PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF THE BROOKLYN UNION GAS COMPANY FOR GAS SERVICE

PROCEEDING ON MOTION OF THE COMMISSION AS TO THE RATES, CHARGES, RULES AND REGULATIONS OF KEYSPAN GAS EAST CORPORATION FOR GAS SERVICE

Rebuttal Testimony and Exhibits of:
Paul M. Normand
Shared Services Panel
Gas Infrastructure and Operations Panel
Gas Safety Panel

Book 2

June 10, 2016
Submitted to:
New York State Public Service Commission
Case 16-G-0058
Case 16-G-0059

Submitted by:
The Brooklyn Union Gas Company and
KeySpan Gas East Corporation

nationalgrid

Rebuttal Testimony of
Paul M. Normand

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

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Rebuttal Testimony of Paul M. Normand

I. **<u>Introduction</u>**

Q. Please state your name, address and business affiliation.

A. My name is Paul M. Normand. I am a Principal with the firm of Management Applications Consulting, Inc. ("MAC"), 1103 Rocky Drive, Suite 201, Reading, Pennsylvania 19609.

Q. Are you the same Paul M. Normand who previously submitted testimony in these proceedings?

A. Yes. The defined terms in my direct testimony have the same definitions here unless otherwise indicated.

II. **<u>Purpose of Testimony</u>**

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address (i) certain recommendations of the Department of Public Service Staff Gas Infrastructure and Operations Panel ("Staff") relating to the Companies' depreciation parameters and proposed depreciation rates and (ii) certain depreciation recommendations of Lane Kollen on behalf of the City of New York ("NYC").

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

A. Yes. I sponsor the following exhibits that were prepared under my direction and supervision.

(i) Exhibit ___ (PMN-1R) – Comparison of Depreciation Parameters and Rates between Staff and the Companies;

(ii) Exhibit ___ (PMN-2R) – Proposed correction to Staff's leak prone pipe amortization proposal; and

(iii) Exhibit ___ (PMN-3R) – Comparison of the Companies and Staff's Proposed Life Curves.

III. Response to Staff

Q. Please summarize Staff's proposals and their impacts to your depreciation recommendations.

A. Staff has proposed to change the depreciation parameters and rates for six accounts for KEDLI and seven accounts for KEDNY as summarized in Exhibit ___ (PMN-1R). As shown, the annual depreciation impacts of Staff's recommendations are $(1,143,691) for KEDLI and $(4,020,319) for KEDNY based on the calendar year 2014 results that were used in the depreciation studies.

Q. Do you agree with Staff's proposed changes to the Companies' depreciation parameters and rates?

A. No, I do not.

Q. Please discuss the bases of your disagreements with Staff's depreciation recommendations for KEDLI.

A. The difference for certain accounts where Staff has proposed changes to KEDLI's recommended depreciation parameters and rates and the bases of my disagreement with Staff's recommendations are as follows:

- <u>Account 376.09 Mains – Steel</u> – KEDLI's recommended change in the average service life ("ASL") from 75 to 80 years with an H 3.5 curve was intended to move the recovery closer to the observed data using a gradual approach until KEDLI's next study. Staff's recommendation of 85 years is too aggressive a change from the existing 75 year ASL and is not supported by the current retirement data. *See* Exhibit ___ (PMN-3R) at 1.
- <u>Account 376.10 Mains – Cast Iron</u> – KEDLI's recommended ASL of 50 years maintained the existing parameters for this cast iron account under the assumption that some of these assets would be replaced in a much shorter period given the material type. Staff's adjustment to a higher 65-year ASL represents a 30% increase that is excessive for this material type. *See* Exhibit ___ (PMN-3R) at 2.
- <u>Account 376.18 Mains – Plastic</u> – This is KEDLI's largest dollar account. KEDLI recommends no change in the current 75-year ASL. Staff proposes to increase the ASL to 80 years, but the data simply does not support an increase in the ASL as proposed by Staff. KEDLI's proposed ASL and curve combinations better track the observed data. *See* Exhibit ___ (PMN-3R) at 3. While Staff states that the Commission adopted an 85-year ASL for Consolidated Edison Company of New York, Inc. ("Consolidated Edison"), this should not influence the outcome in the absence of any showing that Consolidated Edison's ASL was based on retirement data for plastic mains that are comparable to KEDLI's plastic

mains. Staff has provided no data that permits a comparison of Consolidated Edison's and KEDLI's circumstances.

- Account 383.00 House Regulators – KEDLI's 40-year ASL recommendation for this account is less aggressive than Staff's proposed 45 years (28.6% increase). While the observed data supports an increase in ASL, it does not support Staff's proposed ASL. *See* Exhibit ___ (PMN-3R) at 4. KEDLI's proposed 14.3% increase is a gradual approach until KEDLI's next study can better clarify the parameters.
- Account 384.00 House Regulators Installations – Staff's recommendation that the current 52-year ASL be changed to a 62-year ASL represents too drastic a change given the limited data for this account. *See* Exhibit ___ (PMN-3R) at 5.

Q. Please discuss the bases of your disagreement with Staff's depreciation recommendations for KEDNY.

A. The differences for each account where Staff has proposed changes to KEDNY's recommended depreciation parameters and rates and the bases of my disagreement with Staff's recommendations are as follows:

- Account 367.08 Transmission Mains – Steel – KEDNY's recommendation is based on a review of the data and curves that indicated that an increase in the ASL was warranted, and KEDNY's recommended 80-year ASL represents a more gradual increase of 6.7% that is closer to the observed data. Staff's recommendation of 85 years is too aggressive a change from the existing 75 year ASL. *See* Exhibit ___ (PMN-3R) at 6.

- <u>Account 375.00 Structures and Improvements</u> – KEDNY's recommendation of a 60-year ASL was based on a gradual increase (9.1%) from the existing 55 years until KEDNY's next study. *See* Exhibit ___ (PMN-3R) at 7. Staff's recommended 65-year ASL (18.2% increase) is too aggressive given that this account generally has an ASL at or below 60 years based on my experience.
- <u>Account 376.09 Mains Steel – Pre 1992</u> – KEDNY's recommendation of a 75-year ASL is to maintain the ASL while decreasing the curve type (longer life) for this type of material. Staff's recommendation reflects a much longer recovery period using a ASL of 85 years (a 13.3% increase in ASL). In my judgment, decreasing the curve type is a more reasonable approach based on the data. *See* Exhibit ___ (PMN-3R) at 8.
- <u>Account 376.18 Mains Plastic – Post 1991</u> – This is KEDNY's largest dollar account, and there is simply no support for any parameters from the available data. KEDNY's recommendation for this account mirrors KEDLI's where I also recommend retaining the existing ASL. The lack of retirement data provides no support for Staff's recommended longer ASL of 80 years. *See* Exhibit ___ (PMN-3R) at 9.
- <u>Account 378.00 Measuring & Regulating Equipment</u> – KEDNY recommends maintaining the current 50-year ASL for this type of equipment because KEDLI has comparable facilities with a 40-year ASL. *See* Exhibit ___ (PMN-3R) at 10. Staff's 60-year ASL recommendation reflects a 20% increase that is, in my judgment, too extreme.

- Account 380.06 Services Plastic – Post 1991 – This account is KEDNY's second largest dollar account and represents Plastic Services Post 1991. KEDNY's recommendation of a 55-year ASL (10% increase from current 50-year) with an H 3.0 curve better reflects the observed data. *See* Exhibit ___ (PMN-3R) at 11. Staff's 60-year ASL recommendation simply does not track the observed data and is therefore inconsistent with the approach Staff takes on other accounts where the proposed parameters generally attempt to track KEDNY's data.
- Account 383.00 House Regulators – This account reflects house regulators and the observed data supports a longer life. KEDNY recommends a gradual increase from the current 40-year ASL to 45 years (a 12.5% increase) until KEDNY's next study. This result is also consistent with the result for the same KEDLI account with similar equipment where the proposed ASL was based on observed data. Staff's 50-year ASL recommendation is a 25% increase that is too aggressive based upon the available data for KEDNY and KEDLI. *See* Exhibit ___ (PMN-3R) at 12.

Q. Have you reviewed Staff's proposed recommendation with respect to the Leak Prone Pipe ("LPP") accounts?

A. Yes, I have. In the Companies' filings, the calculations for the recovery of LPP plant were based on a 20-year accelerated replacement program that is consistent with the Commission's stated policy of retiring all LPP in 20 years. The Companies filed calculations of amortization expense that required shorter lives for some of the existing accounts to effectuate a 20-year amortization as noted in Schedule A and Appendix A.1

to Exhibit ___ (PMN-2). Staff is recommending a 38-year amortization period based on recent years' LPP retirement program. However, the Companies have proposed increased annual retirement mileage targets in these proceedings and the Staff Gas Safety Panel is recommending additional annual increases to the Companies' targets that are expected to ultimately lead to attainment of the Commission's 20-year LPP retirement goal. The Staff Gas Safety Panel states in its testimony (at page 18) that "reaching the goal set by the Commission should be of the utmost importance." Therefore, the Companies' proposal to recover the costs of LPP over the 20-year plan is justified.

Q. Are there additional issues associated with Staff's 38-year amortization proposal?

A. Yes. In calculating a 38-year amortization, Staff overlooked remaining lives for certain accounts. Incorporating Staff's recommended 38 years required changing the Companies' 20-year assumptions and adopting the account's existing remaining lives for accounts that were greater than 20 years but less than 38 years. In addition, the remaining life of one account needed to be reduced to 38 years.

Q. Have you prepared an exhibit that corrects this error?

A. Yes. Although I do not believe that a 38-year LPP amortization is appropriate, Exhibit __ (PMN-2R) sets forth a corrected 38-year LPP amortization accrual. This exhibit shows that if a 38-year LPP amortization were adopted in these proceedings reflecting the current remaining lives of all affected accounts then the annual depreciation accrual would increase by $9,023,885 for KEDNY and $7,210,053 for KEDLI compared to the annual accrual proposed by Staff.

IV. Response to NYC

Q. Please summarize NYC Witness Kollen's proposals and their impacts on the Companies' depreciation rates.

A. Mr. Kollen offers alternative proposals. His primary recommendation is for the Commission to direct the Companies to (1) amortize the book to theoretical reserve surplus, excluding the LPP accounts over a five year period, (2) split certain accounts that are fully depreciated as of December 31,2016 into "Pre-2017" and "Post-2016" accounts and require the Companies to cease depreciating the Pre-2017 accounts and apply the depreciation rates adopted in these proceedings to any investments recorded in the Post-2016 accounts, (3) amortize the LPP accounts over the service lives of the corresponding non-LPP accounts without net salvage in the depreciation rates, and (4) defer net salvage actually incurred to retire LPP and recover it by first offsetting it against the LPP theoretical reserve surpluses and then amortizing any remainder over 20 years. Mr. Kollen claims that this proposal would reduce the depreciation expense reflected in the Companies' depreciation studies by $51,460 million for KEDNY and $37.068 million for KEDLI.

In the alternative, Mr. Kollen recommends that the Commission adopt items (2) through (4) above and direct the Companies to amortize the excess accumulated depreciation for all fully depreciated accounts over five years. Mr. Kollen claims that this alternative would reduce the depreciation expense reflected in the Companies' studies by $34.300 million for KEDNY and $26.861 million for KEDLI.

Q. What is your overall reaction to Mr. Kollen's recommendations?

A. Mr. Kollen's recommendations should be rejected in their entirety because they are inconsistent with Commission precedent and would result in depreciation rates that would create substantial intergenerational inequities, requiring future customers to pay costs attributable to retired facilities. Mr. Kollen's recommendations are also the product of a number of errors. His proposals represent a results-oriented approach that is unreasonable.

Q. What is a theoretical depreciation reserve?

A. A theoretical depreciation reserve is the level of cost recovery of an account based on a set of depreciation parameters that consist of ASLs and mortality characteristics or curves ("H" or "Iowa curves"). If the future retirements follow the chosen characteristics and parameters for an account, the expected recovery will be 100% of the account costs. The theoretical reserve is the best estimate today of the recovery for each account over its life based on the results of the depreciation study.

Q. Do you expect that each account will capture these costs exactly as estimated?

A. This generally does not occur, and the difference from actual experience in reserves is called the variance, which will increase or decrease over time as a result of actual retirement experience and adjustments to the depreciation parameters as a result of future depreciation studies. The Companies' booked reserves therefore will incorporate results from many historical periods where different ASL and net salvage ("NS") values were used to arrive at the current levels.

Q. Did the depreciation studies for KEDNY and KEDLI identify the differences between the book reserve and the theoretical reserve?

