
1-800-867-5222

CORRESPONDENCE ADDRESS
**300 Erie Blvd West
Syracuse, NY 13202**

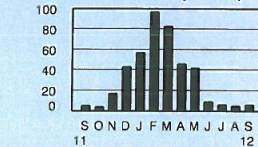
DATE BILL ISSUED
Sep 4, 2012

ELECTRIC USAGE HISTORY (kWh)



Daily Averages	Sep 11	Sep 12
kWh	25.0	39.2
Cost	\$ 3.51	\$ 5.16

GAS USAGE HISTORY (Therms)



Daily Averages	Sep 11	Sep 12
Therms	0.1	0.2
Cost	\$ 0.44	\$ 0.48

■ Actual □ Estimated



300 Erie Blvd West
Syracuse NY 13202 0960

SERVICE FOR [REDACTED]

BILLING PERIOD
Jul 30, 2012 to Aug 29, 2012

PAGE 1 of 4

ACCOUNT NUMBER [REDACTED] PLEASE PAY BY [REDACTED] AMOUNT DUE [REDACTED]
Sep 28, 2012 \$ 169.74

ACCOUNT BALANCE

Previous Balance		142.71
Payment Received on AUG 16 (ACH)	THANK YOU	- 142.71
Current Charges		+ 169.74
Amount Due ▶		\$ 169.74

To avoid late payment charges of 1.5%, \$ 169.74 must be received by Sep 28 2012.

SUMMARY OF CURRENT CHARGES

	DELIVERY SERVICES	SUPPLY SERVICES	TOTAL
Electric Service	81.73	73.36	155.09
Gas Service	12.20	2.45	14.65
Total Current Charges	\$ 93.93	\$ 75.81	\$ 169.74

National Grid buys low cost energy and receives a Residential Consumer Discount monthly payment from the New York Power Authority (NYP) to be used as a benefit for residential customers. This bill reflects a savings of \$ 4.25 from these benefits.

Lower Bills in 2012: Electric rates starting 1/1/12 will be changing. Most customers will see lower bills. Using the same or less energy, bills will decrease. Visit nationalgrid.com for more information.

PAYMENT CONCERNS?: We're here to help you. We have several plans that can help you manage your energy bills. Go to www.nationalgridus.com/paymentoptions to find out more or call us at 1-800-443-1837.

WILL WE BE ABLE TO REACH YOU DURING A POWER OUTAGE?: During a power outage, phones with a direct link to a local phone line are able to operate. Phones that are **not** directly linked (for example, wireless phones with answering machines) need electricity to make/receive calls. If you would like to register another phone number, such as a cell phone, as your account's primary phone number, please go to www.nationalgrid.com/myaccount to update your information so that we may be able to reach you with important information during power outages.

KEEP THIS PORTION FOR YOUR RECORDS.

RETURN THIS PORTION WITH YOUR PAYMENT.

ACCOUNT NUMBER	PLEASE PAY BY	AMOUNT DUE
[REDACTED]	Sep 28, 2012	\$ 169.74

ENTER AMOUNT ENCLOSED

\$ [REDACTED]

Write account number on check and make payable to National Grid

NATIONAL GRID
PO BOX 11742
NEWARK NJ 07101-4742

071374

000016974 [REDACTED] 00016974272



SERVICE FOR



BILLING PERIOD

Jul 30, 2012 to Aug 29, 2012

PAGE 2 of 4

ACCOUNT NUMBER



PLEASE PAY BY

Sep 28, 2012

AMOUNT DUE

\$ 169.74

Enrollment Information

To enroll with a supplier or change to another supplier, you will need the following information about your account:

Loadzone: Central

Acct No: [Redacted] Cycle: 2, PEAR

Electric Usage		Gas Usage	
Month	kWh	Month	Therms
Sep 11	850	Sep 11	05
Oct 11	668	Oct 11	04
Nov 11	705	Nov 11	17
Dec 11	870	Dec 11	43
Jan 12	1026	Jan 12	57
Feb 12	856	Feb 12	97
Mar 12	701	Mar 12	83
Apr 12	796	Apr 12	46
May 12	813	May 12	42
Jun 12	768	Jun 12	09
Jul 12	786	Jul 12	06
Aug 12	999	Aug 12	05
Sep 12	1177	Sep 12	06

Choosing an Energy Supplier You can choose who supplies your energy. No matter which energy supplier you choose, National Grid will continue to deliver energy to you safely, efficiently and reliably. We will also continue to provide your customer service, including emergency response and storm restoration. National Grid is dedicated to creating an open energy market that lets you choose from a variety of competitive energy suppliers, who may offer different pricing options. For information on authorized energy suppliers and how to choose, please visit us online at www.nationalgridus.com/energychoice

DETAIL OF CURRENT CHARGES

Delivery Services

Electricity Delivery

Service Period	No. of days	Current Reading	Previous Reading	Total Usage
Jul 30 - Aug 29	30	70413 <i>Actual</i>	69236 <i>Actual</i>	1177 kWh

METER NUMBER [Redacted] NEXT SCHEDULED READ DATE Oct 1

RATE Electric SC1 Non Heat

Basic Service (not including usage)				16.21
Income Eligible Basic Service Credit				-5.00
Delivery	0.05263	x	1177 kWh	61.95
Incr State Assessment	0.00307	x	1177 kWh	3.61
SBC/RPS	0.005511	x	1177 kWh	6.48
Legacy Transition Chrg	-0.00281	x	1177 kWh	-3.30
RDM	-0.0013	x	1177 kWh	-1.53
Transmission Rev Adj	0.00073	x	1177 kWh	0.86
Tariff Surcharge	3.09278 %			2.45
Total Electricity Delivery				\$ 81.73

Gas Delivery

Service Period	No. of days	Current Reading	Previous Reading	Measured CCF	Therm Factor	Therms Used
Jul 30 - Aug 29	30	7585 <i>Actual</i>	7579 <i>Actual</i>	6	1.01111	6

METER NUMBER [Redacted] NEXT SCHEDULED READ DATE Oct 1

RATE Gas SC1 Res Heat



SERVICE FOR [REDACTED]

BILLING PERIOD
Jul 30, 2012 to Aug 29, 2012

PAGE 3 of 4

www.nationalgrid.com

ACCOUNT NUMBER [REDACTED] PLEASE PAY BY [REDACTED] AMOUNT DUE [REDACTED]
Sep 28, 2012 \$ 169.74

New York State Department of Public Service
3 Empire State Plaza
Albany, New York 12223-1350

Fuel Sources and Air Emissions
to Generate Your Electricity

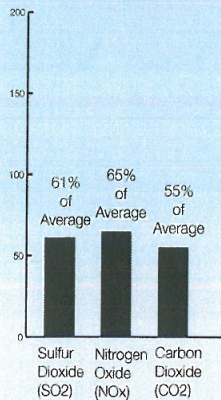
Period Shown:
January 1, 2009 - December 31, 2009
for

National Grid

Fuel Sources	
Biomass	Less Than 1%
Coal	4%
Gas	13%
Hydro	26%
Nuclear	54%
Oil	Less Than 1%
Solar	Less Than 1%
Solid Waste	Less Than 1%
Wind	1%

Total 100%
(Actual Total may vary slightly from 100% due to rounding)

Air Emissions Relative to The New York State Average
NYS Average



Note: Sulfur dioxide and nitrogen oxides are key pollutants that contribute to acid rain and smog, and carbon dioxide contributes to global climate change. Depending on fuel source, size, and location, the generation of electricity may also result in other public health, environmental and socio-economic impacts not disclosed above.

Basic Service Charge (including first 3 therms)	17.85
Income Eligible Basic Service Credit	-7.50
Over/Last 3 Therms 0.4189 x 3 therms	1.26
System Benefits Charge 0.01128 x 6 therms	0.07
Incr State Assessment 0.02564 x 6 therms	0.15
Tariff Surcharge 3.09278 %	0.37
Total Gas Delivery	\$ 12.20
Total Delivery Services	\$ 93.93

Supply Services

Electricity Supply

SUPPLIER National Grid

Electricity Supply 0.0517 x 1177 kWh	60.85
Merchant Function 0.00211945 x 1177 kWh	2.49
ESRM 0.007897 x 1177 kWh	9.29
Tariff Surcharge 1.0101 %	0.73
Total Electricity Supply	\$ 73.36

Gas Supply

SUPPLIER National Grid

Gas Supply 0.38519462 x 6 therms	2.31
Merchant Function 0.02089232 x 6 therms	0.12
Tariff Surcharge 1.0101 %	0.02
Total Gas Supply	\$ 2.45
Total Supply Services	\$ 75.81

► For Your Information

The following charges are already included in the "Delivery Services" portion of your bill. If you were to choose an alternate supplier, billing charges may be included, instead, in that suppliers' charges.

Billing Services

Billing	1.15
Total Billing Services	\$ 1.15



For Your Information

We want you to easily understand your bill, the terms we use and the charges that appear. Following is a brief explanation of items that appear on your bill, as well as payment programs and billing services we offer. If you have questions or want more detailed explanations, please visit our website at www.nationalgrid.com or call 1 800 642 4272.

Paying Your Bill/ Payment Options

- **DirectPay:** If you choose, National Grid will automatically withdraw your monthly bill payment from your checking or savings account. You will avoid the inconvenience of check writing, stamps, mailing and due dates. Your service bill will indicate your energy usage and the date of your next automatic withdrawal.
- **By Mail:** Send us your payment in the envelope provided with your bill. For your protection, please do not send cash. Put your 10 digit account number on your check or money order and include your bill stub. Please do not staple or paper clip your check to the stub.
- **In Person:** Pay at an authorized payment location by cash or check. Please bring your bill with you. Most locations charge a fee for providing this service. For the payment locations nearest you, visit our website or contact us.
- **Online:** Enroll online to receive and pay your bill online. The online function will begin with the next billing cycle following your enrollment.
- **Late Payment Charge:** To avoid Late Payment Charges, your payment must be received by the date shown on the front of the bill.

Charges

Charges for electric or gas service are based on rates or prices approved by the New York State Public Service Commission (PSC). When changes in prices are approved by the PSC, information will be included with your bill. Complete price schedules are available on our website or by contacting us.

Basic Service: A charge to cover costs for meter reading, billing, equipment and maintenance. This charge is the same regardless of how much energy is used during the billing period.

Tariff Surcharge: New York State and many local municipalities impose taxes on National Grid's revenue. These operating costs are recovered through a tariff surcharge applied to all rates and charges and may vary among taxing municipalities within the National Grid system area.

Sales Tax: In some areas National Grid is required to collect state and local sales taxes. Some school districts also impose taxes.

Incremental State Assessment Surcharge: A surcharge collected on behalf of New York State in accordance with Public Service Law, Section 18 a which established the Temporary State Energy and Utility Service Conservation Assessment. The surcharge is scheduled to end June 30, 2014.

Merchant Function Charge: A charge for the Company's cost to procure electricity supply. The Company will not bill you this charge if you choose an alternate supplier.

Billing & Metering Charges

Within the "Delivery Services" section of your bill charges for Billing & Metering are included in the Basic Service Charge.

Billing: A charge to cover the calculating and rendering of your bill.

Metering: A charge to cover the procurement, installation, maintenance and reading of the meter.

Energy Measurement Terms

kWh: The unit of electricity usage measured by your meter. One kilowatt hour (kWh) is 1000 watts hours, and will light a 100 watt bulb for 10 hours. The number of kWhs is used to determine the electricity charges on your bill.

Meter Multiplier: Due to their design, some meters record a fraction of the total usage. The multiplier is used to convert the recorded meter reading on these types of meters to total actual consumption.

CCF: The unit of gas volume (100 cubic feet) as measured by your meter.

Therm: A unit of heat content equal to 100,000 British Thermal Units (BTU). A BTU represents the amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit. The number of CCFs is multiplied by a conversion factor to determine the therms used. The number of therms is used to determine the gas charges on your bill.

Electric Service

Delivery: National Grid's charges for bringing electricity from your supplier to your premise, regardless of supplier.

Transmission Revenue Adjustment: Reconciles wholesale transmission service revenue to the forecasted transmission service revenue embedded in electric delivery rates. Transmission service revenues above those forecasted are credited to customers. Forecast revenues above actual revenues are collected.

Legacy Transition Charge (LTC): All delivery service customers are billed the cost or benefit of electricity supply contracts the Company entered prior to June 1, 2001. Residential customers also receive the benefit of low cost hydropower and a discount payment from the New York Power Authority.

SBC/RPS: These charges reflect costs associated with mandated public policy programs low income assistance, energy efficiency programs, and certain research and development programs including the advancement of renewable energy resources.

Revenue Decoupling Mechanism ("RDM")

Reconciles actual billed delivery service revenues to annual target revenues. Delivery service revenues above target are refunded to customers. Target revenues above actual delivery service revenues are collected.

Electricity Supply: The market price of electricity supply used during the billing period. If you choose an alternate supplier, the price will be what you agree upon with that supplier.

Electricity Supply Reconciliation Mechanism (ESRM)

Reconciles National Grid's electricity supply service revenues to the market cost of Company purchased electricity. Costs above revenues are recovered from customers. Revenues above costs are credited. The ESRM also provides hedges for most residential and small general service customers.

Gas Service

National Grid Gas Delivery Service Charge:

National Grid's charges for transporting gas across its distribution system to your premise, regardless of supplier.

Adjustment for changes from normal weather:

A mechanism that adjusts customers' gas bills due to variations from normal weather during the heating months, October through May.

System Benefits Charge: A charge to reflect costs associated with certain mandated public policy programs, such as energy efficiency programs.

Gas Supply: A charge to reflect the Company's actual cost to purchase gas from suppliers and transport the gas to the Company's distribution system. If you choose an alternate supplier, the price will be what you agree upon with that supplier.

Estimating Your Usage

When we are unable to obtain a reading, we estimate your usage based on your past usage, taking current weather conditions into account. Because our meters keep a continuous record of usage, any difference between estimated and actual usage is reconciled with the next meter reading. To avoid estimated readings, you can take your own reading on or just before the scheduled date shown on your bill and call it in at 1 888 932 0301.

Payment Programs

National Grid has a number of payment programs and billing services to meet the varied needs of our customers.

- **Budget Plan:** Helps customers avoid high seasonal payments by spreading the cost for utility service over the entire year.
- **Bill Extender:** Gives eligible customers extra time to pay their monthly National Grid bill.
- **Deferred Payment Agreement:** Designed for customers who have fallen behind on their payments and cannot pay their bill in full.
- **Hospitalized Customer Assistance Plan:** Allows customers temporarily disabled due to hospitalization to extend payment of their National Grid bill 30 days from the day it is due.

For more information, visit us at:
www.nationalgrid.com or call 1 800 642 4272
Customers with problems paying their National Grid bill should call 1 800 443 1837.

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Rebuttal Testimony of the Shared Services and Customer Panel

Exhibit __ (SSCP-6R)

Company Proposal to Enhance Delivery of ESCO Pricing Information to
Customers

**DESCRIPTION OF NATIONAL GRID'S PROPOSED
ESCO PRICING TOOLS AND COMMUNICATIONS
FOR COLLABORATIVE DISCUSSION**

INTRODUCTION

In response to recommendations from Staff's Retail Access Panel, PULP and UIU, the Company proposes to enhance the delivery of historical utility billing information for residential ESCO consolidated bill customers in three ways: (1) via a web-based historical utility bill calculator; (2) printed on monthly consolidated bills; and (3) printed on certain notices and correspondence to residential consolidated billing customers. In accordance with the Home Energy Fair Practices Act ("HEFPA"), the Company currently gathers and stores historical utility billing information for residential customers. The Company proposes to use that historical billing data to show what an ESCO charged for commodity supply service and what the Company would have charged for the equivalent fully bundled service. In anticipation of a collaborative with interested parties, the Company has prepared the following information to facilitate discussions regarding the most effective and efficient means of providing the requested information to residential customers. The Company looks forward to working with interested parties to discuss and more fully develop the details regarding this effort.

1. ONLINE HISTORICAL BILL CALCULATOR

National Grid proposes to develop a new function to generate and display a comparative bill chart online. The web based tool would be located in the "My Account" section of the Company's website. This section requires customers to sign on with an online account ID and password. This new function would be available for any active residential account and would display 12 months of bill history for both gas and electric services with these data elements: Bill

date, Service Type, Supplier Name, Total ESCO Bill, Total Comparable National Grid Bill, and Difference. If any month was National Grid supply, the chart would show National Grid as supplier, and “N/A” in all amount fields for that month. If any month was delivery service only (2-bill – where the ESCO bills separately for commodity), the chart would show the supplier in the supplier name, “Unknown” in the Total ESCO Bill, and “N/A” in the remaining amount fields. In this new ESCO comparison web page, the Company would seek to offer a plain-language and competition-neutral explanation of the comparison. It will also note that the ESCO product may be more expensive in instances where the ESCO offers value-added services and that customers should contact their ESCO if they have any questions. The cost to enable this new web function is shown in Table 1 below.