A. Yes. KEDNY's depreciation study indicates that the book reserve exceeded the theoretical reserve by $72,739,916 (or approximately 6.6 percent of the theoretical reserve) based on KEDNY's total depreciable and amortized plant of $3,836,470,880. KEDLI's depreciation study indicates that the book reserve exceeded the theoretical reserve by $50,469,275 (or approximately 7.6 percent of the theoretical reserve) based on KEDLI's total depreciable and amortized plant of $3,169,281,294.

Q. What is your understanding of Commission precedent concerning the circumstances in which the Commission will require a utility to amortize a depreciation reserve surplus in rates?

A. My understanding, as confirmed by Staff at pages 89 and 90 of its testimony, is that the Commission will not require an amortization of a reserve surplus or deficiency if the book to theoretical reserve difference is plus or minus ten percent. This difference is calculated on total depreciable and amortized plant.

Q. What are the implications of Commission precedent for Mr. Kollen's recommendations?

A. Mr. Kollen's recommendations are inconsistent with Commission precedent. Mr. Kollen is attempting to "cherry pick" the reserve surpluses that he proposes to use to reduce depreciation expense. Mr. Kollen cites no precedent that supports requiring the Companies to amortize either the reserve surplus associated with either all plant other than LPP (his first recommendation) or the reserve surplus associated with accounts that are presently fully depreciated (his second recommendation).

Q. Do you believe that the Commission's precedent with respect to the treatment of depreciation reserve surpluses and deficiencies is sound?

A. Yes, I do. Generally speaking, if depreciation studies are performed every five to seven years, the establishment of new ASL and NS values will tend to capture existing reserve differences. The approach favored by the Commission properly recognizes that differences between book and theoretical reserves can swing back and forth when depreciation rates are periodically adjusted. In contrast, Mr. Kollen's proposal, all other things being equal, would render it more likely than not that future customers will need to pay higher rates to enable the Companies to recover reserve deficiencies that would remain after the existing surplus amounts were amortized.

Q. Are there other flaws in Mr. Kollen's reserve surplus amortization proposals?

A. Yes. The proposed five-year amortization period is too short and will likely increase the instability of future depreciation study results. If a surplus amortization proposal were to be adopted, it should reflect an amortization period of ten to fourteen years to reduce the likelihood of substantial swings in the reserve balances.

Q. What other flaws or errors did you identify in Mr. Kollen's proposals?

A. Mr. Kollen's testimony (at 7) recognized that the Companies ceased depreciation expense on plant accounts that were fully depreciated. However, in calculating his recommended depreciation expense adjustments, he includes an adjustment to remove the expense accrual for these accounts. *See* Exhibits ___ (LK-7) and ___ (LK-8) at column 9. This does not make sense. Eliminating these adjustments would reduce Mr. Kollen's proposed expense reduction by $3,331,693 for KEDNY and $405,915 for KEDLI. Mr. Kollen also included an incorrect plant balance for KEDNY account 391.03. Correcting this error would reduce his net depreciation expense reduction by $412,000.

Q. Is it your understanding that the Companies may be making additional investments that will be recorded in certain of the accounts that are fully depreciated?

A. Yes. A number of the fully depreciated accounts are associated with investments in Liquefied Natural Gas ("LNG") storage facilities that the Companies are proposing to modernize. It does not make sense to me to require the Companies to amortize surpluses in these accounts when they may be needed to offset future reserve deficiencies.

Q. Do you agree with Mr. Kollen's recommendation that the Commission should (1) use the same depreciation rates (without NS) for corresponding non-LPP accounts, and (2) defer the NS incurred to retire LPP and recover it by first offsetting it against the LPP theoretical reserve surpluses and then amortizing any remainder over 20 years?

A. No. These proposals completely ignore the fact that the Companies are accelerating the retirement of LPP. The impact of Mr. Kollen's proposals is that future customers will likely be required to pay higher rates to provide the Companies with capital recovery for LPP facilities long after they are retired. This proposal does nothing but create unreasonable intergenerational inequities and is completely and unreasonably inconsistent with the notion that depreciation accounting should distribute the cost of facilities, including net salvage, over the estimated useful life in a systematic and rational manner. Moreover, Mr. Kollen's proposals are at odds with the recommendations of NYC's Infrastructure Panel, which supports KEDNY and KEDLI's efforts to replace LPP over a twenty-year period. (*See* NYC Infrastructure Panel KEDLI at 22-23 and KEDNY 23-24.) Mr. Kollen has nowhere explained why it would make sense to charge future rates that will reflect the costs of both LPP facilities that will be retired and the facilities that will replace them. Mr. Kollen's results oriented approach should be rejected.

V. <u>CONCLUSION</u>

Q. Does this complete your rebuttal testimony?

A. Yes.

Rebuttal Testimony of Paul M. Normand

Index of Exhibits

Exhibit __ (PMN-1R)

Comparison of Depreciation Parameters and Rates
between Staff and the Companies

KeySpan Gas East Corporation d/b/a National Grid
The Brooklyn Union Gas Company d/b/a National Grid NY
Case 16-G-0058 and 16-G-0059
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THE BROOKLYN UNION GAS COMPANY, d/b/a NATIONAL GRID NY
COMPARISON OF DEPRECIATON PARAMETERS AND RATS BETWEEN STAFF AND COMPANY PROPOSAL

		COMPANY PROPOSED					STAFF PROPOSED					
ACCOUNT NUMBER	PLANT BALANCE @12/31/14	ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	DIFFERENCE BETWEEN STAFF AND COMPANY PROPOSED ANNUAL ACCRUAL
367.08	68,692,357	80.0	H 3.0	-60	2.00	1,373,847	85.0	H 3.0	-60	1.88	1,291,416	(82,431)
375.00	104,218,595	60.0	H 1.0	-5	1.75	1,823,825	65.0	H 0.5	-5	1.62	1,688,341	(135,484)
376.09	305,036,872	75.0	H 2.5	-65	2.20	6,710,811	85.0	H 2.5	-65	1.94	5,917,715	(793,096)
376.18	1,162,630,954	75.0	H 3.0	-5	1.40	16,276,833	80.0	H 3.0	-5	1.31	15,230,466	(1,046,368)
378.00	70,482,635	50.0	H 1.5	-8	2.16	1,522,425	60.0	H 1.5	-8	1.80	1,268,687	(253,737)
380.06	847,972,547	55.0	H 3.0	-35	2.45	20,775,327	60.0	H 3.0	-35	2.25	19,079,382	(1,695,945)
383.00	6,026,077	45.0	H 3.0	0	2.22	133,779	50.0	H 3.0	0	2.00	120,522	(13,257)
TOTAL	2,565,060,037					48,616,848					44,596,530	(4,020,319)

KEYSPAN GAS EAST CORPORATION, d/b/a NATIONAL GRID
COMPARISON OF DEPRECIATON PARAMETERS AND RATS BETWEEN STAFF AND COMPANY PROPOSAL

		COMPANY PROPOSED					STAFF PROPOSED					
ACCOUNT NUMBER	PLANT BALANCE @12/31/14	ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	DIFFERENCE BETWEEN STAFF AND COMPANY PROPOSED ANNUAL ACCRUAL
311.00	127,510	20.0	H 2.5	0	5.00	6,376	15.0	H 4.5	0	6.67	8,505	2,129
376.09	243,738,723	80.0	H 3.5	-1	1.26	3,071,108	85.0	H 3.5	-1	1.19	2,900,491	(170,617)
376.10	540,372	50.0	H 1.0	-14	2.28	12,320	65.0	H 1.0	-14	1.75	9,457	(2,864)
376.18	1,178,378,331	75.0	H 3.5	0	1.33	15,672,432	80.0	H 3.5	0	1.25	14,729,729	(942,703)
383.00	5,047,503	40.0	H 1.5	0	2.50	126,188	45.0	H 1.5	0	2.22	112,055	(14,133)
384.00	5,001,035	52.0	H 1.0	0	1.92	96,020	62.0	H 1.0	0	1.61	80,517	(15,503)
TOTAL	1,432,833,474					18,984,443					17,840,753	(1,143,691)

Exhibit__ (PMN-2R)

Exhibit __ (PMN-2R)

Proposed Correction To Staff Leak Prone Pipe Amortization

THE BROOKLYN UNION GAS COMPANY, d/b/a NATIONAL GRID NY
PROPOSED CORRECTION TO STAFF LEAK PRONE PIPE AMORTIZATION PROPOSAL

ACCOUNT NUMBER	PLANT BALANCE @12/31/14	CORRECTED STAFF PROPOSAL @ 38 YEARS: ASL *	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	STAFF PROPOSED @ 38 YEARS: ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	DIFFERENCE BETWEEN CORRECTED STAFF PROPOSL AND STAFF PROPOSED ANNUAL ACCRUAL
367.08	514,122	28.2	SQ	-1,468	55.60	285,852					212,143	(73,709)
376.05	17,166,497	9.7	SQ	-712	83.71	14,370,075					7,563,197	(6,806,878)
376.09	47,552	16.8	SQ	-1,233	79.35	37,733					19,859	(17,874)
376.09	10,218,400	28.7	SQ	-2,221	80.87	8,263,620					6,241,291	(2,022,329)
380.02	25,550	14.6	SQ	-44	9.86	2,519					1,326	(1,193)
380.02	1,895,121	19.1	SQ	-57	8.22	155,779					81,989	(73,790)
380.05	945,733	20.4	SQ	-31	6.42	60,716					32,603	(28,113)
TOTAL	30,812,975					23,176,293					14,152,408	(9,023,885)

KEYSPAN GAS EAST CORPORATION, d/b/a NATIONAL GRID
PROPOSED CORRECTION TO STAFF LEAK PRONE PIPE AMORTIZATION PROPOSAL

ACCOUNT NUMBER	PLANT BALANCE @12/31/14	CORRECTED STAFF PROPOSAL @ 38 YEARS: ASL *	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	STAFF PROPOSED @ 38 YEARS: ASL	CURVE	NS	ACCRUAL RATE %	ACCRUAL $	DIFFERENCE BETWEEN CORRECTED STAFF PROPOSL AND STAFF PROPOSED ANNUAL ACCRUAL
367.04	251,190	7.1	SQ	-428	74.37	186,810					98,321	(88,489)
367.09	2,674,160	30.6	SQ	-13	3.69	98,677					79,521	(19,156)
376.08	939,341	12.8	SQ	-772	68.13	639,973					336,828	(303,145)
376.08	28,555,656	25.5	SQ	-819	36.04	10,291,458					6,905,960	(3,385,498)
376.10	4,167,072	21.7	SQ	-1,207	60.23	2,509,827					1,433,254	(1,076,573)
376.18	40,505,855	38.0	SQ	-33	3.50	1,417,705					1,417,705	0
380.00	36,122	13.4	SQ	-1,607	127.39	46,016					24,219	(21,797)
380.00	6,728,142	21.3	SQ	-1,389	69.91	4,703,644					2,636,369	(2,067,275)
380.00	41,316,969	34.1	SQ	-101	5.89	2,433,569					2,185,450	(248,119)
TOTAL	125,174,507					22,327,680					15,117,627	(7,210,053)

* The ASL has been adjusted to incorporate Staff's recommended 38 year amortization period.

KeySpan Gas East Corporation
d/b/a National Grid
The Brooklyn Union Gas Company
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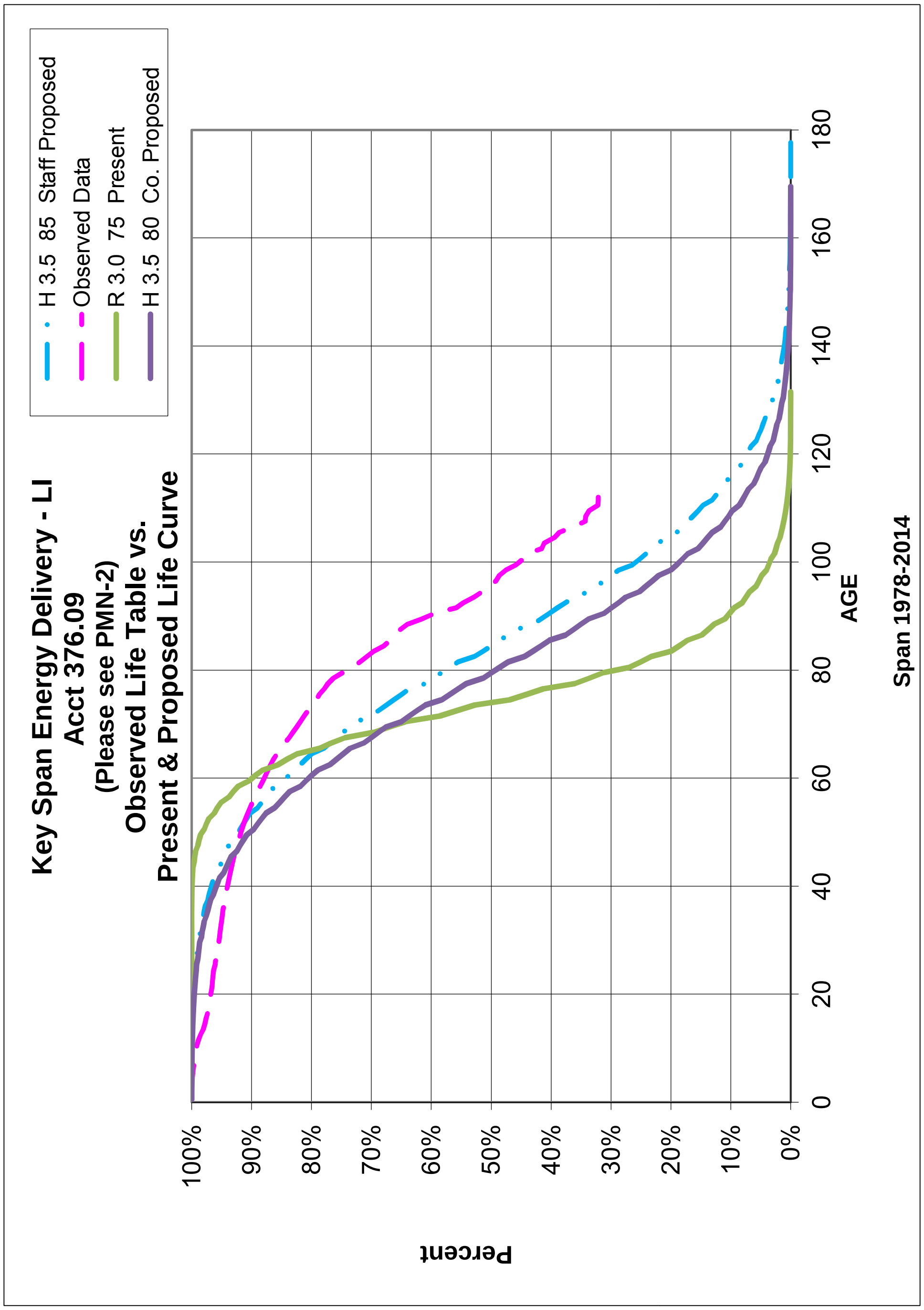
Exhibit __ (PMN-3R)

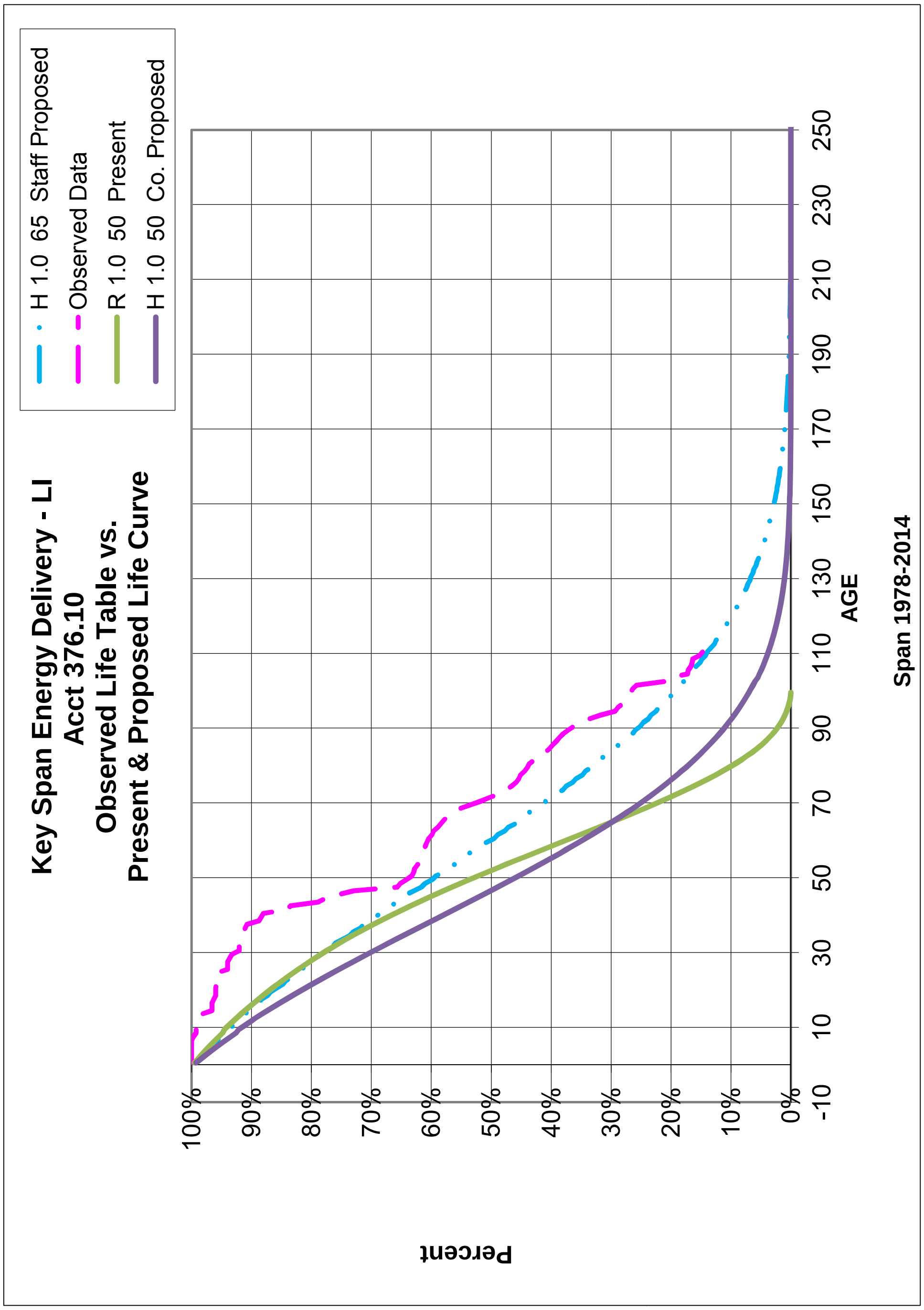
Comparison of the Companies and Staff's Proposed Life Curves

The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



KEDLI Retirement Curve Graph-Acct. 376.09 H 3.5 88.xls Curve Data

The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



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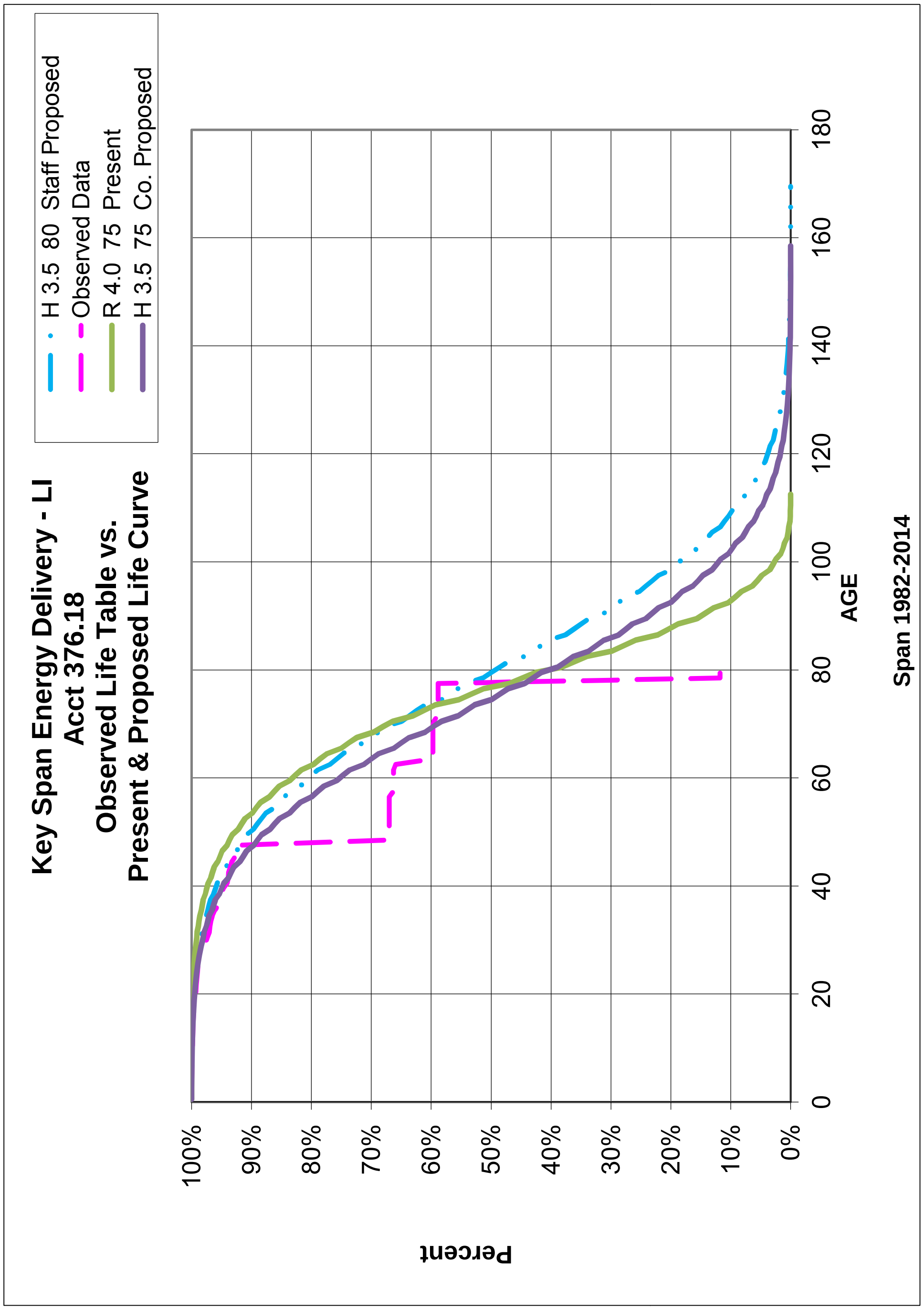
The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



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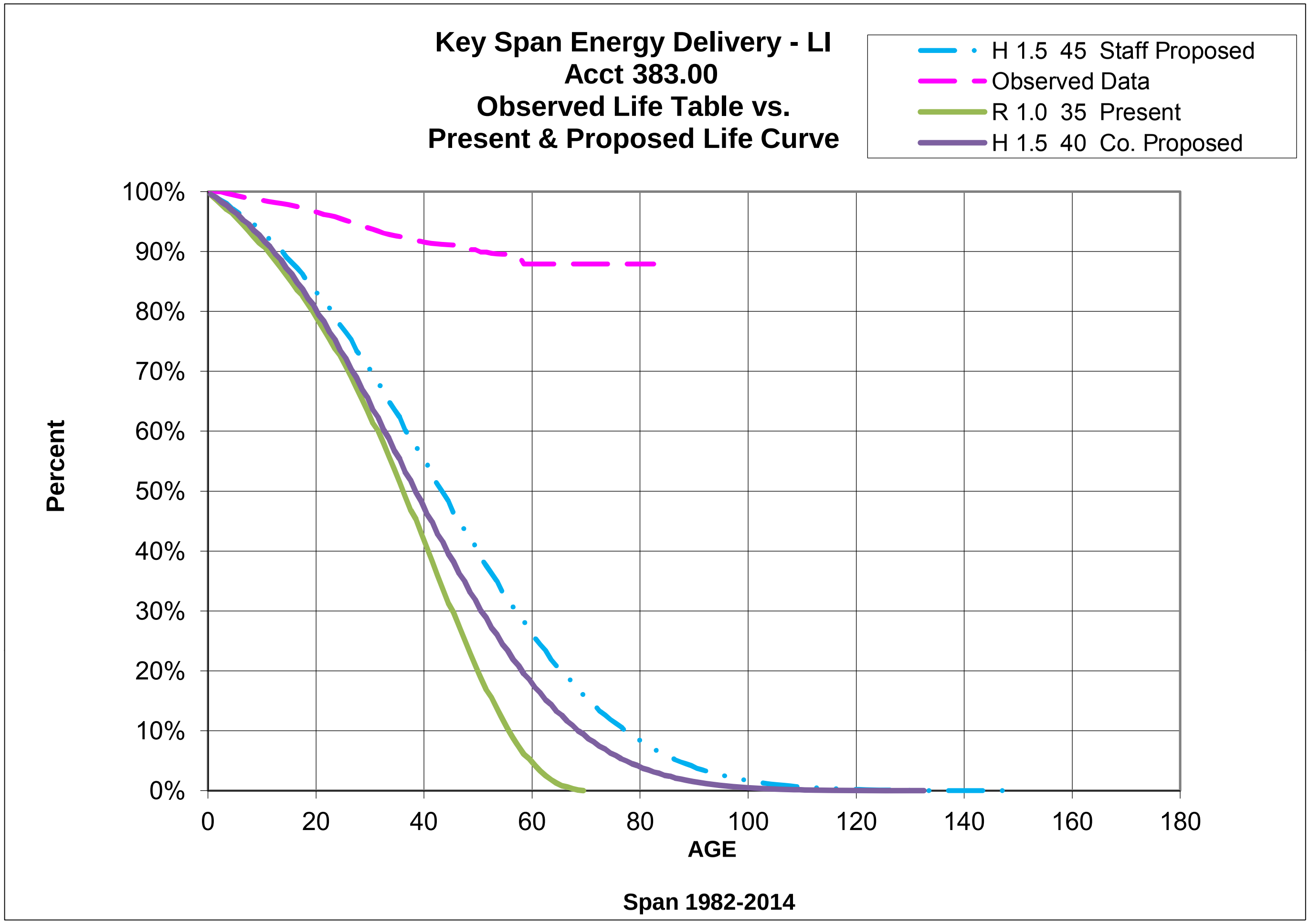