2. PRINTED MONTHLY CONSOLIDATED BILLS

The Company proposes to add a new section to the residential bill format to display a comparative bill chart for the current billing period and the most recent 12 months of data. This new section and chart would only display for a given (gas/electric) service if there was at least one month of ESCO consolidated (1-bill) billing in the last 12 months. On a particular bill, this chart may show only a gas comparison, only an electric comparison, both gas and electric comparisons, or the section may not print at all. Unlike the web chart that shows 12 months of bills, the bill display would show only the current bill and aggregated data for the last 12 months’ bills. If any month in the 12 month period was National Grid supply, nothing would be accumulated in the amount fields for that month. If any month in that 12 month period was delivery service only (2-bill), nothing would be accumulated in the amount fields for that month.

This new section would display on both printed and online bills. The estimated cost to enable this new bill print and online function is shown in Table 1 below.

**3. NOTICE OF FINAL TERMINATION AND DEFERRED PAYMENT
AGREEMENT DEFAULT**

The Company proposes to add a new section to the residential Termination Notice format and deferred payment agreement (“DPA”) default letter that would display an ESCO bill comparison much like that on a normal bill statement (current and aggregated last 12 months). This new section and chart would be prepared and displayed in a manner similar to the bill print function. It should be noted that additional activity on the account such as a payment or another bill going overdue must be reflected in the “lesser amount” required by HEFPA that must be quoted at the time of reconnect. The timing of this activity could result in a difference between what is shown on these statements and the “lesser amount” quoted at time of reconnect. The estimated cost to enable the new termination and DPA default notice functions are shown in Table 1 below.

4. ONE-TIME HISTORICAL BILLING LETTERS TO CERTAIN CUSTOMERS

Staff’s Retail Access Panel requested that one-time letters be sent to all consolidated billing ESCO residential customers participating in low-income assistance programs and all residential ESCO customers on DPAs. The Company proposes to prepare a new letter that will be mailed to all residential customers currently served by a consolidated bill ESCO and currently participating in a low-income assistance program or currently on a DPA. The letter would display an ESCO bill comparison chart much like that shown on the new web page. The objective would be to make this chart work if the account was on different suppliers for gas and electric service, and if there were more than one supplier for either of those services. The letter would address the last

12 months' bills. The estimated cost to enable this new one-time customer letter is shown in Table 1 below.

5. ON CALLS WITH ESCO CUSTOMERS COMPLAINING ABOUT HIGH BILLS OR SEEKING ALTERNATIVE PAYMENT ARRANGEMENTS

The Company's proposed online bill calculator will provide customers and the Company's call center representatives with an additional tool that could be used to analyze and respond to high bill inquiries. Since not all customers will necessarily want this information mailed to them in every situation, the Company proposes to provide this information verbally during the call, and offer to provide via email or a letter patterned after the one-time letters the Company proposes to send to ESCO customers on DPAs.

6. ESTIMATED COSTS

The Company estimates the cost to provide the tools and communications described in the above proposals would be approximately \$298,000. Specific details regarding the materials the Company uses to communicate comparative billing information, along with the process the Company would follow for Staffs review of such materials, should be addressed in the context of the collaborative.

Details of the cost to address each of Staff's proposals are provided in Table 1 below.

TABLE 1 – Estimated Costs to Provide Historical Utility Billing Tools and Communications for Residential Consolidated Bill Customers

<u>Tool / Communication</u>	<u>Analysis & Develop</u>	<u>Test</u>	<u>Proj Mgmt. Deploy</u>	<u>Sub-Total</u>	<u>Design variance allowance</u> ¹	<u>Total</u>
Web presentation	\$21,160	\$4,600	\$8,280	\$34,040	\$3,404	\$37,444
Bill presentation	\$34,500	\$11,960	\$9,315	\$55,775	\$5,578	\$61,353
Termination Notice	\$34,960	\$11,040	\$9,200	\$55,200	\$5,520	\$60,720
Payment Agreement Default	\$34,960	\$11,040	\$9,200	\$55,200	\$5,520	\$60,720
Low Inc & DPA communication	\$44,160	\$15,640	\$11,040	\$70,840	\$7,084	\$77,924
				\$271,055	\$27,106	\$298,161

¹ Design variance allowance of 10% allows for potential modifications made during detailed design. In detailed design, final specifications are set, all system impacts are determined, and IS/Business approvals are received.

Before the Public Service Commission

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of the

Gas Rate Design Panel

Case 12-G-0202

Rebuttal Testimony of the Gas Rate Design Panel

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Rebuttal Testimony of the Gas Rate Design Panel

1 **Q. Please identify the members of the Gas Rate Design Panel.**

2 A. The Gas Rate Design Panel (“Panel”) consists of Joseph T. Trainor,
3 Melissa R. Nairn, and Dawn M Herrity. The Panel is testifying on behalf
4 of Niagara Mohawk in rebuttal to the gas rates testimony filed on behalf
5 of the Department of Public Service Staff (“Staff”) and Multiple
6 Intervenors (“MI”).

7

8 **Q. Is this the Gas Rate Design Panel that submitted direct testimony in**
9 **this proceeding?**

10 A. Yes, it is.

11

12 **I. Overview of Rebuttal Testimony**

13 **Q. What is the purpose of the Panel's rebuttal testimony?**

14 A. The purpose of the Panel’s rebuttal testimony is to respond to a number
15 of issues identified in the direct testimony of the Staff Gas Rates Panel
16 (“Staff GRP”) regarding the Company’s Rate Year gas operating revenue
17 forecast, the Company’s embedded cost of service study (“ECOSS”), the
18 Merchant Function Charge (“MFC”) calculation, revenue allocation, rate
19 design, and the Revenue Decoupling Mechanism (“RDM”). In addition,
20 the Panel will respond to the testimony of MI Witness Jeffrey Pollock
21 regarding the allocation of Distribution Load Dispatching expenses in the

Rebuttal Testimony of the Gas Rate Design Panel

1 Company's ECOSS.

2

3 **Q. Is the Panel sponsoring any exhibits in support of its rebuttal**
4 **testimony?**

5 A. Yes. The Panel is providing one exhibit with its rebuttal testimony,
6 Exhibit ___ (G-RDP-1R), a summary of the results of the Panel's
7 modifications to the two zero intercept studies performed by Staff, which
8 are discussed below in Section III.A.2.

9

10 **II. Rate Year Gas Operating Revenue Forecast**

11 **A. Overall Methodology**

12 **Q. Does the Panel object to the method Staff used to forecast the Rate**
13 **Year gas operating revenues?**

14 A. The Company does not object to Staff's calculation of the Rate Year gas
15 operating revenues. Staff used the Company's underlying monthly
16 analysis and ogive curves to allocate total Rate Year forecast sales
17 volumes into rate blocks, and the difference in revenues from the
18 Company's forecast is negligible.

19

20 **B. Low Income Program Deferral**

21 **Q. Staff recommends that the Company continue its current Low**

Rebuttal Testimony of the Gas Rate Design Panel

1 **Income program deferral mechanism, which defers annually the**
2 **difference between the Low Income discounts actually provided to**
3 **income eligible customers and the Low Income surcharge revenues**
4 **actually received. Does the Panel agree with this recommendation?**

5 A. The Panel agrees in part. The Company concurs with Staff's
6 recommendation as to the calculation of the amount deferred if the
7 Commission also adopts Staff's recommendation to continue the current
8 method of funding the Low Income program through a surcharge to the
9 minimum charge and provides the Low Income discount through a
10 reduction to the minimum charge. However, if the Low Income program
11 is funded through collections allocated across all rate blocks, it would be
12 difficult to determine the actual level of recoveries, in which case the
13 Company would propose to simply reconcile the actual Low Income
14 discounts to the Low Income program costs forecast in this rate case.

15
16 The Company does not agree that the current asymmetrical mechanism
17 should continue. Rather, the Company believes the reconciliation
18 mechanism should be symmetrical, meaning that overcollections would be
19 refunded to customers and undercollections would be recovered from
20 customers. The current Low Income deferral mechanism allows the
21 Company to recover any Low Income undercollection only if it is not

Rebuttal Testimony of the Gas Rate Design Panel

1 earning its authorized return, but requires the Company to refund any
2 overcollections even when it is earning less than its authorized return. The
3 Company does not believe that an asymmetric reconciliation mechanism of
4 this type is fair and equitable and therefore it should not be continued.

5

6 **Q. Why does the Panel now agree with Staff’s recommendation to fund**
7 **the Low Income program through a surcharge to the minimum**
8 **charge given that it proposed in its direct testimony to apply the**
9 **surcharge to all the rate blocks?**

10 A. The Panel believes that the funding structure proposed by Staff simplifies
11 the calculation of the Low Income program deferral. Tracking the low
12 income surcharge revenues actually received is more complex if they are
13 dispersed throughout the rate blocks. Additionally, as discussed later in
14 this testimony, this funding structure enables the Company to implement
15 Staff’s proposal to exclude customer charges associated with the Low
16 Income program from the RDM revenue per customer (“RPC”) targets
17 and actual delivery service revenues.

18

19 **Q. Staff also recommended that the Company increase the Rate Year**
20 **gas operating revenue forecast by \$1,609,207 to account for the Rate**
21 **Year Low Income program deferral balance. Please explain your**

Rebuttal Testimony of the Gas Rate Design Panel

1 **understanding of the basis for that recommendation.**

2 A. On Pages 31-32 of its testimony, the Staff GRP notes that, under the
3 Company’s current Low Income program, Rate Year discounts totaling
4 \$6,258,803 will be provided to eligible SC-1 customers, while funding
5 for this program in the Rate Year will total only \$4,649,533, resulting in a
6 \$1,609,270 revenue shortfall. Staff indicates that this revenue shortfall
7 will be deferred by the Company in its Low Income deferral account.
8 Staff notes that the Company’s Rate Year gas operating revenue forecast
9 did not include an adjustment to reflect recovery of this \$1,609,270
10 deferral balance, and recommends that such an adjustment be made.

11

12 **Q. Does the Panel agree with this recommendation?**

13 A. No. The Company’s Rate Year revenue forecast reflects the full revenue
14 impact of the Low Income discount program. Currently, the Company
15 collects the funding for the Low Income program through a \$0.65 per
16 month surcharge on all minimum charges. Consistent with Staff’s
17 support for funding the Low Income program through a surcharge of
18 \$0.96 to the minimum charge, the Company proposes to reset the current
19 \$0.65 low income program charge in the Rate Year to a level that will
20 fully fund the low income program based on the \$10.00 discount
21 recommended by the Company’s Shared Services and Consumer Panel

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1 (or such other amount as is ultimately approved by the Commission) and
2 the forecast number of eligible customers in the Rate Year. As proposed
3 by Staff, any difference between the Low Income discounts actually
4 provided in the Rate Year and the Low Income surcharge revenues
5 actually received in the Rate Year would be flowed through the Low
6 Income deferral account. The Company would not recover this deferral
7 balance during the Rate Year. Therefore, no adjustment is required to the
8 Company's Rate Year gas operating revenue forecast for this item.

9

10 **C. Adjustment for Late Payment Charge Revenue**

11 **Q. Please describe Staff's recommendation regarding the Company's**
12 **forecast Rate Year late payment charge revenues.**

13 A. Staff states that the Company should have reflected the impact on Rate
14 Year late payment charge revenues from the Company's requested
15 increase in base rates and proposed changes to its Low Income program.

16

17 **Q. Does the Panel agree that an adjustment to late payment charge**
18 **revenues should be made?**

19 A. Yes, the Company agrees that an adjustment is necessary to the late
20 payment charge revenues reflected in the Company's initial filing in this
21 case.

Rebuttal Testimony of the Gas Rate Design Panel

1 **Q. Does the Panel agree with the approach Staff used to adjust late**
2 **payment charge revenues?**

3 A. No. The Staff GRP's testimony does not explain the methodology
4 applied to adjust late payment charge revenues, and it appears from
5 Staff's workpapers that the calculation was not performed correctly. Late
6 payment charge revenues should be increased proportionate to the
7 Company's requested Rate Year revenue increase. Specifically, the
8 adjustment should be calculated using the following formula:

9

10
$$\text{LPC Revenue} = \text{Rate Year Revenue Increase} \times \text{LPC\%} / (1 + \text{LPC\%})$$

11
$$\text{LPC\%} = \text{LPC percentage for Historic Test Year}^*$$

12 * Shown on Page 7 of Exhibit ___ (G-RDP-11CU)

13

14 The increase in forecast Rate Year late payment charge revenues would
15 then correspondingly reduce the requested increase to Rate Year delivery
16 revenues.

17

18 **III. Embedded Cost of Service Study**

19 **A. Staff**

20 **1. Overall Methodology**

21 **Q. Did Staff agree with the overall methodology used by the Company in**

Rebuttal Testimony of the Gas Rate Design Panel

1 **performing its ECOSS?**

2 A. Yes. The Staff GRP stated on Page 11, Lines 19-20 of its testimony that
3 “the ECOS study is reasonable.”

4

5 **2. Classification of Distribution Mains**

6 **Q. Did Staff propose any adjustments to the ECOSS methodology or to its**
7 **results?**

8 A. Yes, Staff has proposed one change to the ECOSS methodology related to
9 the classification of distribution mains. Instead of adopting the Company’s
10 proposal to classify distribution mains to both Demand and Customer
11 components (54.5 percent Demand-related and 45.5 percent Customer-
12 related), Staff proposes that mains be classified as 70 percent Demand-
13 related and 30 percent Customer-related based largely on Staff’s modified
14 version of the Company’s zero intercept study. The revised ECOSS was
15 provided in response to Information Request DPS-341 (KAM-2) and was
16 included with the testimony of the Staff Accounting Panel’s testimony as
17 part of Exhibit ____ (SAP-3).

18

19 **Q. What was Staff’s basis for its classification of distribution mains?**

20 A. Staff indicated that it took the “Company’s zero intercept analysis and made
21 some changes” (Page 13, Lines 1-2) that it believed would improve the

Rebuttal Testimony of the Gas Rate Design Panel

1 results of the Company’s study. Staff also relied on the results of other
2 utilities’ zero intercept studies, stating “[t]he summary results showed
3 theoretical customer components of distribution mains of 16.6% and
4 18.9%.” (Page 13, Line 22 - Page 14, Line 2).

5

6 **Q. Does the Company agree with Staff’s reclassification of distribution**
7 **mains?**

8 A. No. The Company believes that Staff’s methodology for reclassifying
9 distribution mains is flawed and should not be adopted. Notably, when the
10 errors in Staff’s modifications to the Company’s zero intercept study are
11 corrected, Staff’s analysis actually supports the Company’s
12 recommendation. In addition, Staff’s reliance on studies performed for
13 other gas utilities as a verification of the results of its modified study is
14 misplaced because zero intercept results are specific to the operating area of
15 each utility and, therefore, are not transferrable to other utilities.

16

17 **Q. Why are zero intercept studies specific to each utility’s operating area?**

18 A. Zero intercept studies are based on company-specific data that typically
19 spans many decades, extending to periods of 100 years or more. The
20 development of a gas utility’s distribution system, most notably how the
21 mains were engineered, is dependent on the date of inception of the system,

Rebuttal Testimony of the Gas Rate Design Panel

1 the operating area's size, geology, and topography, the customer density,
2 and the type of customers using the system. With all these variables and the
3 amount of historical data required to develop a zero intercept study, the
4 results are very specific to the subject utility and are highly dependent on
5 the unique parameters of the utility's distribution network and operating
6 area. In short, there is no clear way to relate the mains network of one
7 operating system to another. Thus, Staff's assumption that other utilities'
8 zero intercept study results can be relied on for purposes of classifying the
9 Company's mains is not well-founded and does not provide a basis for
10 rejecting the results of the Company's study which is based on data from
11 the Company's own system.