KeySpan Gas East Corporation
d/b/a National Grid
The Brooklyn Union Gas Company
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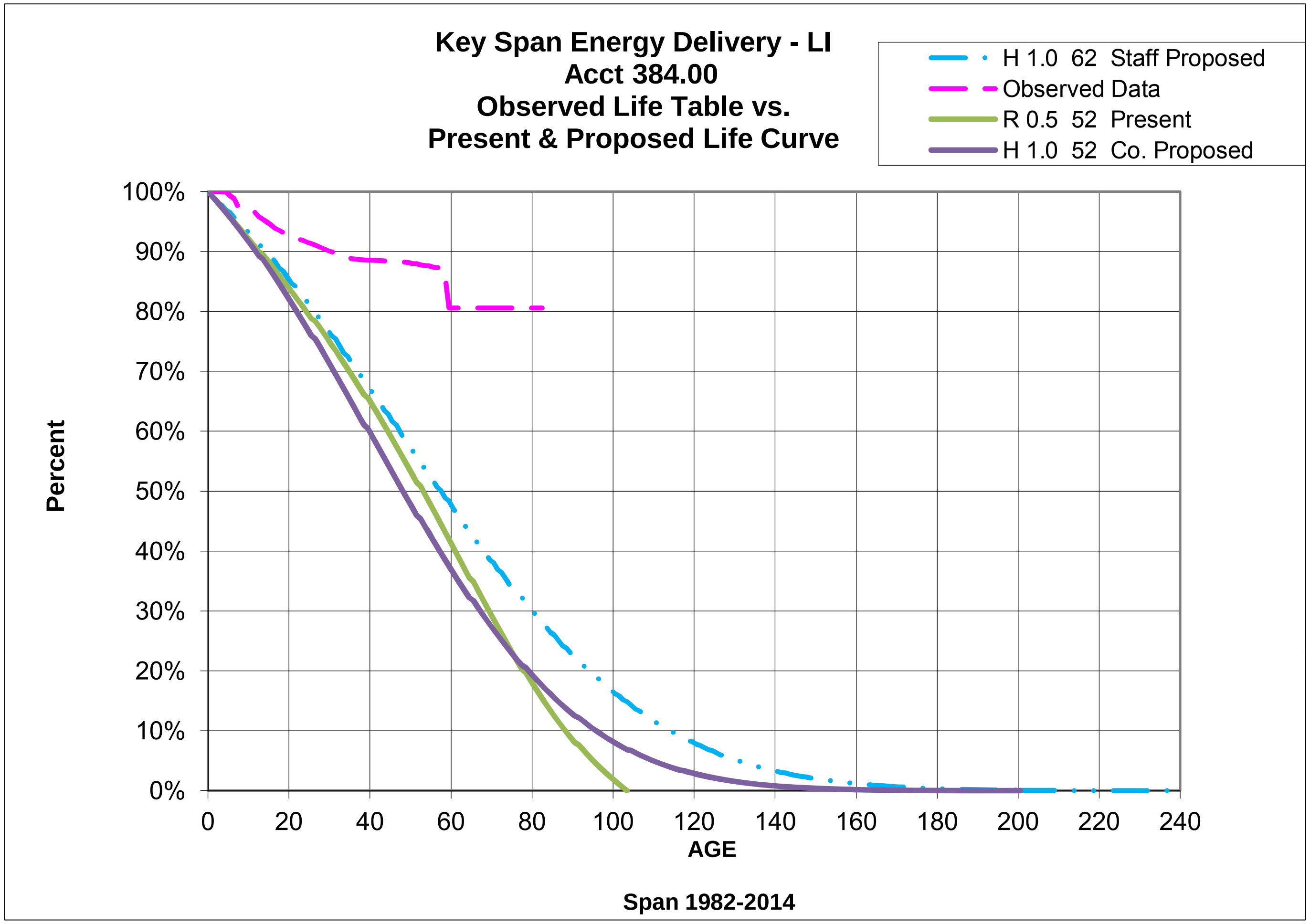
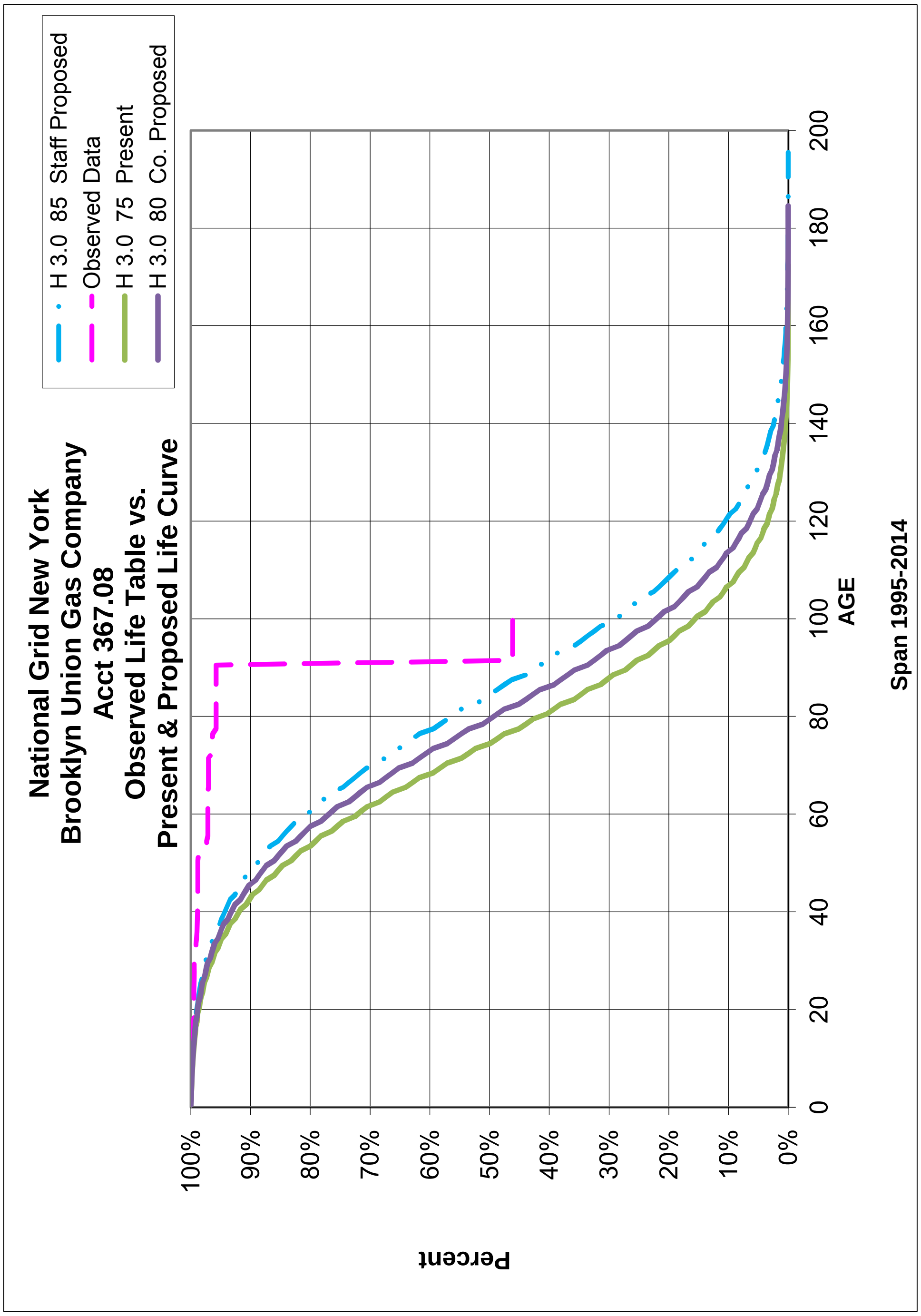


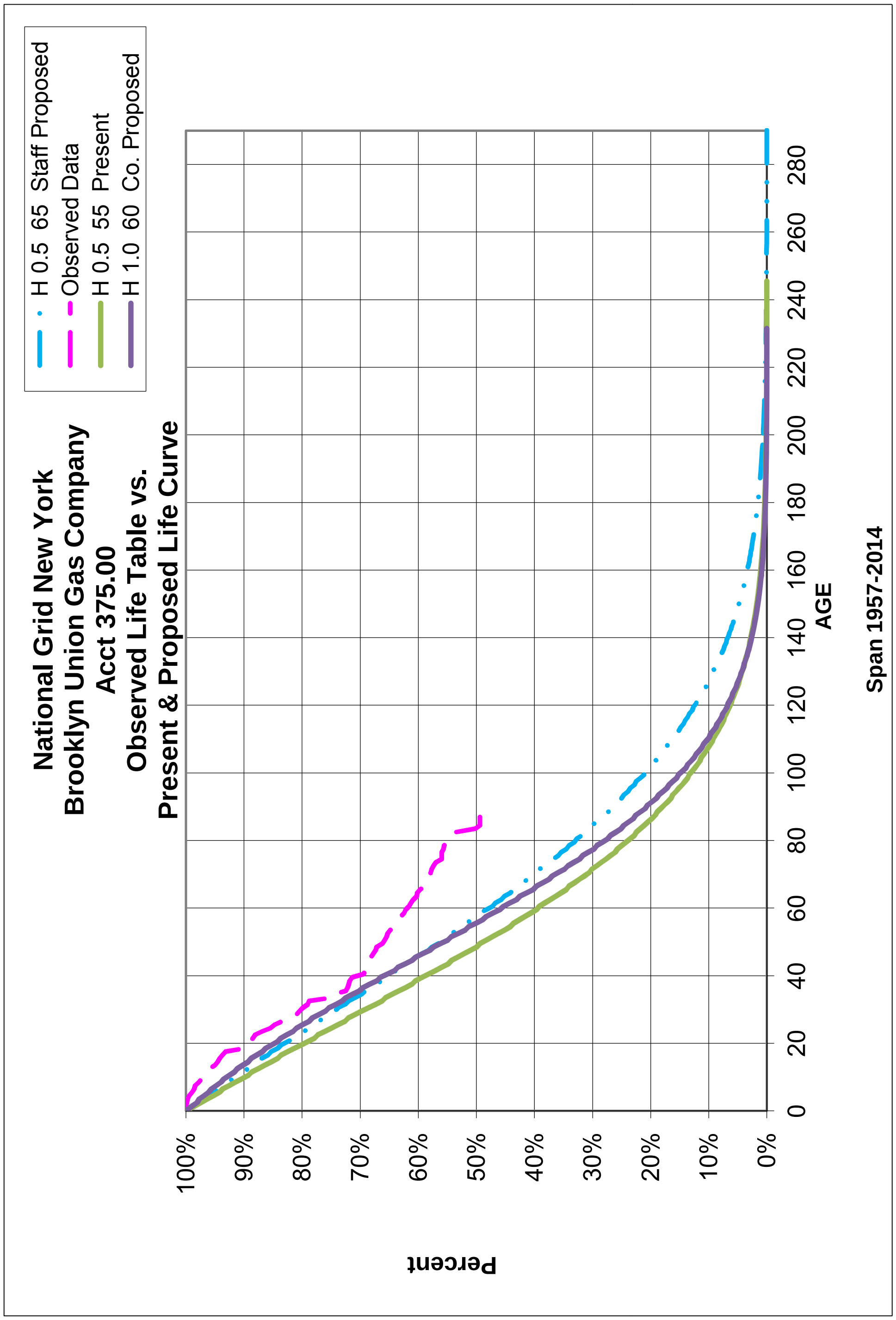
KEDLI Retirement Curve Graph-Acct. 384.00.xls Curve Data

The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



KEDNY Retirement Curve Graph-Acct. 367.08 H 3.0 85.xls Curve Data

The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



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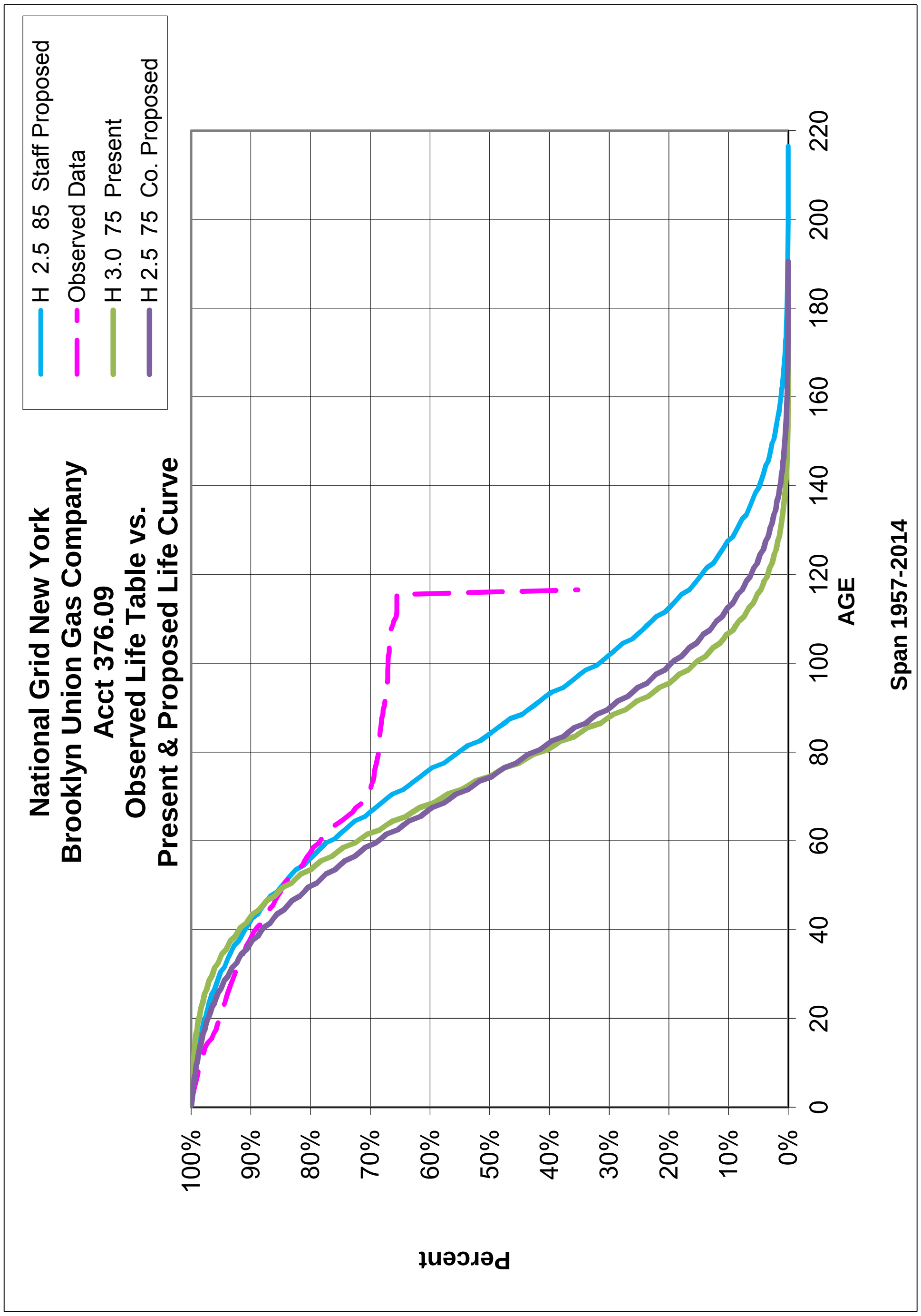
The Brooklyn Union Gas Company d/b/a National Grid NY
KeySpan Gas East Corporation d/b/a National Grid
Comparison of Company and Staff Life Curves



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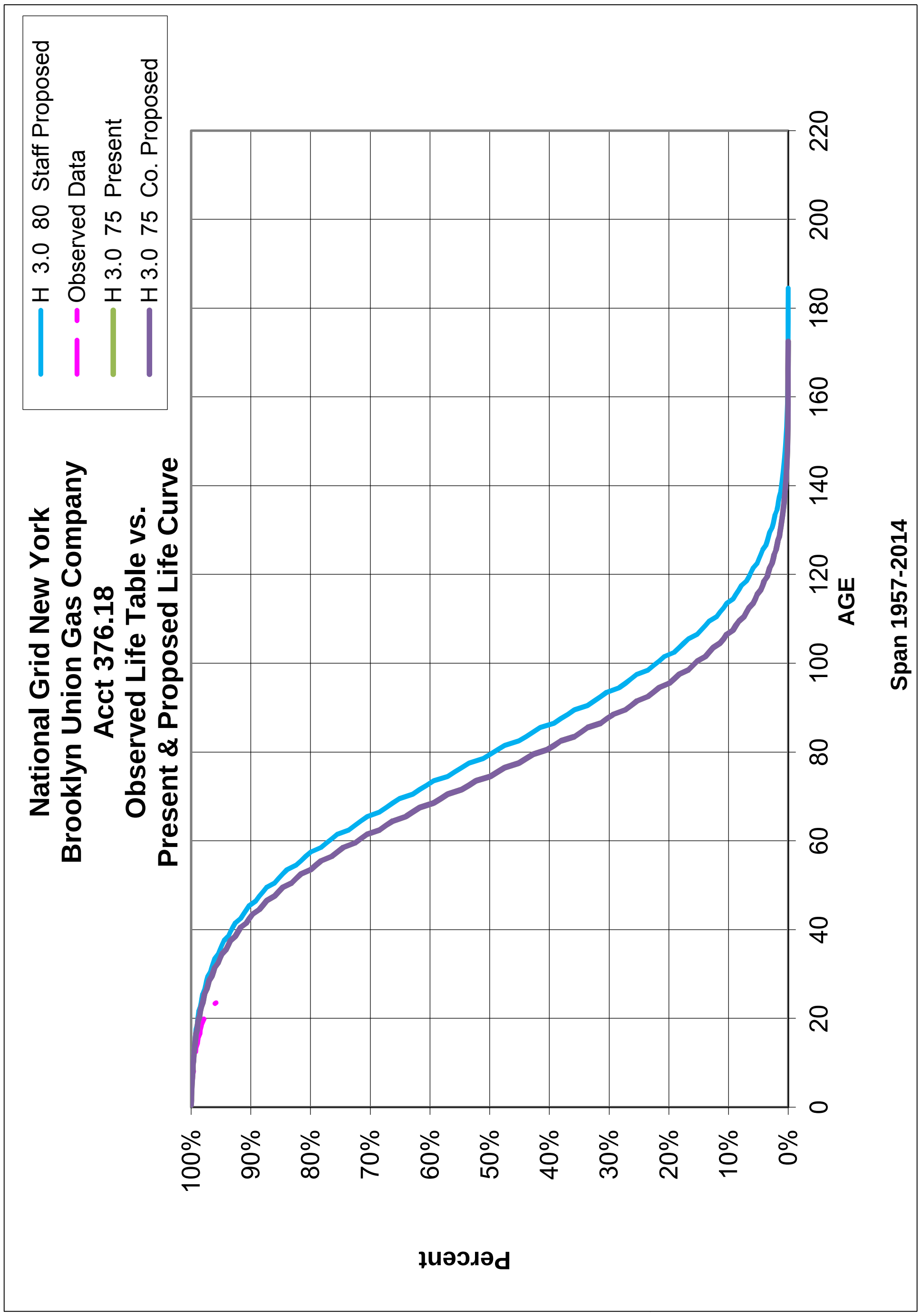

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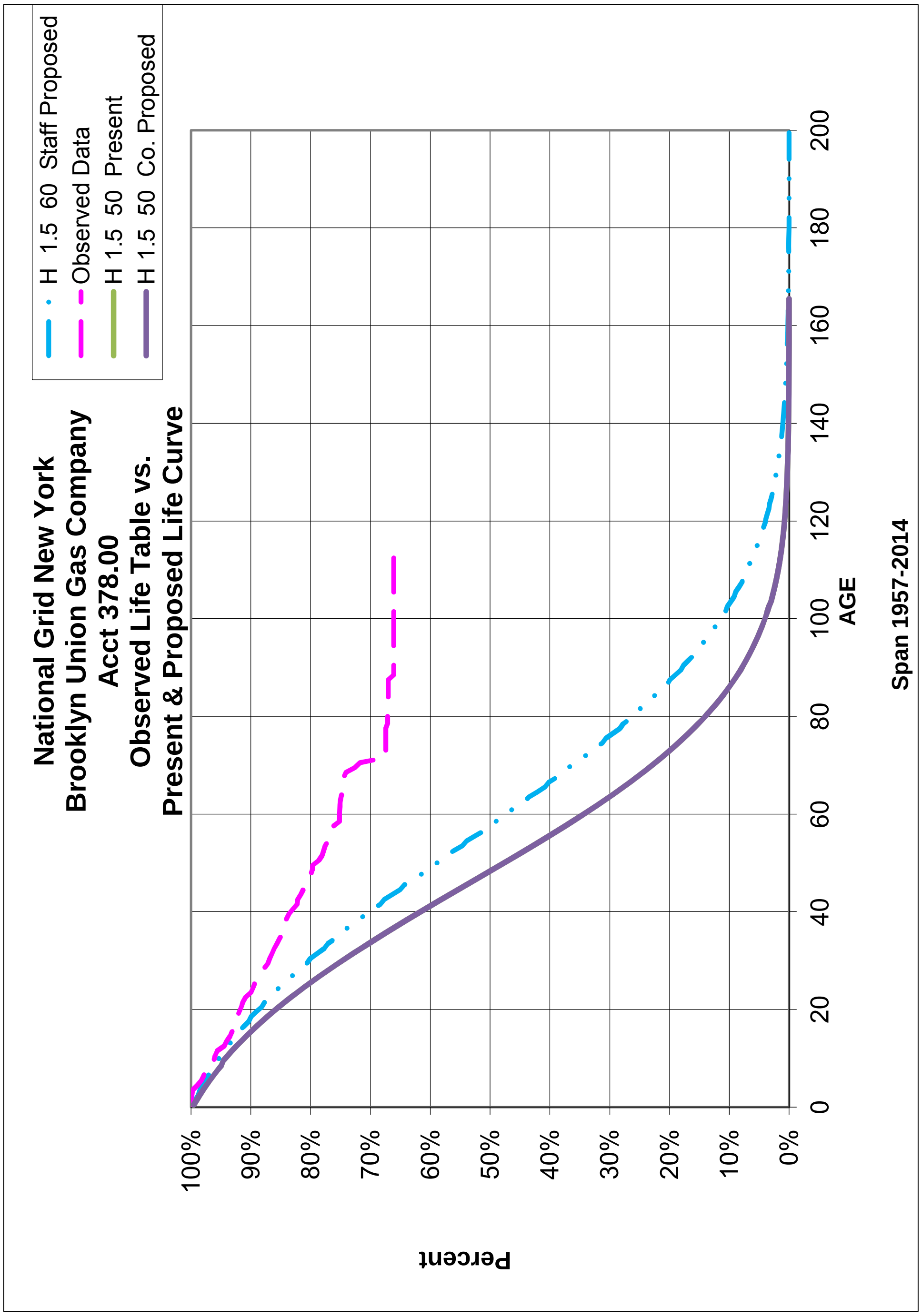