12
13 **Q. Please explain the errors Staff made in modifying the Company's zero**
14 **intercept study.**

15 A. Staff made a number of errors, but there are three that are particularly
16 significant. First, in performing its own zero intercept analysis, Staff chose
17 its regression equation based solely on the equation's R-Square, without
18 looking at the intercept's t-statistic. The t-statistic is the ratio of the
19 coefficient to its standard error, or a test against a t distribution to determine
20 how probable it is that the true value of the coefficient being determined is
21 zero. This error led to Staff's choosing a regression equation that was

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1 suboptimal in that its t-statistic was lower than that of other regression
2 equation choices. Second, in performing a regression for cast iron mains,
3 Staff chose a model with an exponential relationship between main size and
4 main costs even though there is no reasonable basis to assume that main
5 costs increase exponentially with size. Third, Staff inconsistently applied
6 its own rules for determining which data relating to costs for different main
7 sizes and types should be included or excluded.

8

9 **Q. Please explain how Staff erred in determining which data regarding**
10 **main sizes and types to include in or exclude from its analysis.**

11 A. Staff used two methods to address a basic data problem that is encountered
12 in almost all zero intercept studies—how to determine which data points to
13 include or exclude. This problem arises because, over time, a utility
14 typically installs many different size distribution mains, but the number of
15 feet installed of some sizes may be very small when compared with more
16 standard sizes of main. These odd-sized mains, when included in the
17 regression equation, can produce invalid results. In Staff’s first method,
18 Staff said it included all main sizes with a reasonable quantity of installed
19 footage and excluded main sizes with only a small amount of installed
20 footage. In Staff’s second method, Staff included all main sizes, regardless
21 of quantity installed, by weighting main sizes by the length of installed

Rebuttal Testimony of the Gas Rate Design Panel

1 footage in increments of 1 to 2 inches. In applying its data selection
2 methods, however, Staff failed to implement each methodology in a
3 consistent, logical fashion. For example, in the steel main regression
4 equation, although Staff purported to be implementing the first data
5 selection method identified above, it included 2.5 and 5 inches mains, but
6 excluded 1.5 inch main, yet the data show that there are 14,820 feet of 1.5
7 inch steel main, 276 feet of 2.5 inch steel main, and 920 feet of 5 inch steel
8 main.

9

10 **Q. Did the Panel redo Staff's two zero intercept studies to correct these**
11 **problems in Staff's methodology?**

12 A. Yes. The Panel redid Staff's two zero intercept studies using Staff's
13 methodology, but correcting for these problems by (i) utilizing a
14 more appropriate regression equation that considers both the R-Square and t-
15 statistic and (ii) incorporating a consistent data selection method with regard
16 to main size and replacement costs. The resulting zero intercepts for each
17 type of main (steel, plastic, and cast iron) were averaged from the two
18 studies. The result showed a Customer component of mains of 44.26
19 percent, which effectively validates the Company's figure of 45.5 percent. A
20 summary of the results of the Company's modifications to Staff's zero
21 intercept studies is provided with this testimony as Exhibit ____ (G-RDP-1R).

Rebuttal Testimony of the Gas Rate Design Panel

1 **B. Multiple Intervenors**

2 **1. Overall Methodology**

3 **Q. Did MI comment on the overall methodology applied by the**
4 **Company in performing its ECOSS?**

5 A. Yes. MI’s witness, Mr. Jeffry Pollock, stated on Page 39, Lines 8-9 of
6 his testimony that “the ECOSS-Filed comports with accepted industry
7 practice.”

8

9 **2. Classification of Distribution Load Expenses**

10 **Q. In the testimony of Mr. Pollock, MI proposes to adjust the**
11 **classification of Distribution Load Dispatching expenses in the**
12 **Company’s ECOSS. Does the Company agree with this change?**

13 A. No. MI proposes that Distribution Load Dispatching expenses should be
14 classified as Demand-related, rather than Commodity-related. The
15 Company does not agree that this change is appropriate.

16

17 **Q. What is the basis for MI’s position?**

18 A. Mr. Pollock provided the following rationale for classifying Distribution
19 Load Dispatching expenses to Demand:

- 20 • “[T]his expense is labor-related. Thus, this expense is a fixed cost
21 and does not vary with throughput.” (Page 41, Lines 23-24)

Rebuttal Testimony of the Gas Rate Design Panel

- 1 • None of the other New York embedded cost of service studies that
2 Mr. Pollock reviewed allocate Distribution Load Dispatching
3 expenses on an energy basis. (Page 15, Lines 12-15)
- 4 • Distribution Load Dispatching expenses are analogous to other
5 distribution expenses that are classified to Demand. (Page 11,
6 Line 12 to Page 12, Line 2)

7

8 **Q. What is the Company's response to Mr. Pollock's arguments**
9 **regarding classifying Distribution Load Dispatching expenses to**
10 **Demand?**

11 A. The fact that Load Dispatching expenses are Labor-related does not mean
12 they are *per se* Demand-related. Administrative and General costs also
13 consist mostly of Labor expense, yet they are classified to Demand,
14 Commodity, and Customer. MI's argument that Distribution Load
15 Dispatching expenses are analogous to other distribution expenses that
16 are classified as Demand-related is also incorrect. Other distribution
17 expenses that are classified to Demand are classified in that manner
18 because they are based on maintaining distribution plant equipment. In
19 those cases, the distribution plant at issue was designed and installed to
20 meet the Company's system peak. Load Dispatching expenses, on the
21 other hand, are neither based on an amount of existing plant nor related to

Rebuttal Testimony of the Gas Rate Design Panel

1 the Company's system peak. Rather, Load Dispatching expenses relate
2 to services that are provided year round, 24 hours a day to maintain the
3 operational reliability and safety of the Company's gas distribution
4 system.

5
6 Distribution Load Dispatching costs consists mostly of labor expenses for
7 personnel dedicated to actively operating the gas distribution system.

8 Load Dispatching controls the flows, pressures, and temperature of gas
9 the Company delivers to its firm and interruptible sales and transportation
10 customers. Equally significant, the Load Dispatching services each
11 customer receives are not proportionate to the customer's contribution to
12 system peak.

13
14 Even though rates for interruptible transportation customers are not set
15 based on the ECOSS, they provide a good example of the basis for the
16 Company's position on the cost causation of Distribution Load
17 Dispatching costs. Because service to interruptible transportation
18 customers can be interrupted on a peak day, Load Dispatching expenses
19 would not be allocated to them if the expenses were classified to
20 Demand. During non-peak periods, when interruptible transportation
21 customers tend to consume gas at a fairly high load factor, they directly

Rebuttal Testimony of the Gas Rate Design Panel

1 benefit from load dispatching services. Allocating Load Dispatching
2 expenses to Commodity recognizes this and ensures that customers are
3 allocated Load Dispatching expenses proportionate to their annual
4 utilization of the gas distribution system.

5
6 By contrast, residential heating customers would pay a disproportionately
7 high share of Load Dispatching expenses if they were allocated to
8 Demand because residential heating gas consumption is at its maximum
9 on a peak day and is very low during the summer. By allocating Load
10 Dispatching expenses on the basis of annual sales, the cost is more
11 closely aligned with the residential heating customer's actual utilization
12 of the service. The fact that, as MI points out, these expenses are for
13 labor is irrelevant. What matters is that the labor is necessary to support
14 ongoing operation of the system at all hours of the day during all periods
15 of the year, and is not dependent on peak loads, but rather is driven by
16 usage. Therefore, the expense is properly considered to be Commodity-
17 related and allocated on a volumetric basis, not based on demand.

18
19 Finally, it should be noted that, although Mr. Pollock makes a general
20 reference in his testimony to embedded cost studies performed by other
21 utilities, he provides no information concerning how many studies he

Rebuttal Testimony of the Gas Rate Design Panel

1 reviewed, how many other studies exist that he chose not to review,
2 which utilities' studies he's referring to, whether the studies were adopted
3 by the Commission or supported by Staff or others, or why the utilities
4 and studies he refers to are appropriate to rely on for purposes of this
5 case. For the reasons discussed above, there is no reasonable basis to
6 dispute that Load Dispatching expense is driven by usage and, therefore,
7 should be allocated based on throughput.

8

9 **IV. MFC—Return on Commodity Related Working Capital**

10 **Q. The Staff GRP recommended using the Commission's Other Customer**
11 **Capital Rate instead of the Company's pre-tax weighted average cost**
12 **of capital to determine the return requirement on working capital for**
13 **purchased gas and the return requirement on gas storage inventory in**
14 **excess of the base gas level. Does the Company agree with this**
15 **recommendation?**

16 **A.** No. As explained in the rebuttal testimony of the Company's Revenue
17 Requirements Panel, the Company continues to believe that the return
18 requirement on commodity-related working capital should be based on the
19 Company's pre-tax weighted average cost of capital, consistent with the
20 treatment of other Company capital invested in providing service to
21 customers.

Rebuttal Testimony of the Gas Rate Design Panel

1 **V. Revenue Allocation**

2 **Q. Does the Company agree with the revenue allocation methodology**
3 **used by the Staff GRP for allocation of the revenue requirement?**

4 A. Not entirely. The Company generally agrees with the process used by the
5 Staff GRP, which used the results of the Company's ECOSS to develop
6 "realigned" revenue requirements for each rate class for the purpose of
7 allocating the proposed increase. However, the Staff GRP's method
8 applies a tolerance band based on the calculation of unitized rate of return.
9 The Company does not support Staff's use of a tolerance band because the
10 resulting rates fail to meet the objective of moving customer class returns
11 closer to the system average.

12
13 **Q. What is a unitized rate of return?**

14 A. The ECOSS calculates a rate of return for each rate schedule based on
15 current rates. This calculation is set forth on Exhibit ___ (G-RDP-3),
16 Schedule 2, Page 1, Line 415. The unitized rate of return is defined by
17 taking each rate schedule's calculated rate of return and dividing it by the
18 system average rate of return. For example, the SC-1 unitized rate of
19 return, as shown on Exhibit ___ (G-RDP-3), Schedule 2, Page 1, Line 415,
20 is 71 percent (4.31 percent/6.06 percent).

21

Rebuttal Testimony of the Gas Rate Design Panel

1 **Q. Please describe the Staff GRP's proposed tolerance band.**

2 A. The Staff GRP is proposing a tolerance band defined by the calculation of
3 unitized rate of return and based on an assumed overall revenue reduction.
4 If a rate schedule's unitized rate of return is below 50 percent, Staff
5 proposes giving that rate schedule 75 percent of the average decrease. If a
6 rate schedule's unitized rate of return is above 150 percent, Staff proposes
7 giving that rate schedule 125 percent of the average decrease. If a rate
8 schedule's unitized rate of return is within the tolerance band of 50 percent
9 to 150 percent, Staff proposes to give that rate schedule the average
10 decrease.

11

12 **Q. How does Staff's proposed tolerance band distinguish Staff's revenue**
13 **allocation methodology from the Company's revenue allocation**
14 **methodology?**

15 A. The Company's revenue allocation methodology would incrementally
16 reduce the above average revenue deficiency of the SC-1 class, while
17 Staff's proposed allocation would fail to bring rates for SC-1 customers
18 any closer to the cost of service. This result occurs because Staff's 50
19 percent unitized rate of return tolerance band is too wide.

20

21 **Q. What is the Company's recommendation regarding use of Staff's**

Rebuttal Testimony of the Gas Rate Design Panel

1 **revenue allocation methodology?**

2 A. As the Panel indicated on Page 36 of its direct testimony included with the
3 Company's initial filing in this case, revenue requirement responsibility
4 should be adjusted between service classifications to more closely align
5 class revenue responsibility with the ECOSS. Even if a lower revenue
6 requirement than proposed by the Company were approved by the
7 Commission, shifts of revenue requirement responsibility between classes
8 should still be based on the Company's ECOSS, rather than applying the
9 tolerance band proposed by the Staff GRP. In addition, Staff's revenue
10 allocation relied on the revised ECOSS, which reflects a 30 percent
11 Customer component of mains (with the remaining 70 percent classified as
12 Demand-related), which the Company maintains is inappropriate for the
13 reasons discussed earlier. Accordingly, Staff's proposed revenue
14 allocation should be rejected.

15

16 **VI. Rate Design**

17 **Q. Beyond the foregoing discussion, what concerns does the Company**
18 **have with the Staff GRP's rate design for the SC-1 class?**

19 A. The Staff GRP proposed an SC-1 customer charge of \$18.00, excluding
20 Staff's proposed \$0.96 charge per customer for recovery of the Low
21 Income credit (*i.e.*, \$18.96 in total), as compared to the Company's

Rebuttal Testimony of the Gas Rate Design Panel

1 proposed SC-1 total minimum charge of \$20.35 Staff indicated on Page
2 35 of its testimony that it agrees with the general concepts the Company
3 used to set the minimum charges, but nevertheless proposes an \$18.00 SC-
4 1 minimum charge, an increase of only 80 cents over the current minimum
5 charge. Staff does not explain the basis for its proposed \$18.00 SC-1
6 minimum charge. The minimum usage charge supported by the
7 Company's ECOSS is \$22.33. The Company's proposed minimum
8 charge for the SC-1 class aligns more closely with the Company's ECOSS
9 and, therefore, should be adopted.

10

11 **Q. What would be the result if the Commission adopted Staff's**
12 **recommendation for the minimum charge for SC-1?**

13 A. The Company's proposed customer charge for the SC-1 class represents
14 91 percent of full Customer-classified costs. The continued disparity in
15 rates of return between residential non-heat and residential heat customers
16 shown in the Panel's Exhibit ___ (G-RDP-3), Schedule 6, is caused by a
17 substantial undercollection of Customer-related costs in the minimum
18 charge. Customer-related costs not captured in the minimum charges are
19 included in the usage charges. Because non-heat customers' usage is low,
20 non-heat customers would not pick up their fair share of the customer
21 costs included in usage charges. Staff's proposal would continue this

Rebuttal Testimony of the Gas Rate Design Panel

1 disparity in returns because Staff’s proposed minimum charge would
2 recover only 81 percent of Customer-classified costs. Thus, Staff’s
3 proposed minimum charges are too low and should not be adopted.

4

5 **VII. Revenue Decoupling Mechanism**

6 **Q. Staff recommends that the Company modify its RDM to exclude the**
7 **portion of the minimum charge associated with the Low Income**
8 **program from the RPC targets and actual delivery service revenues.**

9 **Does the Panel agree with this recommendation?**

10 A. The Panel does not object to Staff’s recommendation, as long as the
11 surcharge to fund the Low Income program is recovered as part of the
12 minimum charge, rather than allocating Low Income costs across the other
13 rate blocks. Otherwise, it would be administratively burdensome to identify
14 and exclude Low Income program cost surcharges from actual delivery
15 revenues.

16

17 **Q. Staff also recommends that the Company correspondingly exclude**
18 **Low Income program discounts from the Company’s revenue per**
19 **customer targets and actual delivery service revenues. Does the**
20 **Panel agree with this recommendation?**

21 A. Staff’s recommendation on this issue is consistent with the Panel’s

Rebuttal Testimony of the Gas Rate Design Panel

1 proposal in its direct testimony. It is important to note, however, that this
2 recommendation should be implemented only if the Low Income
3 program discount continues to be provided through a discount to the
4 minimum charge, rather than across the other rate blocks.

5

6 **Q. Does the Panel agree with Staff's recommendation to develop and**
7 **track a customer count surrogate as part of its RDM?**

8 A. Yes. The Company currently tracks equivalent monthly bills as a
9 customer count surrogate, and believes that this should address the
10 concern raised by Staff. This customer count surrogate is determined
11 each month by dividing minimum charge revenues by the minimum
12 charge for each service class.

13

14 **Q. Staff recommends applying interest at the Commission's Other**
15 **Customer Capital Rate to the RDM annual reconciliation balance,**
16 **rather than to the monthly balances that occur within the year.**

17 **What is the Panel's position with regard to this recommendation?**

18 A. Staff's testimony on this issue describes the Company's current practice,
19 and the Company has no objection at this time to continuing this
20 mechanism.

21

Rebuttal Testimony of the Gas Rate Design Panel

1 **Q. Please describe Staff's recommendation regarding the**
2 **implementation of a five percent materiality standard on the**
3 **Company's RDM annual reconciliation.**

4 A. The Company understands Staff's proposal as intended to set a threshold
5 level of variation in the class revenue over or under recoveries that,
6 following any year in which the annual RDM reconciliation exceeds the
7 five percent threshold (whether as a credit or liability), will provide an
8 opportunity to consider whether changes in the Company's performance
9 under its RDM was driven more by material changes to the Company's
10 business than by energy efficiency improvements. (See Pages 48-49 of
11 Staff GRP testimony.) The Company's understanding is that the five
12 percent materiality standard proposed by Staff is computed as five
13 percent of the Company's net gas income. If the RDM over or under
14 recovery of annual reconciliation revenue for any one service
15 classification exceeds the five percent threshold, the Company would
16 include in its RDM reconciliation filing an analysis of the reasons for this
17 variance and, if appropriate, a proposal to modify its RDM mechanism
18 and targets.

19

20 **Q. Does the Panel agree with this proposal as well?**

21 A. Yes. The Company agrees in principle with Staff's proposal, but would

Rebuttal Testimony of the Gas Rate Design Panel

1 like to clarify that it understands the proposal to relate to a five percent
2 variation in net income calculated based on the Company's allowed
3 revenue, as opposed to a five percent variation when compared to the
4 prior year's actual net gas income. Because the Company's actual net
5 gas income varies with non revenue items such as O&M, depreciation,
6 and property taxes that could unduly affect the outcome of the materiality
7 test, calculating the five percent threshold based on the Company's
8 allowed revenue will mitigate changes in net income that may be caused
9 by these items.

10

11 **VIII. Conclusion**

12 **Q. Does this conclude the Panel's rebuttal testimony?**

13 A. Yes it does.

Rebuttal Testimony of the Gas Rate Design Panel

Exhibit __ (G-RDP-1R)

Summary of Company's Modifications to Staff's Zero Intercept Studies

Company Correction to Staff Gas Rates Panel Zero Intercept Study Method 1
Method 1 Approach: Exclude Main with Small Installed Footage

Staff Gas Rates Panel Method 1

Main Material	Zero Intercept	Classification of Mains to Demand			
		Total Footage	Total Cost (2007 Dollars)	Zero Inch Cost	% of Cost (2007 Dollars)
Steel	\$ 17.76	20,011,163	\$1,681,506,420	\$355,318,210	21.13%
Cast Iron	\$ 17.49	3,143,704	\$136,785,151	\$54,967,664	40.19%
Plastic	\$ 17.91	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$358,018,770</u>	<u>45.04%</u>
Total		43,148,097	\$2,613,128,899	\$768,304,644	29.40%

Company Correction to Method 1

Main Material	Zero Intercept	Classification of Mains to Demand			
		Total Footage	Total Cost (2007 Dollars)	Zero Inch Cost	% of Cost (2007 Dollars)
Steel	\$ 29.92	20,011,163	\$1,681,506,420	\$598,669,938	35.60%
Cast Iron	\$ 32.36	3,143,704	\$136,785,151	\$101,721,071	74.37%
Plastic	\$ 18.49	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$369,740,632</u>	<u>46.52%</u>
Total		43,148,097	\$2,613,128,899	\$1,070,131,641	40.95%

Company Correction to Staff Gas Rates Panel Zero Intercept Study Method 2
Method 2 Approach: Weight Main Size by Length of Installed Footage

Staff Gas Rates Panel Method 2

<u>Main Material</u>	<u>Zero Intercept</u>	<u>Total Footage</u>	<u>Total Cost (2007 Dollars)</u>	<u>Zero Inch Cost</u>	<u>% of Cost (2007 Dollars)</u>
Steel	\$ 20.40	20,011,163	\$1,681,506,420	\$408,267,748	24.28%
Cast Iron	\$ 16.83	3,143,704	\$136,785,151	\$52,914,826	38.68%
Plastic	\$ 19.57	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$391,267,511</u>	<u>49.23%</u>
Total		43,148,097	\$2,613,128,899	\$852,450,084	32.62%

Company Correction to Method 2

<u>Main Material</u>	<u>Zero Intercept</u>	<u>Total Footage</u>	<u>Total Cost (2007 Dollars)</u>	<u>Zero Inch Cost</u>	<u>% of Cost (2007 Dollars)</u>
Steel	\$ 35.11	20,011,163	\$1,681,506,420	\$702,508,753	41.78%
Cast Iron	\$ 47.39	3,143,704	\$136,785,151	\$148,982,947	108.92%
Plastic	\$ 19.57	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$391,271,768</u>	<u>49.23%</u>
Total		43,148,097	\$2,613,128,899	\$1,242,763,468	47.56%

**Company Correction to Staff Gas Rates Panel Zero Intercept Study
Average of Method 1 and Method 2**

Staff Gas Rates Panel : Average of Method 1 and Method 2

Main Material	Zero Intercept	Total Footage	Total Cost (2007 Dollars)	Zero Inch Cost	% of Cost (2007 Dollars)
Steel	\$ 19.08	20,011,163	\$1,681,506,420	\$381,792,979	22.71%
Cast Iron	\$ 17.16	3,143,704	\$136,785,151	\$53,941,245	39.44%
Plastic	\$ 18.74	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$374,643,140</u>	<u>47.13%</u>
Total		43,148,097	\$2,613,128,899	\$810,377,364	31.01%

Company Correction : Average of Method 1 and Method 2

Main Material	Zero Intercept	Total Footage	Total Cost (2007 Dollars)	Zero Inch Cost	% of Cost (2007 Dollars)
Steel	\$ 32.51	20,011,163	\$1,681,506,420	\$650,589,346	38.69%
Cast Iron	\$ 39.87	3,143,704	\$136,785,151	\$125,352,009	91.64%
Plastic	\$ 19.03	<u>19,993,230</u>	<u>\$794,837,329</u>	<u>\$380,506,200</u>	<u>47.87%</u>
Total		43,148,097	\$2,613,128,899	\$1,156,447,555	44.26%

Rebuttal Testimony of
Gas IOP

Before the Public Service Commission

NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of the

Gas Infrastructure and Operations Panel

Ellen S. Smith
William J. Akley
Laurie T. Brown

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

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Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 **I. Introduction**

2 **Q. Please introduce the members of the Gas Infrastructure and**
3 **Operations Panel.**

4 A. The Panel consists of Ellen S. Smith, William J. Akley and Laurie T.
5 Brown.

6
7 **Q. Is this the same Gas Infrastructure and Operations Panel that**
8 **submitted initial testimony in this proceeding?**

9 A. Yes.

10

11 **Q. What is the purpose of the Panel's testimony?**

12 A. The purpose of the Panel's rebuttal testimony is to respond to certain
13 recommendations set forth in the prepared testimony of (i) the Department
14 of Public Service Staff ("Staff") Witnesses Christopher R. Stolicky, Brett
15 Mahan, Michael J. Moll and Kimberly Guzzo (hereinafter the "Gas Safety
16 Panel" or "GSP") regarding the Company's gas safety and reliability
17 performance measures; (ii) Staff Witness Davide Maioriello on Niagara
18 Mohawk's proposed capital budget; and (iii) Staff Witness Michael Colby
19 and Utility Intervention Unit Witness Gregg C. Collar on the Company's
20 proposed gas expansion collaborative. Specifically, the Panel's rebuttal
21 testimony will address:

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

- 1 (i) The GSP’s proposal that Niagara Mohawk accelerate the pace of
2 its leak prone pipe (“LPP”) replacement above the 35 miles per
3 year proposed by the Company to a rate of 40 miles in calendar
4 year (“CY”) 2014 and 45 miles in CY15;
- 5 (ii) The GSP’s recommendations to expand existing performance
6 standards, to raise certain of the Company’s existing performance
7 measures and to adopt a new performance measure to be applicable
8 in CY13 and beyond, including:
- 9 (a) the expansion of the Company’s current leak backlog
10 performance measure that would require a year-end
11 backlog of “total leaks” of no greater than 1,500 in CY13,
12 1,250 in CY14 and 1,000 in CY15;
- 13 (b) revisions to the Company’s damage prevention targets
14 requiring the Company to maintain overall excavation
15 damage ratios in the total damages, mis-marks and
16 Company/Contractor damage categories at or below the
17 2011 statewide performance averages; and
- 18 (c) a new performance measure for violations of the safety
19 rules and regulations contained in 16 NYCRR Parts 255
20 and 261;
- 21 (iii) The GSP’s proposal with regard to the relocation of the

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 A. Yes. As discussed at length in the Panel’s direct testimony, the Company
2 strongly believes that accelerating the replacement of LPP as much as
3 reasonably possible will reduce the risk to the public arising from leaks,
4 improve system performance and reliability, and contribute positively to
5 customer satisfaction. For these reasons, the Company’s filing proposed
6 to increase the rate of LPP replacement from the current average of 30
7 miles per year to an average of 35 miles per year. Based on the
8 incremental safety and reliability benefits associated with additional LPP
9 replacements, the Panel agrees that it would be in the public interest for
10 Niagara Mohawk to further accelerate its LPP program as proposed by
11 Staff, assuming (i) the Company timely recovers the full revenue
12 requirement associated with the cost of such incremental main
13 replacements and (ii) the Company is not exposed to a negative revenue
14 adjustment should it fail to replace the additional miles for causes beyond
15 its reasonable control.

16
17 **Q. What incremental costs does Staff propose for the accelerated LPP**
18 **replacement program?**

19 A. In recognition of the incremental work associated with Staff’s accelerated
20 main replacement targets, Staff proposes to increase the Company’s main
21 replacement funding based on the Company’s reported average cost of

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 main replacements for five miles of incremental main in the Rate Year
2 (approximately \$4.3 million per five miles of replacement) (GSP Page 11,
3 Lines 11-22). The main replacement cost in the Rate Year was based on
4 the main replacement cost in the Historic Test Year, adjusted for inflation.
5 Accordingly, Staff proposes to increase the Company's capital
6 expenditure levels for fiscal year 2014/15 ("FY15") by \$4.3 million to
7 reflect the increase of leak prone pipe replacement from 35 miles to 40
8 miles, and \$8.6 million for FY16 to reflect the further increase from 35
9 miles to 45 miles.

10

11 **Q. Do Staff's proposed increases represent the incremental costs to the**
12 **Company of accelerating the replacement of LPP?**

13 A. No. While Staff's incremental cost estimate is adequate in the Rate Year,
14 it does not capture the full incremental costs of replacing the remaining
15 LPP at the accelerated rate proposed in FY15 and beyond. This is because
16 Niagara Mohawk would need to increase targeted replacements in urban
17 areas to achieve the replacement targets in these years, and urban
18 replacements are more costly than replacements in the predominantly
19 suburban areas that disproportionally contributed to the Company's
20 average replacement costs used to calculate the \$4.3 million/five miles.
21 While less than 40 percent of LPP replacements in the Historic Test Year

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

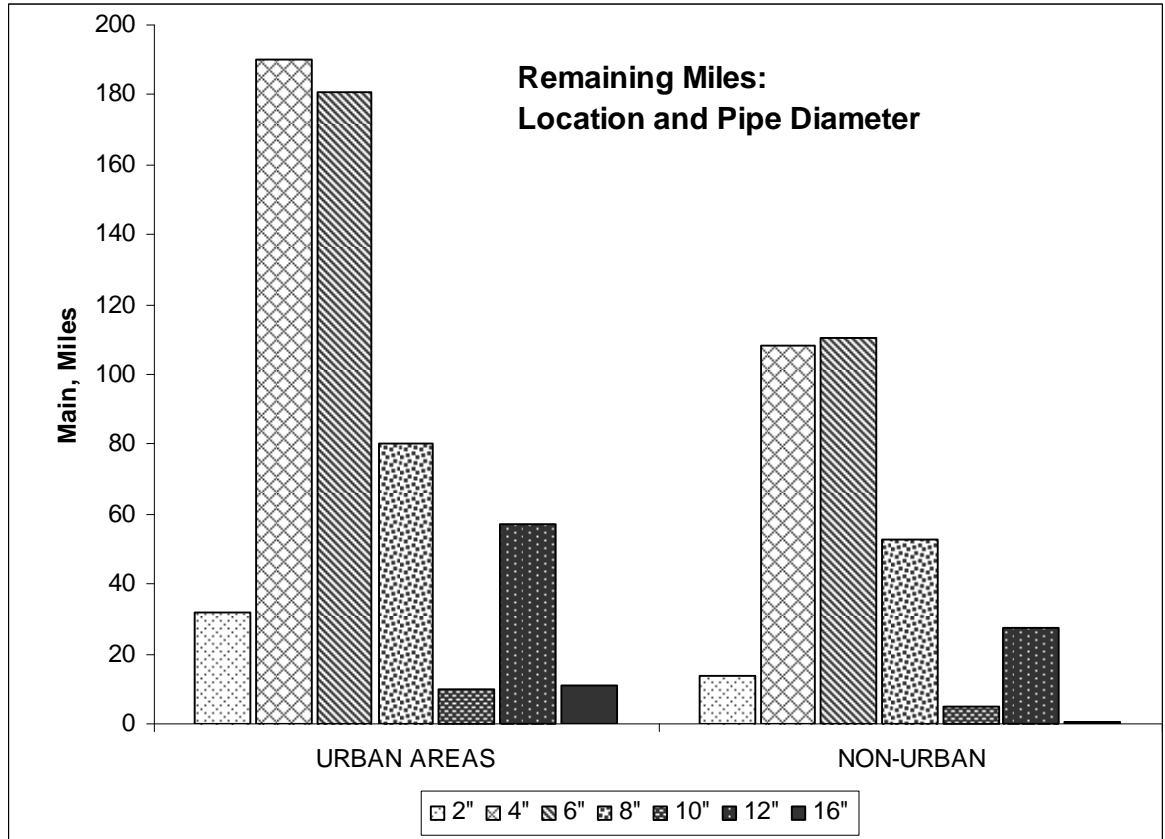
1 were in urban areas, in FY15 LPP replacements in the cities of Albany and
2 Syracuse alone are expected to exceed 50 percent of total replacements
3 (see Exhibit __ (GIOP-1R) and Table 2 below).

4
5 While Niagara Mohawk has always replaced some level of LPP in the
6 larger cities in its service territory (Albany, Syracuse, Schenectady, Troy
7 and Utica) based on risk scoring, the Company has prioritized, where
8 possible, riskier main segments in the less densely populated areas of these
9 cities (*e.g.*, side streets and soft ground areas) where replacements could
10 be performed at lower costs. However, as the Company further
11 accelerates its rate of main replacement, it will need to target LPP located
12 in more densely populated areas of the cities. Indeed, as depicted in Table
13 1 below, much of the remaining LPP inventory is located in cities.

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1
2

Table 1
Remaining LPP in Urban Areas



3

Note: “Urban” areas for these purposes include the cities of Albany, Schenectady, Syracuse, Utica and Troy.

6

7

Consider the specific examples of Albany and Syracuse, cities in which main replacement costs are expected to be significantly higher than the Historic Test Year average used to forecast the Rate Year. As depicted in Table 2 below, LPP replacement in these cities will increase substantially following the Rate Year.