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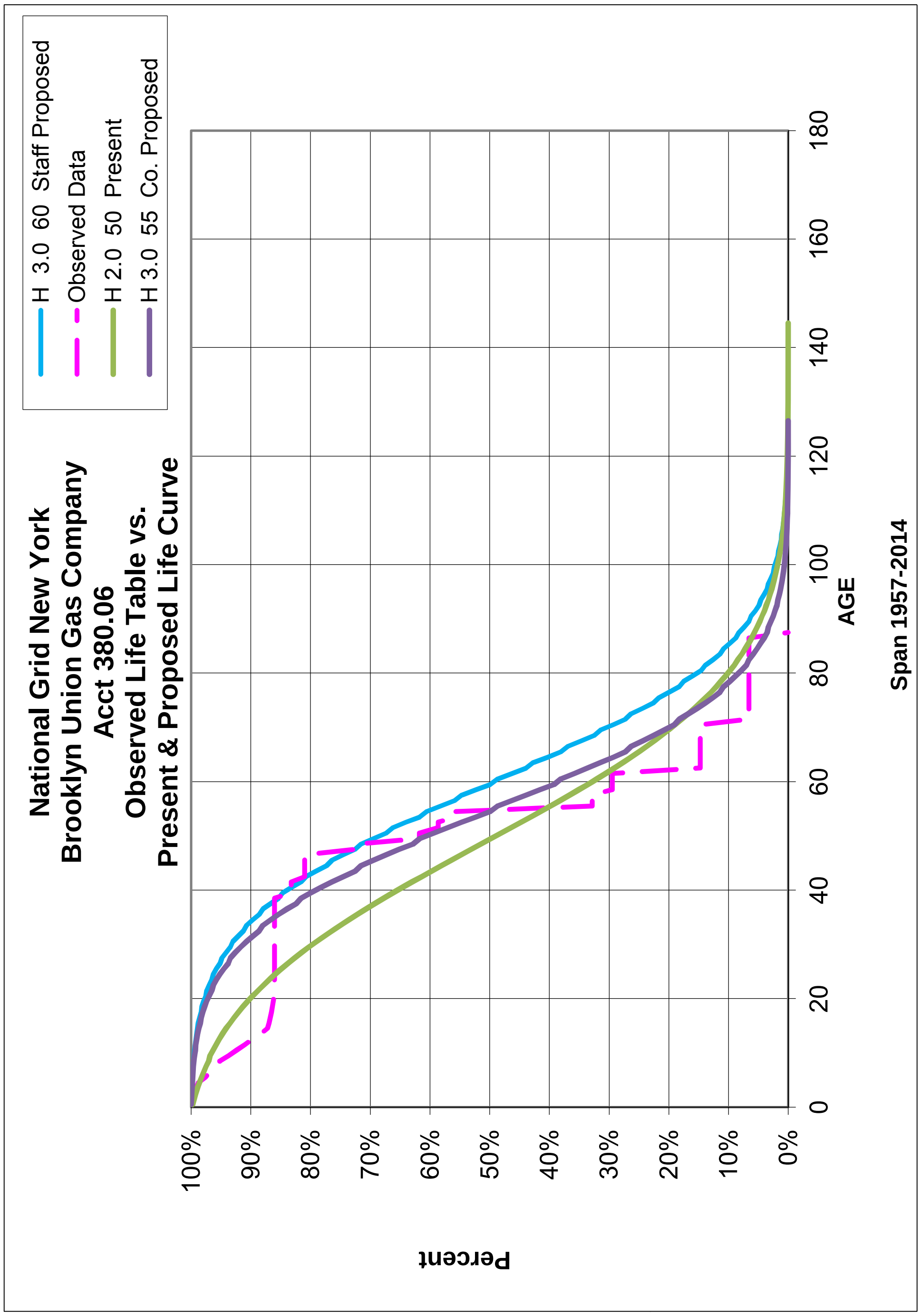

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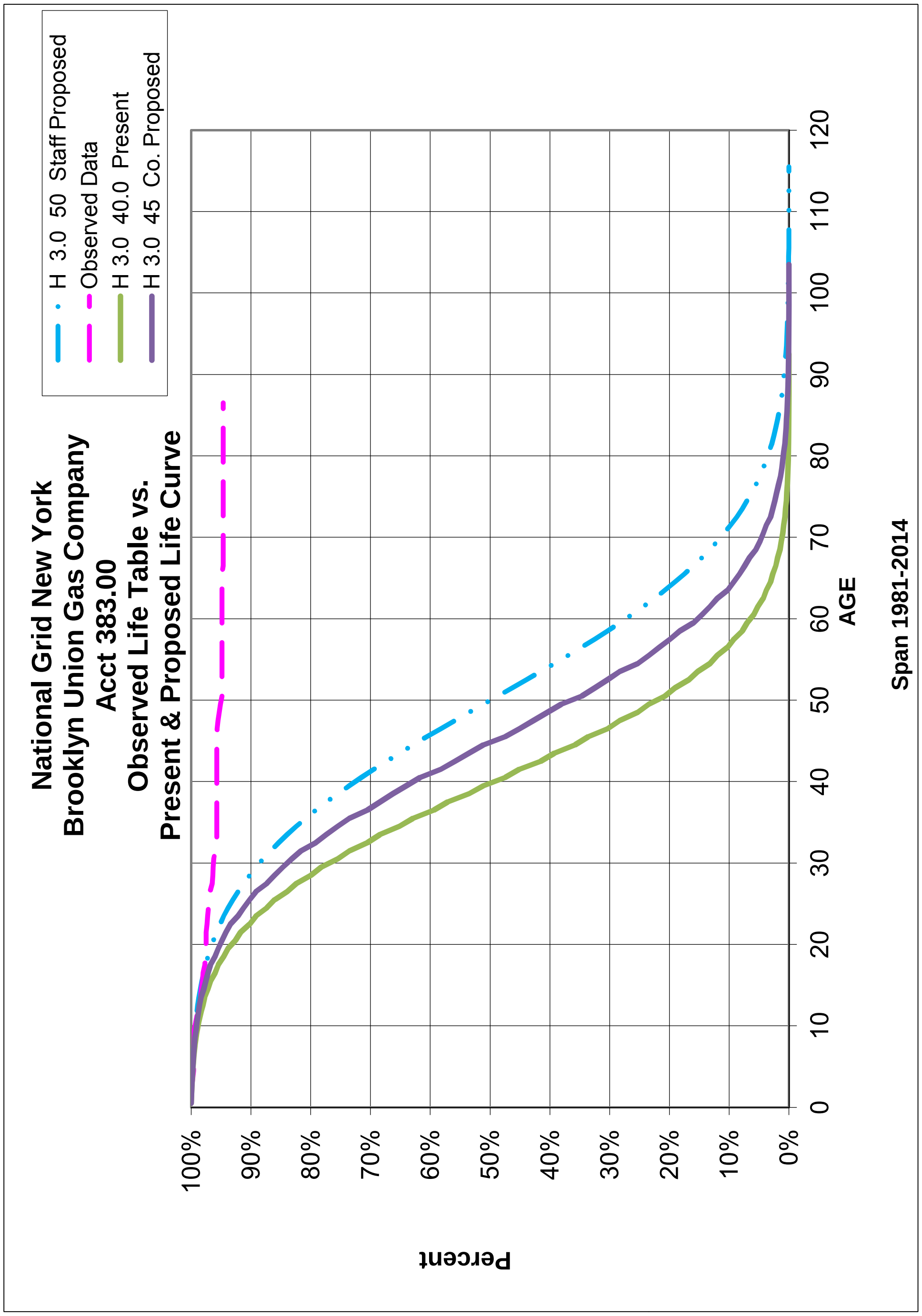

KEDNY Retirement Curve Graph-Acct. 383.00 H 3.0 50.xls Curve Data

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of

Shared Services Panel

Case 16-G-0058
Case 16-G-0059

June 10, 2016

Rebuttal Testimony of Shared Services Panel

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Rebuttal Testimony of Shared Services Panel

I. Introduction and Qualifications

Q. Please introduce the members of the Shared Services Panel.

A. The Panel consists of Vivienne Bracken, David Campbell, Larry Frye and Paula Leaverton.

Q. Is this the same Shared Services Panel that previously submitted testimony in these proceedings?

A. Yes. The terms defined in the Panel's direct and corrections and update testimony have the same definitions here.

II. Purpose of the Testimony

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

A. The purpose of the Panel's rebuttal testimony is to respond to certain recommendations of the Department of Public Service Staff's ("Staff") Tax Panel ("Staff Tax Panel"), Consumer Services Panel ("Staff CSP"), Staff Witness Kathryn Mammen, City of New York Witness Richard A. Baudino, City of New York HRA Panel, Direct Energy Services LLC ("Direct Energy") Witness Orlando Magnani, Great Eastern Energy ("Great Eastern") Witness Ronald G. Lukas, Utility Intervention Unit Witness Gregory C. Collar and URAC Corp. Witness Douglas DiCeglio. Specifically, we will address the following topics:

(i) The Staff Tax Panel's comments and recommendations regarding calculation of the property tax growth factor and use of a deferral mechanism.

(ii) The Staff CSP's and certain intervener witnesses' comments and recommendations regarding the Companies' current and proposed service quality metrics;

(iii) The Staff CSP's and certain intervener witnesses' comments and recommendations regarding the Companies' proposal for a service termination metric;

(iv) The Staff CSP's and certain intervener witnesses' recommendations concerning the Companies' proposals regarding call center staffing and call center technology upgrades;

(v) The Staff CSP's and certain intervener witnesses' recommendations concerning the Companies' proposal for programs to serve low income customers;

(vi) Staff Witness Kathryn Mammen's recommendation that KEDLI propose a new energy efficiency program for low income customers to replace the Empower New York program; and

(vii) The Staff CSP's proposal to modify the method by which the Companies recover third-party payments and credit/debit card fees.

Q. Does the Panel sponsor any exhibits as part of its rebuttal testimony?

A. Yes, the Panel sponsors the following exhibits that were prepared under our direction and supervision:

<u>Exhibits pertaining to Payment Processing:</u>

- Exhibit __(SSP-1R) contains the Companies' responses to IR DPS-407 (LS-6) and IR DPS-214 (AS-1);
- Exhibit __(SSP-2R) provides a breakdown of the anticipated costs for credit/debit card payments for KEDNY and KEDLI and third party payment costs for KEDNY;

<u>Exhibits pertaining to the proposed energy efficiency program for KEDLI</u>:

- Exhibit __ (SSP-3R) provides a description of program design;
- Exhibit __ (SSP-4R) provides budget detail; and
- Exhibit __ (SSP-5R) provides detail on the proposed Earnings Adjustment Mechanism for the new energy efficiency program.

III. <u>Property Tax</u>

Q. Does the Panel agree with the Staff Tax Panel's recommendation to use the three-year average annual property tax growth rate of 2.81 percent

for KEDLI instead of the Company's proposed one-year growth rate of 5.22 percent?

A. No. KEDLI maintains that the calendar year 2015 most recent one-year growth rate of 5.22 percent is more predictive of property taxes in the Rate Year.

Q. **Has Staff recommended and the Commission adopted one-year growth rates in prior National Grid rate orders?**

A. Yes, in both of the most recent rate orders for Niagara Mohawk (Case 10-E-0050 and Cases 12-E-0201 and 12-G-0202), Staff recommended use of the most recent one-year growth rate. In each case, the Commission adopted Staff's recommendation for a one-year growth rate in the associated rate orders.

Q. **What three years does the Staff Tax Panel propose to use to calculate its three-year average annual growth rate, and what are the annual growth rates for each of those years?**

A. The Staff Tax Panel utilizes CYs 2013, 2014 and 2015 to calculate the three-year average growth rate for KEDLI. The annual growth rate for CYs 2013, 2014 and 2015 are -0.6 percent, 3.8 percent and 5.22 percent, respectively, as reflected in Exhibit___(SSP-2), Schedule 1.

Q. Please explain why the calendar year 2013 growth rate is negative.

A. Property tax expense for KEDLI decreased from 2012 to 2013 because of an unusually large six percent increase in economic obsolescence, which increased from 14 to 20 percent, as reflected in Exhibit___(SSP-1), Schedule 1. The impact of the six percent increase in the economic obsolescence percentage reduced taxes by approximately $9 million, as reflected in Exhibit ___ (SSP-3), Schedule 1, Sheet 1, Line 5, column (b). Absent the six percent change in economic obsolescence, taxes would have increased for KEDLI by approximately $8.3 million or six percent from 2012 to 2013.

Q. Why does KEDLI believe its proposed growth rate is more appropriate than the three-year average proposed by the Staff Tax Panel?

A. The Staff Tax Panel's proposed three-year average includes savings achieved through an average annual increase in obsolescence of three percent. However, in Column (f) of Exhibit __ (RRP-5CU), Schedule 1, Page 3, KEDLI already recognizes the full impact of a known six percent increase in obsolescence for the Rate Year. Therefore, to use the three-year average proposed by the Staff Tax Panel would imply a nine percent increase in obsolescence for the Rate Year, which would be excessive.

Q. Does the Panel agree with the Staff Tax Panel's recommendation to eliminate the property tax reconciliation mechanism for both KEDNY and KEDLI in light of a one-year case?

A. No. The Staff Tax Panel's proposal to eliminate the property tax reconciliation mechanism places an undue level of risk on the Companies and their customers. Because of the variability of forecasting property taxes and the impact of factors outside of the Companies' control (*e.g.,* property tax rates, obsolescence rates, *et cetera*), a property tax reconciliation mechanism is in the best interest of both customers and the Companies, even for a one-year case.

IV. Service Quality Metrics

Q. The Staff CSP and certain intervener witnesses criticize the Companies' proposals to modify their existing service quality metrics and establish certain new metrics. Does the Panel have any comments concerning these criticisms?