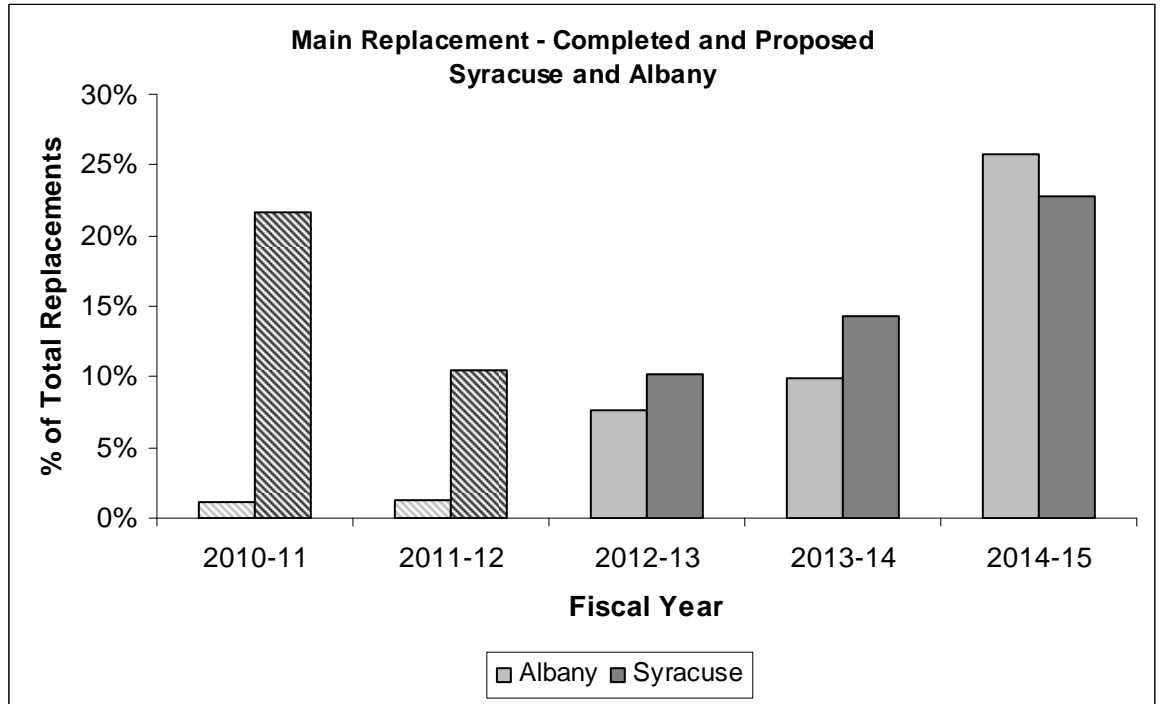
10

11

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1
2

Table 2
Historic and Forecast Main Replacements in Syracuse and Albany



3
4
5
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12
13

The Company’s average cost to replace main in urban areas has consistently exceeded the replacement costs in suburban areas (Exhibit __ (GIOP-1R)), a trend expected to continue into the Rate Year and beyond. As main replacements move into the more densely populated areas of the cities, the disparity between the costs in urban and suburban areas will increase. The maps attached as Exhibit __ (GIOP-3R) depict the Company’s LPP replacements since 2008 and targeted LPP replacements in Albany and Syracuse, and demonstrate that the replacement of the remaining LPP inventory will require a shift in work locations to the most congested areas of these cities. Accordingly, the Company anticipates

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 significantly higher main replacement costs in the years following the Rate
 2 Year:

3 **Table 3**
 4 **Forecast Main Replacement Costs – Albany and Syracuse**

Fiscal Year	2014	2015	2016	3 Yr Cum
LPP Replacement per Year	35 Miles	40 Miles	45 Miles	120 Miles
Albany				
LPP Replacement Miles	2.9	8.5	15.5	26.9
Cost/ft - Representative Projects*	\$193	\$193	\$193	\$193
Total Cost of LLP in Albany	\$2,907,359	\$8,704,096	\$15,801,370	\$27,412,826
Syracuse				
LPP Replacement Miles	4.2	7.5	11.9	23.6
Cost/ft – Representative Projects*	\$248	\$248	\$248	\$248
Total Cost of LPP in Syracuse	\$5,499,648	\$9,820,800	\$15,582,336	\$30,902,784
Other Areas				
LPP Replacements	27.9	24.0	17.6	69.5
Projected avg cost/ft	\$145	\$150	\$154	\$149
Total Cost of LPP Other Areas	\$21,447,415	\$18,926,614	\$14,276,835	\$54,650,863

5
 6 *The “Cost/ft – Representative Projects” is based on the actual costs for a
 7 sample of recent main replacement projects in Syracuse and Albany that
 8 are comparable to projects the Company will target as part of its LPP
 9 replacements in these cities in CY13-15. The Company acknowledges
 10 these sample projects are among the most expensive main replacements
 11 recently completed. These projects, however, are illustrative the
 12 Company’s escalating LPP replacement costs as work moves to more
 13 urban areas. The costs for these projects are detailed in Exhibit __
 14 (GIOP-2R).

15

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 **Q. Please describe the factors contributing to higher construction costs in**
2 **urban areas.**

3 A. A number of factors will drive substantially higher construction costs, as
4 well as operating challenges, as main replacements increase in the densely
5 populated areas of cities following the Rate Year, including:

- 6 • Increased municipal permitting fees (including road cut and
7 inspector fees);
- 8 • More onerous paving and restoration requirements (*e.g.*,
9 Albany's new curb to curb paving requirement and Syracuse's
10 requirements for 24-inch minimum excavations and 12 inches of
11 additional ground cover for main installations);
- 12 • Sequenced construction to accommodate traffic patterns;
- 13 • Work time restrictions around rush hour construction, which
14 requires more work off hours and on nights and weekends;
- 15 • Increased traffic control costs (additional flagpersons and
16 signage);
- 17 • More costly excavation because of concrete and thicker
18 roadways;
- 19 • A higher concentration of underground infrastructure, which
20 restricts the Company's ability to utilize cost effective
21 technologies, *i.e.*, horizontal directional drilling and other

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

- 1 trenchless installation methods;
- 2 • Higher costs to store materials and equipment;
- 3 • Compliance with city construction specifications such as
- 4 minimum trench widths and depths and additional requirements
- 5 regarding debris removal (*e.g.*, 100 percent haul-away); and
- 6 • Large diameter pipe (8 inch and above), which makes up a
- 7 substantial percentage of the remaining LPP, is more costly to
- 8 replace because replacements require larger excavations and
- 9 restorations as well as larger crews.

10

11 Although Niagara Mohawk works closely with municipalities to minimize

12 costs associated with construction (*i.e.*, by coordinating main replacements

13 with municipal paving projects), many of these costs are driven by

14 demographic and geographic factors or by municipal requirements and,

15 therefore, are not within the control of the Company to reduce.

16

17 **Q. What is the Company's proposal with regard to the recovery of**

18 **increasing LPP replacement costs following the Rate Year?**

19 A. To allow the Company to recover its projected main replacement costs

20 based on Staff's accelerated replacement schedule and the higher costs of

21 replacing more LPP in urban areas, the Company proposes modifying

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1 Staff’s proposed funding for LPP replacements as follows:

2 **Table 4**
 3 **LPP Replacement Miles and Funding Adjustments**

Fiscal Year	2014	2015	2016	Total
NMPC’s Proposed Replacement Miles	35	35	35	105
NMPC’s Initial LPP Funding Proposal	29.8	30.4	31.1	\$91.3M
Staff’s Proposed Replacement Miles	35	40	45	120
Staff’s Proposed Funding Adjustment	0	4.3	8.6	\$12.9M
NMPC’s Proposed Incremental Adjustment	0	2.7	6.0	\$8.7M
Total Adjusted LPP Replacement Funding	\$29.8M	\$37.4M	\$45.7M	\$112.9M

4

5 For the reasons set forth above, the Company believes these additional
 6 dollars are necessary to address the higher cost of increased main
 7 replacements in urban areas as compared to the average costs used to
 8 calculate the LPP average cost in the Rate Year.

9

10 **Q. Does the Panel agree with the GSP’s recommendations regarding**
 11 **negative revenue adjustments for Niagara Mohawk’s failure to meet**
 12 **the LPP replacement targets?**

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1 A. Not entirely. The GSP proposes extending the current negative revenue
2 adjustment for failure to achieve LPP replacement targets established in
3 Case 06-M-0878 (*i.e.*, a penalty of eight pre-tax basis points if Niagara
4 Mohawk fails to remove the targeted level of LPP) (GSP Page 13, Lines
5 12-17). Niagara Mohawk will accept negative revenue adjustments for
6 failure to achieve the LPP replacement targets, but maintains that the
7 metric should be structured with annual and cumulative targets similar to
8 the current metric. That is, the Company would incur a negative revenue
9 adjustment for failure to replace 35 miles of LPP in any one year and a
10 cumulative three-year total of 120 miles for CY13-15. In addition, given
11 that the Company will significantly ramp up the pace of main
12 replacements in a relatively short time as Staff has proposed and, as
13 discussed above, there are a number of operating challenges with
14 replacing the remaining miles of LPP, the Company proposes that it be
15 excused from any failure to meet the established targets to the extent its
16 failure is caused by circumstances beyond its reasonable control,
17 including: (i) permitting and paving delays with municipalities, (ii)
18 adverse weather conditions or (iii) other *force majeure* events that frustrate
19 the Company's ability to replace LPP. The safety, system reliability and
20 customer satisfaction benefits associated with accelerated main
21 replacements will provide adequate incentives to the Company to achieve

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1 the LPP replacement targets in a timely fashion. There is no need to
2 penalize the Company in the event that extraordinary circumstances
3 prevent it from doing so.

4

5 **Q. Does the Panel agree with the GSP that the Company's LPP**
6 **replacement program should incorporate some vintages of plastic**
7 **pipe?**

8 A. Yes. The Company recognizes that some early vintage plastic pipe may
9 have performance issues, and supports the inclusion of early vintage
10 plastic pipe in the Company's replacement program, as the GSP
11 recommends. Based on Niagara Mohawk's observations regarding the
12 performance of early vintage plastic main on its system, the Company
13 believes there is a high probability these plastic materials will experience
14 performance issues in future years.

15

16 **III. Staff's Proposed Performance Measures**

17 **Q. Before discussing the GSP's specific proposals on safety performance**
18 **measures, would the Panel like to comment generally on the GSP's**
19 **discussion of the Company's commitment to safety and compliance?**

20 A. Yes. While noting throughout its testimony that the Company has
21 consistently met or exceeded all performance measures (GSP Page 14,

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1 Lines 12-17; Page 18, Lines 12-18), the GSP suggests the Company's
2 safety/service quality performance is nonetheless sub par in several
3 respects, and even suggests the Company's violation history demonstrates
4 a "culture that is willing to accept a level of noncompliance." (GSP Page
5 34, Lines 8-10) While acknowledging that there are opportunities for
6 improvement, the Company takes issue with this characterization and any
7 suggestion that it takes lightly its duty to its customers, employees and
8 local communities to operate safely. The Company has worked hard to
9 develop a culture where safety is paramount and is committed to being an
10 industry leader in managing safety and compliance issues. The
11 Company's efforts in this regard are demonstrated in its measurable
12 improvements in several key performance areas, as shown in its 2011 Gas
13 Safety Performance Measures Report, including:

- 14 • 43 percent improvement in CY11 year-over-year for damage from
15 mis-marks;
- 16 • 23 percent improvement in CY11 year-over-year for damage from
17 no calls;
- 18 • Consistently met or exceeded emergency response targets;
- 19 • 98 percent improvement in Type 1, 2A and 2 leaks requiring repair
20 since 2003;
- 21 • Repaired 1,164 leaks in CY11, with 3 leaks in the leak backlog at

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1 the end of the year; and

- 2 • 2nd lowest hazardous leak backlog in New York.

3

4 There is no aspect of Niagara Mohawk’s gas business more critical to its
5 long-term success than the continued safe and reliable operation of its gas
6 system. The Company submits that its safety record is a testament to its
7 commitment to constant improvement in the areas of safety and
8 compliance, and is not remotely indicative of a culture that accepts
9 compliance failures.

10

11 **A. Leak Backlog**

12 **Q. Please describe Niagara Mohawk’s current leak backlog performance**
13 **standard.**

14 A. Niagara Mohawk is subject to a leak management performance measure
15 that monitors the Company’s backlog of “potentially hazardous leaks”
16 (Types 1, 2A and 2), classified as such because federal and state codes
17 require repair at designated intervals to avoid potential harm to people or
18 property. The current performance measure subjects Niagara Mohawk to
19 a significant negative revenue adjustment (*i.e.*, 12 pre-tax basis points) in
20 the event the Company’s backlog of these potentially hazardous leaks
21 exceeds 40 at the end of the calendar year. As the GSP acknowledges, the

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1 Company's performance in this area has been exceptional (GSP Page 14,
2 Lines 12-17) - with the Company's year-end backlog averaging only 8.8
3 potentially hazardous leaks over the last five years. Most recently, in
4 CY10, the Company recorded only one hazardous leak in its backlog and
5 in CY11 only three, representing a 98 percent reduction in potentially
6 hazardous leaks since CY03 when the Company reported 151 leaks in its
7 backlog.

8

9 **Q. What is the GSP's recommendation concerning expanding the current**
10 **leak backlog performance metric?**

11 A. The GSP is recommending a "total backlog" target that would measure all
12 leaks on the Company's system (GSP Page 16, Lines 10-20), adding to the
13 potentially hazardous leaks (Types 1, 2A, and 2) currently subject to the
14 metric all "Type 3" leaks, which are leaks designated as "non-hazardous"
15 because they do not present an immediate hazard at the time of detection
16 and can be reasonably expected to remain that way. The GSP
17 recommends that Niagara Mohawk achieve a level of no greater than
18 1,500 total leaks in backlog by the end of CY13; 1,250 by the end of
19 CY14; and 1,000 by the end of CY15. The GSP recommends that the
20 current negative revenue adjustment of up to 12 basis points apply to the
21 Company's failure to achieve the proposed total leak backlog targets.

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1 **Q. Did the GSP provide any support for its proposed 2013, 2014 and**
2 **2015 “total leak backlog” targets?**

3 A. No. While it notes that Niagara Mohawk’s number of total leaks has been
4 trending up since CY07, the GSP offers no support as to why adding Type
5 3 leaks to the leak backlog targets is appropriate.

6
7 **Q. Does the Panel agree with the GSP’s assertions that an increase in the**
8 **“total leak backlog” is indicative of poor performance by Niagara**
9 **Mohawk, and that a “total leak backlog” performance measure would**
10 **encourage the Company to reduce the total number of leaks on its**
11 **system?**

12 A. No. Niagara Mohawk disputes the GSP’s suggestion that the increased
13 number of total leaks in its leak backlog indicates poor performance by the
14 Company. In its direct testimony, the Company noted the leak rate for
15 LPP on the Company’s system is generally trending up (Exhibit __
16 (GIOP-4)), contributing to the overall increase in leaks on the system.
17 These increased leaks are attributable to the condition of the Company’s
18 leak prone facilities, not shortcomings in the Company’s performance. In
19 response to the asset condition issues that are driving the leak rate, both
20 the Company and the GSP have proposed accelerated replacement of leak-
21 prone facilities that will cause the leak trend to reverse but, as discussed

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1 below, the accelerated replacements will take several years to produce a
2 lower leak rate.

3
4 Niagara Mohawk is committed to prudently managing its leak repair
5 process. While the Company generally concurs with the GSP that
6 lowering the overall level of system leaks requiring repair is desirable, the
7 Company disagrees with the GSP's assertion that the Company needs an
8 arbitrary "total leak backlog" target tied to a substantial negative revenue
9 adjustment to encourage the Company to minimize the backlog of non-
10 hazardous leaks.

11

12 **Q. Is Niagara Mohawk in compliance with its Type 3 leak survey**
13 **requirements?**

14 A. Yes. Niagara Mohawk manages leaks through a leak surveillance and
15 repair process that focuses on public safety. All leaks are investigated by
16 trained and qualified personnel and are classified and repaired in
17 compliance with applicable regulations and the Company's O&M
18 procedures. Leaks are assessed and scheduled for repair based on their
19 level of probable hazard. The Company prioritizes the repair of Type 1,
20 2A and 2 leaks because of the safety concerns associated with these leaks.
21 Because Type 3 leaks pose no immediate hazard, there would be minimal

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1 safety benefits realized from expanding the current performance metric to
2 include them. Staff's proposed metric does not differentiate the
3 Company's performance relative to potentially hazardous versus non-
4 hazardous leaks. Contrary to the result the GSP's proposed metric would
5 tend to enforce, Niagara Mohawk does not believe that extending the same
6 level of attention to non-hazardous leaks as is afforded to potentially
7 hazardous leaks would serve the public interest.

8

9 **Q. The GSP asserts that reducing total leaks will result in cost savings to**
10 **customers. Does the Panel agree?**

11 A. Any cost savings would be offset by the cost of meeting Staff's proposed
12 metric. The Panel disputes the GSP's position that expending the
13 resources necessary to achieve a specific "total leak" backlog target is
14 justified based on unspecified cost savings to customers. To reduce the
15 Type 3, non-hazardous leaks to a level approaching the proposed target,
16 Niagara Mohawk would need to repair hundreds of additional leaks
17 annually, at significant expense. To meet Staff's proposed metric
18 including the Type 3 leaks, Niagara Mohawk estimates that it would need
19 to spend approximately \$5.0 million (\$3,800/per leak) in incremental
20 O&M and capital recovery over the next three years, a cost the Company
21 does not believe would be prudent, not only because Type 3 leaks are non-

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1 hazardous, but also because these leaks are for the most part on main that
2 will be scheduled for replacement as part of the Company's LPP program.
3 The Company believes that the replacement of LPP is the most effective
4 tool for mitigating non-hazardous leaks, and the majority of the mains and
5 services contributing to the leak backlog are expected to be replaced in the
6 coming years as part of the LPP replacement program.

7

8 **Q. Does the Panel agree with the GSP that Niagara Mohawk could**
9 **reasonably be expected to reduce the "leak backlog" below the**
10 **proposed target of 1,500 total leaks in backlog by the end of CY13;**
11 **1,250 by the end of CY14; and 1,000 by the end of CY15?**

12 A. No. Even assuming the Company believed the deployment of the
13 additional resources required to reduce non-hazardous leaks to the levels
14 proposed by Staff were prudent, the Company could not reasonably be
15 expected to achieve the performance targets proposed by the GSP without
16 funding for incremental resources, which Niagara Mohawk does not
17 believe would be a prudent expenditure in light of the minimal safety
18 benefits, or diverting resources from other programs that provide greater
19 customer benefits, such as LPP replacements. Moreover, for a number of
20 reasons beyond its control (*e.g.*, weather, the timing of survey cycles, and
21 odorant levels), the Company could experience sharp increases in the

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1 number of Type 3 leaks late in the year, which could place Niagara
2 Mohawk in jeopardy of missing its annual target regardless of its diligent
3 efforts to manage leaks throughout the year.

4
5 **Q. The GSP asserts that the removal of LPP will help reduce the number**
6 **of leaks Niagara Mohawk will experience and, therefore, help Niagara**
7 **Mohawk to meet its leak backlog targets. Does the Panel agree?**

8 A. Yes, but not in the short term. While the replacement of LPP is the most
9 efficient method for reducing leaks on Niagara Mohawk's distribution
10 system over time, the results of accelerated LPP replacements are unlikely
11 to be observed in CY13-15. Exhibit __ (GIOP-5) sets forth the expected
12 reduction of leaks on leak-prone facilities as a result of accelerated
13 replacements. As demonstrated by this exhibit, and described in the
14 Panel's direct testimony, leak rates will begin to go down when sufficient
15 incremental LPP has been replaced to offset the leaks experienced on the
16 remaining leak prone facilities. But even at the accelerated LPP
17 replacement rate proposed by the GSP, the replacement of LPP will not
18 reduce leaks at a level that will afford the Company a reasonable
19 opportunity to meet Staff's proposed performance target for total leaks
20 over the next several years.

21

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1 **B. Damage Prevention**

2 **Q. Please address the GSP’s recommendations concerning the proposed**
3 **adjustments to the Company’s damage prevention metrics – overall**
4 **damages, mis-mark damages and Company/contractor damages.**

5 A. The GSP recommends a substantial elevation of the performance
6 standards relative to the current metric for improvements in excavation
7 damage prevention equivalent to the 2011 statewide performance levels
8 for damage prevention metrics (GSP Page 27, Lines 17-22; Page 28, Lines
9 1-4, 8-17). The proposed penalty thresholds in most instances
10 significantly exceed the Company’s historical performance. While the
11 Panel agrees with Staff that reducing excavator damage is important, the
12 Panel does not agree that the Company should be penalized for failure to
13 attain a level of performance that would far exceed both the present
14 standards for satisfactory performance as well as the past performance
15 gains the Company has been able to make over comparable periods of
16 time.

17
18 **Q. What is the Panel’s position on Staff’s proposal that the Company be**
19 **held to performance targets based on statewide performance levels?**

20 A. For a number of reasons, the Panel does not believe this approach should
21 be adopted. First, Niagara Mohawk’s damage prevention performance

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1 targets should be based on Company-specific data, ensuring the metric
2 fairly compares the Company's annual performance against its historical
3 performance.

4
5 Next, setting targets based on the performance of other utilities in the state
6 fails to account for actual conditions on the Company's system and the
7 geographic area in which it operates. Consider, for example, the disparity
8 among New York's local distribution companies ("LDCs") with regard to
9 service territory geography. Depending on the LDC's service territory,
10 there are several variables that can affect a utility's damage prevention
11 statistics, including: (i) the location of underground utility facilities
12 (generally located within a single corridor in city streets), which impacts
13 the ability to map, locate and mark underground facilities; (ii) the average
14 size of excavation projects, *e.g.*, large municipal projects afford LDCs the
15 ability to deploy dedicated inspectors whereas small, dispersed
16 excavations do not allow for close oversight without significantly greater
17 resources; and (iii) the experience of excavators operating in the service
18 territory, with excavators working in city streets generally more
19 experienced navigating underground utility facilities. Staff's proposal to
20 target state-wide performance numbers fails to consider these differences
21 in operating conditions.

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1 Finally, the Company believes that performance targets need to be based
2 on the recent performance of the Company to establish challenging but
3 achievable targets that incent performance improvements, rather than
4 preordain a punitive result.

5

6 **Q. Please explain why the Panel believes the “total damage” prevention**
7 **target proposed by Staff is unreasonable based on the Company’s**
8 **recent performance.**

9 A. Last year, Niagara Mohawk experienced its best performance in the last
10 five years when it achieved 3.03 overall instances of damage per 1,000
11 One-Call Tickets (down from a high of 8.91 in 2003; a 66 percent
12 reduction over that time period). Under the GSP’s recommendation,
13 Niagara Mohawk would be required to further improve its performance to
14 2.14 overall damages per 1,000 One-Call Tickets in CY13 or incur a
15 negative revenue adjustment equal to four pre-tax basis points. The GSP’s
16 proposal would unfairly penalize the Company for its recent performance
17 improvements in this area by lowering damage prevention targets to levels
18 that unreasonably assume the Company can continue to realize cumulative
19 improvements at the same rate. Between CY03 and CY11, only twice has
20 the Company’s improvement matched the percentage gain the GSP is
21 asking Niagara Mohawk to make by CY13. It is unreasonable to expect

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1 that additional improvement of this magnitude can be achieved in this
2 timeframe, especially considering the significant improvements already
3 achieved in this area. Moreover, to avoid a retroactive performance
4 measure, any modifications to the performance targets for CY13 should be
5 applied prospectively from the date new rates are established in this
6 proceeding. This holds true for all other recommendations of the GSP to
7 the extent any program is proposed to commence in CY13.

8

9 **Q. Please explain Niagara Mohawk's position on the mis-mark metric.**

10 A. With respect to this metric, Niagara Mohawk has improved from a ratio of
11 1.90 in CY03 to a ratio of 0.48 in CY11. The 2011 Gas Safety
12 Performance Measures Report noted that the Company "led statewide-
13 level improvement" in CY11, with a 43 percent improvement in this
14 metric. Going forward, it is not realistic to expect continued linear
15 improvements in this metric because the Company has leveraged
16 opportunities to improve performance and the remaining tools at its
17 disposal are less likely to result in dramatic improvements in performance.
18 Therefore, as discussed below, the Company is proposing a new
19 performance target for the mis-mark metric that, while a significant
20 performance challenge over the current performance measure, is less
21 aggressive than the GSP's proposal.

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1 **Q. What is the Company's position on the Company and Company**
2 **Contractor damage metric proposed by Staff?**

3 A. The Company has significantly improved its performance in this metric
4 over the past few years, having most recently achieved a low of 0.06
5 damages from Company and Company Contractor per 1,000 One-Call
6 Tickets in CY11 as compared to a high of 0.13 in CY08. This metric is
7 affected, in part, by the volume of work the Company performs and,
8 because it will significantly increase construction work in coming years
9 (e.g., accelerated LPP replacements), further improvements will be a
10 challenge. Notwithstanding the challenge, however, the Company is
11 agreeable to Staff's proposed target of 0.10 damages per 1,000 Tickets.

12
13 **Q. Please explain the Company's alternative proposal with respect to the**
14 **damage metric targets.**

15 A. The Company proposes to establish alternative targets based on the
16 Company's recent performance history (a period during which the
17 Company has achieved its highest performance levels). The proposed
18 measures are as follows:

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1
2

Table 5
Damage Prevention Performance Targets

Damage Prevention Metric	CY 2011 Performance	2012 Target	Staff's Proposed Target CY13	Company's Proposed Target CY 13
Total Damages	3.03	3.94	2.14	3.0
Mis-Marks	0.48	0.67	0.45	0.48
Company & Company/Contractor	0.06	0.19	0.10	0.10

3

4 The Company believes its proposed targets, which represent significant
5 enhancements over the current performance measure targets, are
6 sufficiently challenging because they would require the Company to
7 maintain its highest level of performance.

8

9 **C. Safety Violations Metric**

10 **Q. Does the Company share Staff's concern with regard to the violations**
11 **of Commission regulations?**

12 A. The Company takes compliance with the Commission's regulations,
13 especially regulations affecting the safe operation of the Company's
14 distribution system, very seriously and acknowledges that its compliance
15 must improve and that its 2011 performance was unacceptable. To this
16 end, without the incentive of a performance metric, the Company has

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1 initiated several programs to improve its focus on compliance issues
2 consistent with the approach advocated in the GSP's testimony, and
3 encouraged by the National Transportation Safety Board and the U.S.
4 Department of Transportation following recent industry incidents.

5

6 **Q. Please describe the GSP's proposal for a new metric addressing**
7 **violations of gas safety regulations.**

8 A. The GSP proposes a new two-tiered metric that would expose the
9 Company to significant negative revenue adjustment based on violations
10 of the Commission's safety rules and regulations contained in 16 NYCRR
11 Parts 255 and 261, as determined by Staff's annual record and field audits
12 of the Company. Specifically, this new composite metric would track, and
13 hold the Company accountable for, (i) violations of "high risk" regulations
14 (*i.e.*, regulations that, if not followed, could impact public safety) and (ii)
15 violations of all "other risk" regulations, imposing a negative revenue
16 adjustment for each occurrence of a violation in the amount of one pre-tax
17 basis point and 1/3 pre-tax basis point, respectively. (GSP Pages 38, 41)

18

19 **Q. Does the Panel agree with the GSP's proposal to implement a new**
20 **performance measure regarding "high risk" safety violations?**

21 A. No. There are several reasons why the Company believes the proposed

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1 metric should not be adopted. Staff’s proposal is inequitable because the
2 Company could incur significant financial penalties based solely on the
3 results of Staff’s audit without the opportunity to refute or explain an
4 alleged violation in a formal proceeding, and without consideration given
5 to the severity of the violation or any mitigating factors surrounding the
6 non-compliance. Similarly, under the proposed penalty mechanism, there
7 is no opportunity for the inspector to exercise discretion and professional
8 judgment to assess a negative revenue adjustment that is commensurate
9 with the nature of the alleged violation (*e.g.*, documentation error vs.
10 operator non-compliance). Consistent with Staff’s past practices and
11 federal regulators’ guidance regarding civil penalties, each alleged
12 violation should be assessed a penalty based on the severity of the
13 violation and factors such as the nature, circumstances and gravity of the
14 violation, including any adverse impact on public safety and the
15 environment. For each violation, the utility’s degree of culpability, history
16 of prior violations, and good faith in attempting to comply should be
17 considered. Staff’s proposal does not appear to incorporate this guidance.

18
19 The GSP’s testimony notes that a similar performance measure for “high
20 risk” violations was recently implemented for Corning Natural Gas
21 Corporation (“Corning”) in Case 11-G-0280, making Corning the only

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1 operator in the state currently subject to this type of metric (GSP Page 35,
2 Lines 7-9). In the Corning case, Staff articulated the position, as it does in
3 this case, that a “high risk” violation metric was justified because the
4 Commission lacked authority under PSL § 25(2) to pursue a penalty action
5 for a violation of 16 NYCRR Part 255 or Part 261 except in instances
6 where the violation resulted in serious injury or death. However, since
7 the Corning case, Staff has changed its position with regard to the
8 Commission’s ability to pursue penalty actions. Staff advised the
9 Company in a July 2012 letter that it was reversing a prior position with
10 regard to the application of PSL § 25 and, going forward, would take a
11 more expansive view of the Commission’s ability to seek fines for
12 violations of safety regulations. While the Company has not analyzed
13 Staff’s position on this issue, there is clearly the potential for multiple
14 layers of liability for the same violation were the Company subject to the
15 penalty provisions contained in the Public Service Law and the negative
16 revenue adjustments proposed by the GSP. Moreover, as the GSP
17 acknowledges, the second component of the GSP’s proposed metric, for
18 “other risk” violations, was not proposed or adopted in the Corning case.

19

20 **Q. What is the Panel’s position with regard to the additional metric**
21 **proposed for all violations of “other risk” safety regulations (i.e, the**

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1 **non-“high risk” violations)?**

2 A. The Company does not believe Staff has articulated sufficient justification
3 for this metric, and believes there are already mechanisms in place to
4 monitor the Company’s compliance with these safety regulations.
5 Notwithstanding its opposition to this metric, the Company takes these
6 “other risk” violations very seriously and recognizes the need to improve
7 its compliance in this regard. To that end, Niagara Mohawk has
8 proactively implemented, or is in the process of implementing, a number
9 of programs to improve its performance in this area. These programs
10 include: (i) a new data management system to improve records
11 management practices; (ii) enhanced internal communication and training
12 with regard to compliance and safety, with an emphasis on pipeline safety;
13 and (iii) tools and processes designed to identify potential instances of
14 non-compliance. While it is difficult to predict the impact of these
15 programs on the number of violation, the Company believes its efforts in
16 this area will result in substantial improvements in its performance in this
17 “other risks” category without the prod of a performance metric.

18

19 **IV. Inside Services**

20 **Q. What recommendations did the GSP make with respect to inside**
21 **services?**

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1 A. While acknowledging the benefits of enhanced inside service inspections,
2 the GSP recommends the Company further commit to moving inside
3 meter sets outside in conjunction with regular work activities performed
4 inside customer premises (*e.g.*, work to remediate deficiencies identified
5 by inside atmospheric inspections, service replacements and pressure
6 upgrades). (GSP Page 42, Lines 14-22) Specifically, Staff recommends
7 that Niagara Mohawk commit to developing a plan within 60 days of the
8 Commission's decision in this case incorporating Staff's proposed inside
9 service relocation program. (GSP Page 43, Lines 4-8)

10

11 **Q. Does the Company agree with this recommendation?**

12 A. The Company agrees with Staff's objective and is willing to file a plan for
13 the relocation of inside services within 60 days of a Commission Order in
14 this case. The Company acknowledges the benefits of relocating inside
15 services outside when safe and practical, including the enhanced access
16 and resulting cost savings associated with outside meters. However, as
17 Staff is aware, there are often issues with moving inside meters to outside
18 locations, including cases where relocations may be impractical (*e.g.*,
19 exterior obstacles prevent relocation) or unsafe (risk due to external
20 hazards). The Company also hears from customers who are unhappy with
21 the aesthetics of outside meters (especially in the case of multiple-meter

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1 properties). The program that is ultimately adopted will need to account
2 for these factors.

3
4 In addition to these practical challenges associated with meter relocations,
5 there is the issue of the incremental costs of the program. Staff does not
6 provide for incremental cost recovery for the costs of the program it
7 recommends, including the cost of the meter relocation, service relocation,
8 reconnection of the service line and restoration cost. The Company's cost
9 for a straightforward relocation (*i.e.*, moving both the meter and regulator
10 outside to the same location) is approximately \$762. In more challenging
11 relocation jobs, the Company may incur additional costs to relocate the
12 service and perform outside/inside restoration.

13
14 Accordingly, the Company will commit to developing a plan within 60
15 days of the Commission's Order that will address, *inter alia*, (i) Staff's
16 proposal to increase opportunistic meter relocations, (ii) an approach for
17 addressing instances where relocation may not be practical, (iii) the
18 ongoing need to maintain an inside inspection program, and (iv) the
19 Company's incremental costs for the additional meter relocations, net of
20 expected cost savings. To the extent there are net incremental costs, the
21 Company proposes to defer those costs for future recovery.

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1 **Q. The GSP recommends that the annual report to Staff regarding the**
2 **Company’s performance against its performance measures include**
3 **information regarding inside meter sets. Does the Company agree**
4 **with this recommendation?**

5 A. The Company will determine the most efficient means to gather and
6 organize the requested information, and will consult with Staff on a
7 mutually agreeable format.

8

9 **V. Capital Budget**

10 **Q. Does the Panel agree with Staff’s proposal to remove the “Main**
11 **Exposures” project from the capital budget?**

12 A. Yes. The Main Exposure program is intended to address instances where
13 severe storms and other weather events expose mains. While the
14 Company performed significant remediation following the severe weather
15 events of the past few years, the amount of this work is largely dependent
16 on the number and severity of weather events. Based on the spending to
17 date in CY12, Staff suggests that the Company has not demonstrated it
18 will spend the funds budgeted for the Main Exposures program in FY12
19 and FY13 (Maioriello Page 13, Lines 15-22). Because it is difficult to
20 forecast the amount of Main Exposure work that will be required in future
21 years, the Company agrees to remove this item from the capital budget.

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1 **Q. What is the Company's position with regard to Staff's request that**
2 **the Company provide enhanced capital and O&M quarterly**
3 **reporting?**

4 A. The Company will work with Staff to develop a mutually agreeable
5 reporting format that satisfies Staff's needs. Ideally, the reporting format
6 would incorporate aspects of the Company's internal reporting practices to
7 minimize the incremental administrative burden.