A. Yes. In the Companies' filings in these proceedings, KEDNY and KEDLI proposed more stringent targets for a number of the metrics by which the Commission measures the Companies' quality of service, as well as additional metrics and incentives designed to specifically target certain critical areas of customer service. The Staff CSP, Mr. Baudino, Mr. Collar, and Mr. DiCeglio recommend rejection of the Companies' proposals for new metrics and incentives, but in certain instances seek to cherry-pick certain improvements to the existing and renewed customer service metrics.

The Companies continue to believe that the proposed new metrics present an opportunity to focus service quality on areas that are both actionable and controllable by the Companies and important to our customers. Moreover, the Companies believe that the proposed new metrics are designed in a manner consistent with the longstanding Commission policy that favors the use of incentives to promote desirable outcomes. The low income outreach assistance measure is one such metric, designed to provide assistance and outreach to the Companies' most vulnerable customers, and it would be a shame to have this metric eliminated simply because the data upon which it is calculated is new. While it may be the case, as the Staff CSP asserts, that correct payment processing, providing customers with a reliable Interactive Voice Response experience, and keeping appointments with customers are basic duties of any business, the same thing can be said of all of the activities measured by the Companies' current service quality performance metrics. This does not mean that it is inappropriate for the Commission and the Companies to establish metrics that provide the Companies with meaningful incentives to improve the performance of these functions. The proposed metrics are aimed at focusing activity in a specific manner in areas that the Companies believe are important to broad customer segments. The Companies continue to believe that their customer service proposals, in total, are in the public interest and should be adopted.

Q. The Staff CSP and Mr. Collar recommend (at 28 and 8, respectively) that the Companies should provide a $30 credit for missed appointments. Is this recommendation necessary?

No. As set forth in KEDLI's tariff at Leaf 50.1, and KEDNY's tariff at Leaf 35, the Companies refund $30.00 to residential customers and $60.00 to commercial customers for missed appointments.

Q. The Staff CSP further recommends (at 28) that the Companies should not charge customers for "unproductive field visits." Does the Panel agree?

A. No. KEDNY's tariff already includes a provision that permits it to charge a fee for unproductive field visits. Under KEDNY's tariff, the fee is only assessed in circumstances where KEDNY calls the customer prior to the appointment. Moreover, if the customer cannot commit to anything more than its best efforts to be available on a given day, the fee is not assessed. Thus, consistent with the Staff CSP's suggestion, KEDNY makes attempts to avoid situations where customers would pay this fee by (i) confirming appointments and (ii) not binding customers to an appointment by telephone when their commitment cannot be reasonably assured. KEDLI proposed the same tariff provision that currently exists for KEDNY and will follow the same procedures.

Q. Mr. Baudino recommends (at 39) that the Companies' PSC complaint rate should be lowered from 1.1 to 0.90 per 100,000 customers. Does the Panel agree?

A. No. Mr. Baudino's recommendation appears to be based on nothing more than an analysis of the Companies' past performance that shows that the Companies have in some, but not all, years exceeded this level of performance. Mr. Baudino's analysis does not justify setting the penalty threshold at his proposed levels. NRAs should only be assessed if the Companies' performance falls below a minimum acceptable level. Mr. Baudino offers no meaningful reason why the levels he proposes represent a maximum acceptable level of customer complaints.

The level of customer complaints is a metric that, to a great degree, is beyond the Companies' control. For example, events like Superstorm Sandy can lead to a rise in complaints even if the Companies provide an exemplary response. In the next few years the Companies will be proceeding with a number of initiatives, including the accelerated replacement of leak prone pipe and the installation of automated meter reading ("AMR") devices in KEDNY's service territory, that may cause some inconvenience for our customers in the short term but benefit them in the long term. These activities could lead to an increase in the level of customer complaints. While the Companies will continue to do everything they reasonably can to avoid additional complaints, there is no reason why the current penalty threshold should be adjusted as recommended by Mr. Baudino.

Q. Mr. Baudino further recommends (at 40) that the customer satisfaction thresholds should be increased to 88 percent for KEDNY and 85 percent for KEDLI. Does the Panel agree?

A. No. This proposal should be rejected for the same reasons that Mr. Baudino's recommendation concerning the customer complaint ratio should be rejected. The fact that the Companies have achieved these levels in the past does not mean that such service levels should now become the NRA threshold.

Q. Mr. Baudino recommends (at 36-37) that the Commission require the Companies to include in its adjusted bill metric: (1) an estimated bill replaced by a bill based on the actual reading, and (2) a customer reading replaced with an actual or estimated reading. Does the Panel agree?

A. No. In Case 15-M-0566, there is an ongoing collaborative that has considered the definition of "adjusted bills." The Companies' proposal conforms with the "Draft Revised Customer Service Metrics" issued in that proceeding on May 26, 2016 and is consistent with the current definition of adjusted bills in the Companies' service quality metrics. Mr. Baudino has not offered any meaningful reason why his definition is more appropriate.

Q. Witnesses Lukas (at 2) and Magnani (at 7) recommend that the Companies should be required to establish additional performance metrics governing service provided to ESCOs. Does the Panel agree?

A. No, we do not. First, both Mr. Lukas (at 3-7) and Mr. Magnani (at 5-7) discuss billing complaints as the primary source of the need for additional metrics. However, the ESCOs' billing complaints are already the subject of a complaint proceeding before the Commission.[1] The billing issues identified by Messrs. Lukas and Magnani will be resolved in that proceeding. Further, there is no basis to discriminate between service quality provided to ESCO customers or full service customers. The Companies' comprehensive customer service quality programs already include metrics that address escalated customer complaints and customer satisfaction, which apply equally

[1] Matter No. 15-01659, *Complaint of Small Customer Marketer Coalition Against KeySpan Gas East Corporation d/b/a National Grid Concerning Retroactive Cash Out Invoices Issued In July 2015*.

to ESCO customers and full service customers. Mr. Lukas provides no credible justification to treat ESCOs or ESCO customers differently from full service customers. Finally, in Cases 13-M-0314 and 15-M-0566, the Commission investigated whether new performance metrics should be added to measure utility performance. Neither the auditor retained by the Commission nor the collaborative working groups recommended the need for additional metrics.

Q. The Staff CSP (at 32) and other interveners recommend maintaining the tripling and quadrupling of NRAs adopted nearly nine years ago. Does the Panel agree?

A. No. The Commission adopted the tripling and quadrupling of NRAs in the context of the proceeding concerning the merger of National Grid and KeySpan Corporation.[2] In its Order authorizing the merger in 2007, the Commission stated it was imposing the tripling and quadrupling provisions in light of possible "financial difficulties" for the Companies arising directly from the merger and because the Commission found that the financial nature

[2] *See Joint Petition of National Grid PLC and KeySpan Corp. for Approval of Stock Acquisition and Other Regulatory Authorizations*, Case 06-M-0878, Order Authorizing Acquisition and Making Some Revenue Requirement Determinations for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island (September 17, 2007) ("September 17, 2007, Order").

of the transaction posed risks for service quality and customer performance.[3] There is no evidence that either the merger itself or financial conditions attributable to the merger have affected the Companies' ability to meet their service quality metrics over the past nine years. On the contrary, as stated in our direct testimony, the instances in which KEDLI missed metrics in 2013 and 2014 were essentially weather related or otherwise attributable to the deployment of AMRs and/or a new call center – activities that will benefit customers by improving customer service in the long run. Although the Staff CSP states (at 32) that these missed metrics indicate that "the underlying reasons why the Commission imposed the tripling and quadrupling provisions in the merger proceeding still exist today," this statement ignores the fact that the reasons for KEDLI's missed metrics have nothing to do with the merger or the reasons why the increased NRAs were adopted in the first place. The underlying premise for the increased NRAs has lost its validity and therefore they should be eliminated.

Q. Are you aware of any instance in which the Commission has reduced an increased NRA adopted in the context of a merger?

A. Yes. Following its merger with National Grid, Niagara Mohawk was subject to a doubling provision for NRAs associated with its customer service and

[3] September 17, 2007, Order at 143.

electric reliability metrics until 2012. Just as the Commission permitted Niagara Mohawk to eliminate the doubling of NRAs in Case 10-E-0050, so too should the Commission eliminate the unnecessary tripling and quadrupling provisions of service quality NRAs for the Companies.

V. <u>Service Termination and Uncollectible Expense Metrics</u>

Q. Does the Staff CSP propose modifications to the Companies' proposed positive incentive to reduce residential service terminations?

A. Yes. The Staff CSP recommends adding a new measure to decrease or maintain bad debt expense (uncollectible expense) resulting from residential accounts, along with positive incentives and a potential NRA if either residential terminations or residential uncollectible expense change significantly.

Q. Please describe the Staff CSP's proposed targets and positive and NRAs for uncollectible expense level and residential service terminations.

A. For KEDNY, Staff recommends a maximum positive revenue adjustment ("PRA") of $1.26 million if the Company achieves both of the following targets for the Rate Year: an uncollectible expense level of no more than $12.4 million and residential service terminations for nonpayment of no more than 34,600 customers. If KEDNY's uncollectibles rise to $19.7 million or more and terminations rise to 41,000 customers or greater, a maximum NRA of $1.26 million would be applied.

For KEDLI, the Staff CSP recommends a maximum PRA of $840,000 if KEDLI achieves an uncollectible expense level of no more than $8.9 million and residential service terminations for non-payment of no more than 8,700 customers in the Rate Year. If uncollectibles rise to $11.7 million or more and terminations rise to 10,000 customers or more, a maximum NRA of $840,000 would be applied.

Partial positive or negative revenue adjustments are possible if targets are partially met, as detailed in Exhibit __(CSP-4).

Q. Do the Companies agree that NRAs are an appropriate tool to reduce residential service terminations.

A. No. The Companies do not believe the Staff CSP's proposal for NRAs are a necessary or appropriate mechanism to reduce service terminations. Residential service terminations are a last resort in the collections process. Customers receive outbound calls, reminder notices, deferred payment agreement offerings and collect-only field visits before terminations are pursued. Positive-only incentives are adequate to minimize residential service terminations for KEDNY and KEDLI, particularly given that among New York utilities, KEDNY is below the average percentage of terminations, and KEDLI has the lowest percentage of service terminations in New York State, as shown in Exhibit __ (SSP-5).

Q. If a residential terminations metric were established, do the Companies agree with the Staff CSP's recommended target levels for service terminations?

A. No. For KEDLI, the Staff CSP's proposed service terminations target does not properly account for substantive changes in terminations for KEDLI in the years following the LIPA separation, resulting in a target that cannot reasonably be achieved. As discussed in our direct testimony, KEDLI's terminations have been strongly impacted by external factors. In particular, the LIPA separation had a pronounced effect on KEDLI's termination rates, as KEDLI was formerly able to rely upon electric terminations to avoid gas terminations for combined gas/electric customers. With the separation of the electric service in 2014, KEDLI could no longer rely primarily on electric terminations to cause customers to pay their gas bills. Pre LIPA-separation termination data are not representative of the number of service terminations for KEDLI's current operations and should be excluded from the calculation. The Staff CSP's use of annual termination amounts for 2009-2013 in calculating their proposed termination metric grossly understates the annual target. Based on KEDLI's assessment of the impact on uncollectible expense resulting from each avoided termination, KEDLI would need to forego collection of nearly $4.6 million annually to meet the proposed target of 8,772 terminations and earn the $840,000 incentive. KEDLI conducted 9,852 terminations in 2014, 13,528 terminations in 2015 and is on pace to complete approximately 13,900 service terminations in 2016. This data supports KEDLI's initial proposal of 13,300 service terminations as a proper threshold.

The Staff CSP's proposed target threshold for the number of terminations for KEDNY is acceptable.

Q. Does the Panel agree with PULP's recommendation for the establishment of an independent working group to audit the Companies' Home Energy Fair Practices Act ("HEFPA") compliance and residential terminations?

A. No. PULP cites no evidence of any alleged violation that would support its position and the Office of Consumer Services already monitors complaints pertaining to terminations and HEFPA compliance as part of the escalated complaint process. Moreover, the Commission has the authority to commence a proceeding to audit or review the Companies' compliance with HEFPA and service requirements at any time. Therefore, the establishment of an independent working group is redundant and unsupported.

VI. Call Center Staffing, Technology Upgrades, and Related Service Quality Metric

Q. Please summarize the recommendations of the Companies, the Staff CSP and Mr. Baudino concerning incremental call center staffing, the call answer rate metric and call center technology upgrades.

A. The Companies proposed to set the call answer rate metric at 62.2 percent within thirty seconds for both KEDNY and KEDLI. To ensure its ability to meet this metric, KEDNY proposed to add six call center representatives and one supervisor. In addition, the Companies proposed to update the technology in their respective call centers.