8

9 **VI. Gas Growth Collaborative**

10 **Q. Please comment on the status of the gas collaborative proposed in the**
11 **Company's direct testimony.**

12 A. Staff (Witness Colby) and the Utility Intervention Unit (Witness Collar)
13 endorse the Company's proposal to facilitate a collaborative to explore
14 various approaches to increase the availability of gas service, as well as
15 opportunities to expand the Company's current gas franchise area (Colby
16 Page 5, Lines 16-22). Accordingly, the Company intends to move forward
17 with this proposal, with the expectation that the collaborative will begin
18 later in 2012.

19

20 In the meantime, the Company continues to explore new areas in which to
21 expand gas usage, having recently petitioned the Commission for

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 permission to expand its franchise territory to include the currently
2 unserved Village of Greenwich, where a combination of strong local
3 demand and a large industrial customer in the vicinity support an
4 extension of the Company's gas distribution system.

5

6 **Q. Does the Panel have any comments concerning the impact of this**
7 **proceeding on the Company's willingness to invest in the expansion of**
8 **its gas business?**

9 A. Yes. While the Company believes that opportunities exist to expand its
10 gas business in a way that would benefit both the Company and its
11 customers, the Company has concerns that certain of the revenue
12 requirement adjustments proposed by Staff in this proceeding discourage
13 rather than encourage such incremental investments. Specifically, Staff is
14 recommending a return on equity of 8.9 percent and a reduction in gas
15 depreciation rates that would reduce the Company's capital recovery
16 through depreciation by approximately \$5.9 million per year. With
17 respect to the return on equity, it is the Panel's understanding that Staff's
18 recommended return would be the lowest equity return adopted by the
19 Commission in the last thirty years. With respect to depreciation,
20 adoption of Staff's recommendation would represent the second time in
21 five years that the Company's gas depreciation rates have been reduced by

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

1 several million dollars per year.

2

3 The members of the Panel are not experts on depreciation or return on
4 equity, but the Panel is aware that these matters involve the exercise of
5 professional judgment and that there is a range of outcomes for these
6 issues that may be considered reasonable. Thus, when the Commission is
7 considering this case, the Panel asks that it exercise its discretion
8 concerning depreciation and return issues in a manner that will encourage
9 incremental investment in the gas system by establishing rates that provide
10 capital cost recovery that is consistent with other investment opportunities
11 available to National Grid.

12

13 **VII. Conclusion**

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes.

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

Index of Exhibits

Exhibit __ (GIOP-1R)	Average Main Replacement Costs and Forecast Replacements for Urban Areas
Exhibit __ (GIOP-2R)	Costs for Representative Main Replacement Projects – Albany and Syracuse
Exhibit __ (GIOP-3R)	Maps Depicting LPP Replacements Since 2008 and Targeted LPP Replacements in Albany and Syracuse

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

Exhibit __ (GIOP-1R)

Average Main Replacement Costs and Forecast Replacements for Urban Areas

**Average Main Replacement Costs and
Forecast Replacements for Urban Areas**

Average Historic Cost Per Mile/Foot

CY	2009		2010		2011		3-Year Average	
	Cost/mile	Cost/ft	Cost/mile	Cost/ft	Cost/mile	Cost/ft	Cost/mile	Cost/ft
Albany	\$958,223	\$181	\$712,239	\$135	\$942,040	\$178	\$870,834	\$165
Schenectady	\$706,947	\$134	\$665,603	\$126	\$494,611	\$94	\$622,387	\$118
Syracuse	\$804,291	\$152	\$861,277	\$163	\$876,276	\$166	\$847,282	\$160
Utica	\$722,871	\$137	\$768,830	\$146	\$724,193	\$137	\$738,631	\$140
Troy	\$896,065	\$170	\$1,320,497	\$250	\$1,177,264	\$223	\$1,131,275	\$214
Urban Areas		\$155		\$164		\$160		\$159
Other Areas	\$732,162	\$139	\$848,706	\$161	\$644,713	\$122	\$741,861	\$141

Replacement Percentages by Area

	Actual				Projected			
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Albany	5.83%	3.63%	1.07%	1.34%	7.70%	8.15%	21.35%	34.46%
Schenectady	11.36%	4.37%	15.59%	5.54%	11.40%	8.15%	8.56%	14.68%
Syracuse	21.47%	31.95%	21.65%	10.47%	10.16%	17.59%	29.14%	12.68%
Troy	0.00%	4.24%	2.49%	0.58%	5.72%	3.75%	0.50%	0.00%
Utica	4.52%	8.69%	6.89%	8.48%	6.06%	5.53%	0.00%	0.00%
Urban Areas	43.17%	52.87%	47.69%	26.41%	41.05%	43.17%	59.55%	61.82%
Other Areas	56.83%	47.13%	52.31%	73.59%	58.95%	56.83%	40.45%	38.18%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

Exhibit __ (GIOP-2R)

Costs for Representative Main Replacement Projects – Albany and Syracuse

Costs for Representative Main Replacement Projects – Albany and Syracuse

	Length (ft)	Pipe Diameters	Services	Restoration (\$)	In-service Date	Fully loaded cost/ft
Albany						
Breadford St	870	6"	19	44,122	11/14/10	\$188
Spring St	700	4"	3	35,420	8/24/10	\$199
Weighted Avg Cost/ft						\$193
Syracuse						
Bellevue Ave	1,792	8",6",4"	24	92,184	5/23/12	\$281
Mooney St	542	4"	16	6,740	11/4/11	\$237
Baker St	1,210	4"	27	23,213	9/15/11	\$205
Weighted Avg Cost/ft						\$248

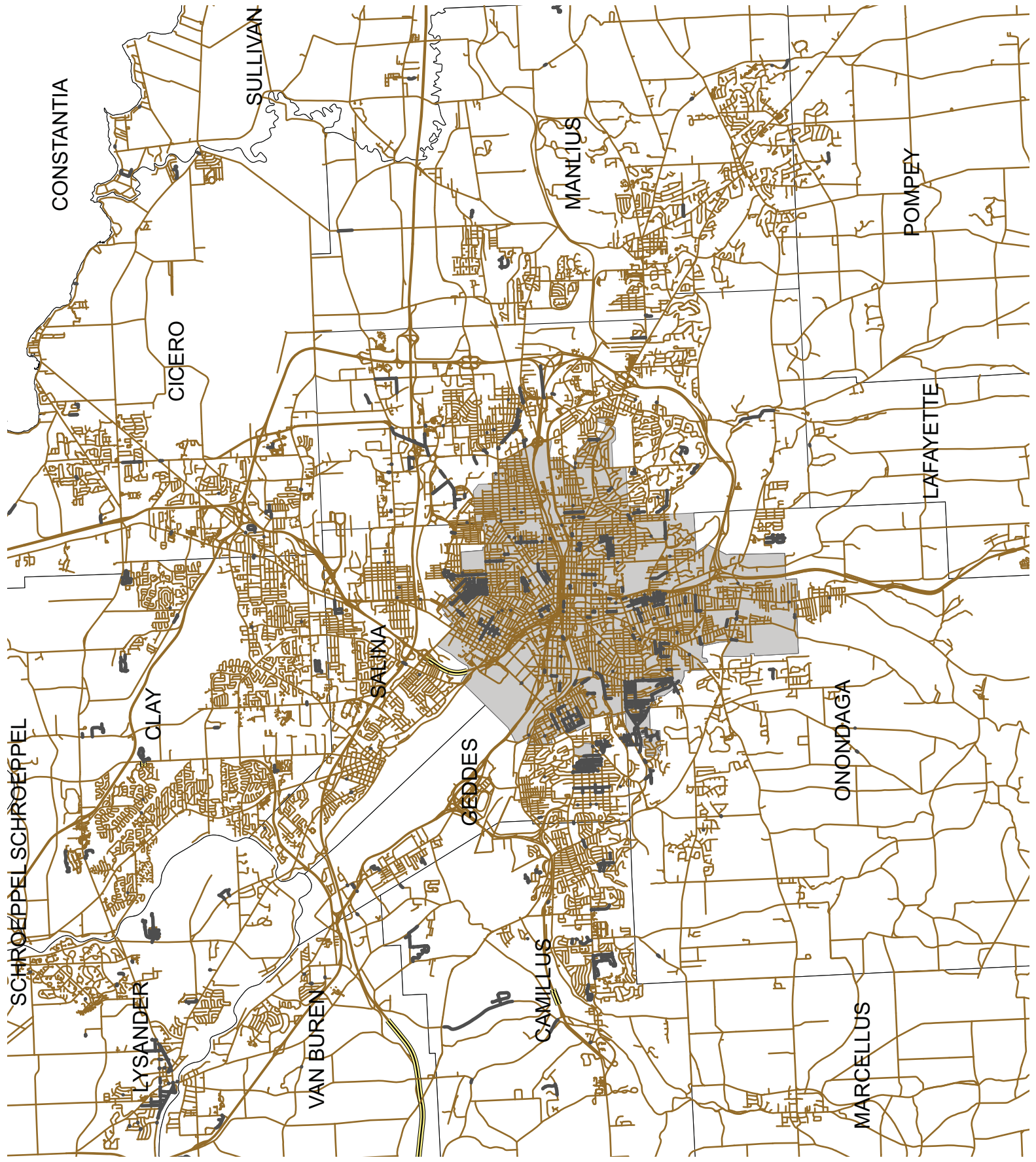
Rebuttal Testimony of the Gas Infrastructure and Operations Panel

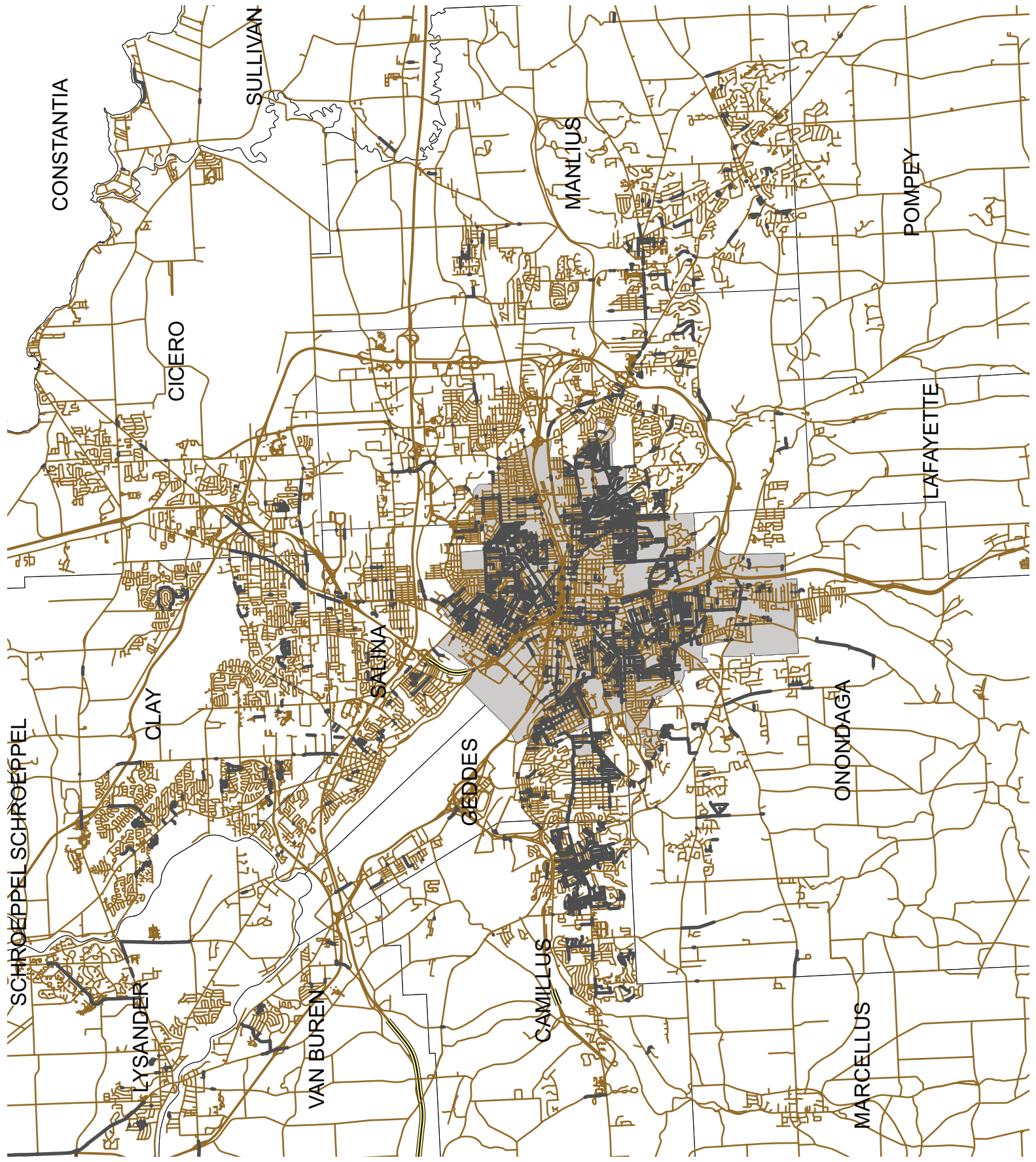
Exhibit __ (GIOP-3R)

Maps Depicting LPP Replacements Since 2008 and Targeted LPP Replacements
in Albany and Syracuse









Rebuttal Testimony of
Maureen P. Heaphy

Before The Public Service Commission
NIAGARA MOHAWK POWER CORPORATION d/b/a NATIONAL GRID
Rebuttal Testimony
of
Maureen P. Heaphy

Rebuttal Testimony of Maureen P. Heaphy

1 **Q. Please state your name and business address.**

2 A. My name is Maureen P. Heaphy. My business address is One MetroTech
3 Center, Brooklyn, New York 11201.

4
5 **Q. Are you the Maureen P. Heaphy who previously submitted direct**
6 **testimony and corrections and updates testimony on behalf of Niagara**
7 **Mohawk as part of the Human Resources Panel?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of my rebuttal testimony is to respond to certain proposed
12 adjustments to the Company's revenue requirement recommended by
13 Department of Public Service Staff ("Staff") Witness Richard E. Schuler,
14 Jr. and the Staff Accounting Panel. Specifically, I will respond to the
15 recommendations that (i) the compensation inflation factor used by the
16 Company to escalate cash compensation costs from the end of the Historic
17 Test Year ended December 31, 2011 through the end of the Rate Year
18 ending March 31, 2014 and the Data Years ending March 31, 2015 and
19 March 31, 2016, respectively, should be reduced from 3.37 percent to 2.9
20 percent in the first escalation year, 2012, and (ii) approximately \$2.7
21 million of the Company's employee compensation costs should be

Rebuttal Testimony of Maureen P. Heaphy

1 disallowed allegedly to reflect the fact that Niagara Mohawk's costs would
2 be lower if all of the Niagara Mohawk related-work performed by
3 management employees of National Grid USA Inc. ("National Grid")
4 were performed by management employees located in upstate New York.
5 I will also respond to the Staff Accounting Panel's recommendation that
6 \$662,554 of costs associated with expatriate employees ("Expats") from
7 National Grid plc should be disallowed allegedly because those employees
8 will not be replaced in the Rate Year ending March 31, 2014. Finally, I
9 will respond to Mr. Schuler's comments and concerns about the
10 compensation studies presented by the Company in this proceeding.

11

12 **Q. Do you sponsor any exhibits as part of your rebuttal testimony?**

13 A. Yes. I sponsor the following exhibit, which was prepared under my
14 direction and supervision:

15 (i) Exhibit __ (MPH-1R), which sets forth a list of Expats filling positions
16 in National Grid as of January 1, 2012, the projected end date of their
17 Expat assignment, and the status of their replacement.

18

19 **Q. Mr. Schuler recommends (at 32) that the Company's base**
20 **compensation inflation factor should be set at 2.9 percent rather than**
21 **3.0 percent for 2012. Do you agree with this recommendation?**

Rebuttal Testimony of Maureen P. Heaphy

1 A. No. I do not. First, both the Human Resources Panel and Mr. Schuler
2 have presented analyses of the cash compensation provided to National
3 Grid’s management employees that show that National Grid’s total cash
4 compensation is somewhat below the average levels of the peer group.
5 Thus, even if the base compensation inflation adjustment proposed by the
6 Company in this case is modestly (0.1 percent) above the mean level being
7 provided across the country, the end result is that the cash compensation
8 provided by National Grid likely will remain, in total, below the average
9 levels of the peer group. For this reason alone, the Company’s base
10 compensation inflation factor should be adopted for ratemaking purposes.

11
12 Second, I question whether the third party analyses provided by Mr.
13 Schuler support his claims. The “World at Work” survey provided by Mr.
14 Schuler (Exhibit __ (RES-6) at 1-2) indicates that the mean and median
15 increase percentages for “Exempt Salaried,” “Non-Exempt Salaried” and
16 “Officers and Executives” – the employee categories to which National
17 Grid is proposing to apply the 3.0 percent increase – in the United States
18 are as follows:

19

Rebuttal Testimony of Maureen P. Heaphy

	Actual % 2012	
<u>Employee Categories</u>	<u>Mean</u>	<u>Median</u>
Exempt Salaried	2.9%	3.0%
Non-Exempt Salaried	2.9%	3.0%
Officers and Executives	2.8%	3.0%

6

7 Mr. Schuler points to the mean results in support of his proposed 2.9
8 percent adjustment. However, in other circumstances the Commission has
9 expressed a preference for using median rather than mean data.
10 Specifically, in deciding return on equity issues in the Company's 2010
11 Electric Rate Case, the Commission found that the use of median data is
12 preferable to the use of mean data because the median eliminates the effect
13 of outliers. My understanding is that Towers Watson relies on median
14 data presented in the "World at Work" survey because it eliminates the
15 effect of outliers. Mr. Schuler does not justify the use of mean data to the
16 total exclusion of median data.

17

18 **Q. Mr. Schuler also cites (at 32) to a Society for Human Resources**
19 **Management ("SHRM") article dated March 30, 2012 in support of**
20 **his proposed 2.9 percent adjustment. Do you agree that this article**
21 **supports Mr. Schuler's claim?**

22 A. No, I do not. While the information provided by Mr. Schuler indicates

Rebuttal Testimony of Maureen P. Heaphy

1 that in March 2012 the base salary increase projected for 2012 was 2.91
2 percent for non-union workers in the United States, an additional finding
3 presented in that article (Exhibit __ (RES-6) at page 5 of 6) is that “Most
4 companies aim to match or lead market pay rates. About two-thirds of
5 companies have a base salary philosophy with an objective to match or
6 lead the market and pay salaries at or above current market levels.”

7 Assuming that this statement is correct, it is likely that upon reviewing the
8 March 2012 data, a number of companies may adjust their compensation
9 upward to match or exceed the 2.91 percent budget, resulting in an actual
10 result for 2012 that is likely to be somewhat higher than the 2.91 percent
11 budgeted level reported by SHRM. Under these circumstances, the
12 Company’s use of a 3.0 percent adjustment factor is reasonable.

13

14 **Q. Mr. Schuler also states (at 32-33) that the Company’s proposal to**
15 **increase the 2012 base compensation escalation factor from 3.0**
16 **percent to 3.37 percent to reflect increases to certain positions is not**
17 **reasonable. Do you agree with this conclusion?**

18 A. No. Mr. Schuler fails to recognize that National Grid needs to meet the
19 demands of the labor market on a position-by-position basis. The primary
20 reason for the 0.37 percent increase was the need to increase the base
21 compensation of engineers and front line supervisors – those employees

Rebuttal Testimony of Maureen P. Heaphy

1 who supervise the Company's union employees. With respect to
2 engineers, during the period December 2010 through October 2011, 43 of
3 these employees voluntarily left. Based on informal exit interviews, it is
4 National Grid's understanding that these employees received significant
5 increases from their new employers for lateral positions. Moreover, the
6 prices for outsourcing this work are likely to be 2 to 3 times the internal
7 fully loaded costs of these employees, depending on the skill set needed.
8 Obviously, an electric and gas utility cannot function without a sufficient
9 number of engineers. Thus, National Grid's decision to provide additional
10 compensation to these employees was reasonable.

11
12 Similarly, with respect to front line supervisors, it is National Grid's
13 practice to compensate these employees at levels that are approximately
14 10 percent above what is paid to the union employees they supervise.
15 Virtually all of these front-line supervisory positions are filled by union
16 employees and it would be difficult, if not impossible, to entice union
17 employees to assume management responsibilities without an increase in
18 compensation. The adjustment to these employees' compensation was
19 necessary to adjust salaries that, in some cases, were less than what was
20 paid to the union positions being supervised.

21

Rebuttal Testimony of Maureen P. Heaphy

1 **Q. Has the 3.37 percent increase for 2012 reflected in the Company's**
2 **April 27, 2012 rate filing already taken effect?**

3 A. Yes.

4
5 **Q. Mr. Schuler states (at 33) that the Company's compensation study**
6 **shows that 304 positions in National Grid are compensated at**
7 **amounts that are less than 90 percent of the peer group's**
8 **compensation amount and 91 positions have total compensation that**
9 **is more than 110 percent of the peer group's compensation. Do you**
10 **agree that this data renders the Company's proposal to raise the total**
11 **compensation of only a limited number of employee positions**
12 **unreasonable?**

13 A. No, I do not. As I indicated earlier, the Company is attempting to respond
14 to the demands of the labor market to fill specific positions – engineers
15 and front line supervisors – for which National Grid has an immediate
16 need. While a number of positions described in our compensation study
17 may appear to be insufficiently compensated, the Company is currently
18 not experiencing significant difficulties in filling these positions or
19 retaining employees. Similarly, while certain positions may appear to be
20 overcompensated even though the total compensation for all positions is
21 less than the median of the peer group, it would not be prudent for

Rebuttal Testimony of Maureen P. Heaphy

1 National Grid to effectuate blanket reductions in the total compensation
2 paid to these positions. Employees in positions that appear to be
3 compensated in excess of average levels provide necessary and important
4 services to the Company and its customers and National Grid does not
5 wish to lose these employees. As a result, National Grid must implement
6 any adjustments in compensation designed to bring these positions closer
7 to median market levels in a gradual and careful manner. More
8 importantly, the fact that a minority of positions may be compensated in
9 excess of median market levels in no way eliminates National Grid's need
10 to increase compensation to positions where it is clearly inadequate to
11 attract and retain qualified employees.

12
13 **Q. Mr. Schuler (at pages 34-37) and the Staff Accounting Panel (170-172)**
14 **propose to adjust Niagara Mohawk's labor expenses by**
15 **approximately \$2.712 million allegedly to reflect the fact that Niagara**
16 **Mohawk's compensation levels would be lower "if all Niagara**
17 **Mohawk related work was done by National Grid managers located in**
18 **the lower cost of living Syracuse area as opposed to managers in the**
19 **higher cost New York City or Boston locations." Do you believe that**
20 **this proposed adjustment is reasonable?**

21 **A. No. I believe that this adjustment is unreasonable and unfair for several**

Rebuttal Testimony of Maureen P. Heaphy

1 reasons. First, the adjustment is based totally on an analysis of
2 hypothetical labor costs that would be incurred by the Company if it could
3 recreate and house its existing management structure in upstate New York.
4 Leaving aside the fact that Mr. Schuler's analysis cannot be confirmed
5 through an actual market test, Mr. Schuler's proposed adjustment
6 considers only one aspect of what would be involved in uprooting
7 National Grid's current management operations and moving those
8 operations to upstate New York. Mr. Schuler's proposed adjustment also
9 unreasonably ignores the tremendous synergy and efficiency savings that
10 have been created and provided to Niagara Mohawk customers as a result
11 of (i) National Grid's acquisition of Niagara Mohawk, (ii) National Grid's
12 acquisition of KeySpan Corporation, and (iii) the management
13 restructurings that have occurred subsequent to and as a result of those
14 acquisitions.

15

16 **Q. Please elaborate on these concerns.**

17 A. As a prerequisite to obtaining the Commission's approval to acquire
18 Niagara Mohawk, National Grid agreed to provide to Niagara Mohawk
19 customers synergy and efficiency savings that totaled more than \$700
20 million over the ten-year period that followed the acquisition. As a result
21 of the KeySpan acquisition, National Grid provided significant

Rebuttal Testimony of Maureen P. Heaphy

1 incremental follow-on synergy savings to Niagara Mohawk. National
2 Grid's ability to attain these savings was tied to its ability to restructure
3 and consolidate its operations in the locations where its employees now
4 perform their duties. To require Niagara Mohawk to now reduce its rates
5 by an additional \$2.7 million annually to provide customers with an
6 additional benefit that allegedly would arise if the Company had located
7 all of its management employees in upstate New York represents an unfair
8 and one-sided adjustment to the synergy and efficiency savings that have
9 already been achieved.

10

11 **Q. Do you believe that requiring National Grid to locate its management**
12 **workforce in upstate New York would require National Grid to incur**
13 **costs that could outweigh the savings hypothesized by Mr. Schuler?**

14 A. Yes. I believe that would likely be the case. Although I have performed
15 no formal analysis, if National Grid were to relocate its entire management
16 workforce performing work for Niagara Mohawk to upstate New York, it
17 would incur costs to (i) relocate employees and operations, (ii) obtain new
18 facilities, (iii) buy out existing facilities, (iv) provide severance to
19 employees who could not or would not relocate, and (v) obtain new "right-
20 sized" facilities in the areas that National Grid would continue to operate
21 with a reduced management presence. Moreover, if National Grid were to

Rebuttal Testimony of Maureen P. Heaphy

1 attempt to relocate its management workforce, it is quite likely that a
2 significant number of employees would choose not to relocate. This was
3 the case when National Grid consolidated its Transaction Delivery Center
4 in the Syracuse Office Complex. Of approximately thirty-five employees
5 offered the opportunity to relocate from Long Island or Massachusetts to
6 upstate New York, only one permanently relocated. Obviously, if
7 National Grid were required to replace a substantial portion of its
8 management workforce, it not only would incur significant additional
9 costs, it would also face a considerable management challenge to continue
10 to provide safe and adequate services in the jurisdictions in which it
11 operates.

12
13 **Q. Both the Staff Accounting Panel (at 171) and Mr. Schuler (at 34-35)**
14 **assert that it is necessary to ensure that Niagara Mohawk only**
15 **purchases services from an affiliate if the costs of those services would**
16 **be less than the costs of Niagara Mohawk performing the services**
17 **with its own employees or less than obtaining those services in the**
18 **market. Do you have any comments on this statement?**

19 A. Yes. Mr. Schuler's effort to develop the hypothetical cost of Niagara
20 Mohawk employees located in upstate New York providing services
21 currently provided by National Grid's service companies or other affiliates

Rebuttal Testimony of Maureen P. Heaphy

1 to Niagara Mohawk provides no information concerning the market cost
2 of providing these services. Mr. Schuler's analysis does not measure the
3 market cost of any service in any way.

4
5 In addition, while Mr. Schuler's analysis purports to measure the costs of
6 having Niagara Mohawk perform the services that are currently performed
7 by National Grid's service companies, it actually (and unreasonably)
8 assumes that all of the economies of scale that currently inure to the
9 benefit of Niagara Mohawk as a result of services being performed by
10 National Grid's service companies would continue to exist. If what Staff
11 is trying to compare is the cost of having Niagara Mohawk perform
12 services on its own to the cost of having those services performed by
13 National Grid's service companies, then it should attempt to develop the
14 costs that Niagara Mohawk would incur to develop a workforce that is
15 dedicated solely to Niagara Mohawk and capable of meeting all of its
16 needs. While I believe that developing the costs of such a workforce
17 would be a difficult theoretical exercise, Mr. Schuler did not even attempt
18 to develop a model that enabled him to compare the costs of a standalone
19 Niagara Mohawk operation to a Niagara Mohawk that utilizes National
20 Grid's service companies. This failure alone is sufficient to reject his
21 recommended adjustment.

Rebuttal Testimony of Maureen P. Heaphy

1 **Q. Are you aware of any Commission precedent that supports the**
2 **adjustment proposed by Mr. Schuler?**

3 A. No, I am not. It is my understanding that when actual utility costs are
4 disallowed such disallowances are typically based on evidence that the
5 utility could and should have avoided the particular costs. In this case,
6 Mr. Schuler and the Staff Accounting Panel are recommending an
7 adjustment without providing any evidence that any particular cost
8 incurred by the Company is excessive or imprudent. Assuming that such
9 an adjustment is appropriate at all, it should not be based on a comparison
10 to a cost that is purely hypothetical.

11

12 **Q. The Staff Accounting Panel (at 93-95) recommends that the costs of**
13 **Expats whose assignments are ending prior to the Rate Year be**
14 **eliminated entirely from the Rate Year cost of service and that the**
15 **costs of Expats whose assignments are ending during the Rate Year**
16 **should be prorated for the number of months that the Expats will**
17 **remain on assignment. Do you agree with these adjustments?**

18 A. No. Attached is Exhibit __ (MPH-1R), which sets forth the list of eleven
19 Expats whose assignments expire between January 1, 2012 and the end of
20 the Rate Year. Of the eleven, only ten impact Niagara Mohawk's revenue
21 requirement. As set forth on the Exhibit, five of the positions held by

Rebuttal Testimony of Maureen P. Heaphy

1 Expats have been filled either by a replacement employee or by the Expat
2 obtaining the legal authority to remain in the United States. With respect
3 to the remaining six positions, National Grid has eliminated one of the
4 positions, is currently recruiting to replace the one Expat whose
5 assignment expired on August 31, 2012 and plans to replace the remaining
6 four Expats whose assignments expire between January 31, 2013 and
7 February 28, 2014. Thus, it is appropriate to include the cost for nine of
8 the ten Expats included in Niagara Mohawk's revenue requirement for the
9 Rate Year. The Revenue Requirements Panel addresses the impact of
10 removing the costs of one of the ten Expats in the Rate Year revenue
11 requirement.

12
13 **Q. Throughout his testimony, Mr. Schuler recommends ways for the**
14 **Company to improve its presentation concerning the competitiveness**
15 **of its employee compensation and benefits package. Do you have any**
16 **comments concerning these recommendations?**

17 A. Yes. The Company appreciates the attention that Mr. Schuler has devoted
18 to reviewing the Company's compensation and benefits presentation in
19 this case. In its initial filing, the Company supplied evidence and analyses
20 that it believed met the guidance provided by the Commission and Mr.
21 Schuler in Orange and Rockland Utilities, Inc., Case 10-E-0362. The

Rebuttal Testimony of Maureen P. Heaphy

1 Company believes that in its next rate case, it will be able to address many
2 of the items discussed by Mr. Schuler. At the same time, it should be
3 recognized that the Company does not have the ability to provide the types
4 of comparative compensation analyses provided in this case on its own,
5 but must rely on outside consultants to prepare these analyses. It should
6 also be recognized that many companies are only willing to participate in
7 these compensation analyses if they are assured that their information will
8 be kept confidential. Thus, in some instances it may not be possible to
9 obtain all the information identified by Mr. Schuler. For example, it is my
10 understanding that Towers Watson is unable to disclose total
11 compensation and bonus information that identifies individual companies
12 because it would violate both Towers Watson's confidentiality agreements
13 with the companies and Department of Justice guidelines on salary
14 surveys. Nonetheless, the Company will attempt to address as many of the
15 concerns identified as possible in its next rate case filing.

16

17 **Q. Does this conclude your rebuttal testimony?**

18 A. Yes, it does.

Case 12-E-0201
Case 12-G-0202

Rebuttal Testimony of Maureen P. Heaphy

Exhibit __ (MPH-1R)

Status of January 1, 2012 Expat Positions, the Projected Assignment End Date
and Replacement

National Grid Expatriates as of January 1, 2012

Assignee #**	EMPID	Job Title	Associated Department	Location	Assignment End date	Replacement Status
12	100052400	Distribution	Shared Services - Human Resources	Brooklyn NY	01/31/2012	Position eliminated
13	100051366	VP, Property	Metering	Waltham, MA	06/30/2012	Internal Hire
14	100055304	Planning and reporting director	Transmission Finance	Waltham, MA	06/30/2012	Internal Hire
15	100046013	Category Manager, IS & Telecom US	Transmission Commercial	Waltham, MA	06/30/2012	Became a US citizen and remained in this position
16	100055568	Finance Manager ED&G and Finance	IS Finance (Information Services)	Waltham, MA	06/30/2012	Married a US citizen and remained in this position
17	100055303	Foundation	Financial Services	Waltham, MA	06/30/2012	Internal Hire
18	100056825	Director of Category Management	UK Procurement	Waltham, MA	08/31/2012	Currently seeking a replacement
19	100062309	Director	Effectiveness	Brooklyn NY	01/31/2013	Will seek a replacement
20	100062327	Head of US Corporate Audit	Corporate Audit	Waltham, MA	04/30/2013	Will seek a replacement
21	100056346	SVP, US Financial Svcs	Corporate Audit	Brooklyn NY	12/31/2013	Will seek a replacement
22	100062738	Director	Decisions Support	Brooklyn NY	02/28/2014	Will seek a replacement

** The Assignee numbers are identical to those assigned to the employees in Exhibit __ (HRP-6).