The Staff CSP recommends (at 54) that KEDNY's incremental staffing should be reduced to three incremental call center representatives and no additional supervisors. The Staff CSP proposes a corresponding reduction in KEDNY's call answer rate metric to 60.6 percent within thirty seconds. Mr. Baudino proposes to disallow all of KEDNY's proposed incremental call center staffing, but nonetheless impose the 62.2 percent call answer rate metric on KEDNY. The Staff CSP recommends removing the costs for the Companies' call center technology upgrades project, stating that the project is still in the early stages and has not yet been approved by the Companies' sanctioning process.

Q. What is the Panel's response to the recommendations of the Staff CSP and Mr. Baudino?

A. We continue to believe that it is in customers' best interests for KEDNY to add six incremental call center representatives and one supervisor to enable KEDNY to provide a high level of call center responsiveness. Thus, KEDNY continues to recommend that it be permitted to add seven additional call center employees and to set KEDNY's call answer rate metric at 62.2 percent. KEDNY has a particularly acute need for an additional call center supervisor to improve its ratio of supervisors to call center employees. KEDNY's current ratio is one supervisor for every 21 representatives. In contrast, KEDNY's affiliate, Niagara Mohawk, has a ratio of one supervisor for every 18 representatives while KEDLI has a ratio of one supervisor for every 17 representatives. A lower ratio of representatives to supervisor would enable KEDNY to better manage the call center. Adding the additional supervisor and the six representatives will bring KEDNY's ratio to 19 to 1; a ratio more in line with the ratios of other New York utilities.

The Staff CSP sensibly recognizes that there is a relationship between the Companies' ability to meet the answer rate metric and call center staffing. In contrast, Mr. Baudino's recommendation that KEDNY's metric should be increased with no increase in staffing is simply punitive and would establish an annual NRA threshold that KEDNY has not been able to achieve in past years.

The Companies believe that call center performance is an important component of customer service. For this reason, we believe that it is more reasonable for KEDNY to add seven employees and utilize a 62.2 percent target than it would be to add three employees and utilize a 60.6 percent target. The proposed target would also align with KEDLI's performance target, thereby promoting consistency between the call centers.

Q. The Staff CSP (at 51-52) recommends disallowing an incremental call center escalation analyst for KEDNY. Does the Panel agree?

A. No, we do not. KEDNY has proposed a more stringent customer complaint metric, and the proposed additional employee will assist in ensuring KEDNY's ability to meet the more stringent metric. Meeting this more stringent metric will be especially challenging in the Rate Year because KEDNY is engaged in two initiatives – deploying AMR devices and accelerating leak prone pipe replacement – that have the potential to increase customer complaints even though they are related to activities that will ultimately be beneficial to customers. The inescapable fact is that when KEDNY is deploying new metering technology and/or engaging in increased construction in the streets, there is a real potential that a greater number of customers may experience frustration and initiate complaints. An additional analyst at KEDNY will enable it to better manage this risk and to meet the more stringent metric target.

Q. What is the Panel's response to the Staff CSP's recommendation to remove the costs for the Companies' call center technology upgrades project from Data Year 2?

A. We disagree with this adjustment. As discussed in our direct testimony, the Companies' existing call center platforms are outdated and need to be upgraded to remain efficient and operational. The Call Center Technology Upgrades project is designed to deliver these upgrades and is scheduled to be implemented in April 2019. The Staff CSP has offered no justification to remove these costs aside from stating that the project has not yet been sanctioned. However, as set forth in the response to IR DPS-407 (LS-6) included in Exhibit ___ (SSP-1R), the project is scheduled for sanctioning in September 2016 and expected to be approved in line with the Information

System Investment Request Summary document, which was included as Attachment 1 to IR DPS-214 (AS-1) (Supplemental) included in Exhibit ___ (SSP-1R). Further, the anticipated capital costs for the first year of the project have been approved by senior management and included in the current Fiscal Year 2017 capital budget. Given the need for the project and the potential benefits to customers, which include, among other things, a more current IVR system and "virtual hold" capability, if a multi-year settlement is negotiated, the costs for the Call Center Technology Upgrades project should be included in the Companies' revenue requirements.

Q. Mr. Baudino asserts (at 35) that KEDNY and KEDLI should be required to meet the higher call center answer rate metrics without the ability to load balance calls. Does the Panel have any comments concerning this assertion?

A. Yes. In our direct testimony, we advised the Commission that we wished to use call centers throughout National Grid's New York service territories to load balance calls. It is not clear whether or why Mr. Baudino opposes this initiative, but the Companies plan to proceed with it. With respect to this plan, it should be noted that while the call center technology upgrade project will assist the Companies' efforts to balance calls across its New York service territories, those upgrades are not essential to the plan. The Companies can proceed with the call balancing initiative without the technology upgrades.

VII. Low Income Programs

Q. Does the Staff CSP agree with the Companies' proposed changes to the low income program discount levels and eligibility criteria?

A. The Staff CPS agreed with the Companies' low income proposals, pending the Commission's guidance and general policy direction in its generic examination of utility low income programs in Case 14-M-0565.

Q. Has the Commission issued an order providing additional direction on low income programs in Case 14-M-0565?

A. Yes. The Commission issued an "Order Adopting Low Income Program Modifications and Directing Utility Filings," on May 20, 2016 (the "Low Income Order"), adopting a regulatory policy framework for addressing low income customer needs, and directing utilities to file plans for phased implementation of the framework.

Q. Does the Low Income Order affect the Companies' low income proposals?

A. Yes. The Low Income Order affects the Companies' proposals on benefit levels and eligibility and will require billing system changes to implement directives such as the requirement that customers enrolled in discount programs must also be enrolled in budget billing, subject to an opt out.

Q. How does the Low Income Order affect the Companies' proposals for low income discount levels?

A. The Companies proposed a five percent increase in existing benefit levels. The Low Income Order provides for changes in benefit levels for KEDNY and KEDLI customers as shown in the following tables:

KEDNY

	Gas Heating*		Gas Non-Heat	
	Company Proposed	Per Low Income Order	Company Proposed	Per Low Income Order
Tier 1	$17	$17	$3	$3
Tier 2	$17	$17	$3	$3
Tier 3	$17	$39**	$3	$3
Tier 4	$17	$0	$3	$0

* Heating discount includes estimated value of volumetric component of discount
** The Low Income Order stated $30; the correct amount for KEDNY is $39

KEDLI

	Gas Heating		Gas Non-Heat	
	Company Proposed	Per Low Income Order	Company Proposed	Per Low Income Order
Tier 1	$18	$41	$4	$3
Tier 2	$18	$57	$4	$3
Tier 3	$18	$74	$4	$3
Tier 4	$18	$0	$4	$0

Q. How does the Low Income Order affect the Companies' proposals for eligibility criteria?

A. The Low Income Order notes that KEDNY and KEDLI's existing programs have broad income eligibility criteria, and the Commission holds that the Companies could maintain these criteria. With respect to file matching, the Low Income Order directs KEDNY to state in its compliance filing whether it intends to pursue file matching with the City of New York's Human Resource Administration ("HRA"). The Order notes that file matches with the Office of Temporary Disability Assistance ("OTDA") may be feasible, and states that it should be explored by an inter-agency task force.

Q. What is the timeline for implementation of program changes contemplated by the Low Income Order?

A. The Low Income Order directs utilities to make filings within 90 days detailing necessary program modifications, timelines, estimation of costs and proposals for cost recovery and reconciliation, and a path to incorporate the recommendations into ongoing rate plans or rate cases before the Commission. There is no specific timeline for implementation of the requirements of the Low Income Order. Indeed, the Low Income Order asserts that achievement of the energy burden goal for all low income utility customers will require a phased approach to implementing program changes, along with new partnerships and new mechanisms for identifying and enrolling eligible households.

Q. Based on the Low Income Order, have the Companies changed their position on file matching processes with HRA and OTDA?

A. No. The Companies remain very interested in expanding enrollment in their discount programs through file sharing with these agencies. The Companies were pleased that the Commission directed Staff to convene an inter-agency task force to coordinate programs and to explore the feasibility of file sharing with OTDA, and the Companies look forward to working with the task force to advance their important work. While file sharing with HRA is more established with Consolidated Edison already participating, there is uncertainty in the number of participants who would be added from file sharing with HRA. The Companies maintain that a collaborative of interested parties is still desirable to agree on mechanisms for file sharing with HRA.

Q. Please address Staff's and PULP's estimates of the number of participants who would be added as a result of file sharing with HRA.

A. In connection with the Low Income Order, Staff estimated that file sharing would increase the non-heating participants in KEDNY's program from 21,613 to 427,122 and that heating participants would remain the same. (While KEDLI could also engage in file sharing with HRA for the Rockaways portion of its service territory, we focus here on KEDNY because its entire service territory lies in New York City). We believe Staff's estimate is in error and too high. PULP Witness Yates produces an estimate of 179,540 eligible participants in KEDNY's program based on the number of recipients of supplemental nutritional assistance program benefits. This estimate seems more reasonable to KEDNY, but we believe that it is probably too low. While both Staff's and PULP's estimates are helpful parameters, the discrepancy between them illustrates the uncertainty of estimating the number of participants who would be added from a file match with HRA and underscores the importance of developing protections for other customers and the Companies in the likely event that the estimate proves wrong. NYC opposes the low-income collaborative because it claims it is not an appropriate forum for developing a file sharing process between KEDNY/KEDLI and HRA, but does not address the Companies' stated reasons for the collaborative.

Q. When will the Companies be able to implement the program modifications necessary to comply with the Low Income Order?

A. Given that the Low Income Order was just issued, the Companies and other stakeholders are still assessing the requirements and potential implementation challenges. Aside from the decisions to be made on file matching with HRA, the Companies face significant billing system modifications necessary to accommodate the identification and tracking of low income customer status and tiers, and implementation of new system logic to impose mandated levelized or budget billing for low income customers and the associated opt-out process. The Companies believe the earliest time changes required by the Low Income Order could be implemented would be CY 2018.

Q. What do the Companies propose in the mean time?

A. The Companies believe their low income proposals and budgets supported in their direct testimony, including the proposed five percent increase in discount levels, elimination of the On Track program, and a collaborative to explore file matching with HRA, should be retained for the Rate Year and until the modifications required by the Low Income Order can be implemented.

Q. Did other parties provide testimony on the Companies' proposed low income discount levels?

A. Yes. While UIU agreed with the Companies' proposed five percent increase to discount levels, they also advocate for a larger increase to match the percentage increase in delivery rates. PULP proposed a $10 reduction in the minimum customer charge for low income customers, or alternatively, increasing the program discounts by the greater of five percent or the projected increase in typical residential bills.

Q. Do the Companies agree with these proposals?

A. No. The Companies agree with Staff that a five percent increase would be an acceptable increase in program benefit levels, pending incorporation of further enhancements to low income programs to conform to the Low Income Order.

VIII. KEDLI Energy Efficiency Program to Replace EmPower

Q. Please describe Staff Witness Mammen's recommendation for replacing the NYSERDA EmPower New York program in KEDLI's service territory.

A. Staff Witness Mammen recommends that KEDLI develop and submit a proposal to create a low income program to replace the EmPower New York program that will no longer be offered in KEDLI's service territory after

December 2016. Ms. Mammen suggests the proposal include design details, a funding level, a funding mechanism, and expected energy efficiency savings.

Q. Does KEDLI have a proposal for a new program to replace the EmPower New York program?

A. Yes. KEDLI's proposed new program will serve single family and multifamily customers with a comprehensive four-tiered approach designed to create synergies with current PSEG Long Island programs and local community objectives. A description of the offerings in each of the proposed program tiers is provided in Exhibit __ (SSP-3R). Program benefits will be available to all KEDLI customers who qualify for participation in KEDLI's low income programs (*i.e.*, Reduced Residential Rate). The program will provide eligible customers with behavioral information and energy efficiency measures to enable them to take control of their energy usage and reduce their energy burden, as well as increase the health and safety, resiliency, and quality of life for participating customers.

Q. How does the new program affect KEDLI's proposal for a smart thermostat program?

A. The Staff CSP recommended that the smart thermostat program be delayed until a successor program to EmPower New York is formulated for KEDLI.

KEDLI's new program contemplates replacing thermostats at the higher tiers of service and, thus, a standalone smart thermostat program for low income customers is no longer necessary.

Q. How will the new program differ from the existing EmPower New York program on Long Island?

A. Unlike the EmPower New York program, KEDLI's proposed program would seek to coordinate with PSEG Long Island to leverage existing infrastructure and layer incentives to achieve greater cost savings and deeper energy savings for customers. The KEDLI program will also include enhancements such as the option to consider measures intended to improve safety in the customer's home. Lastly, because Long Island is a coastal region of the state vulnerable to severe weather events, KEDLI has also incorporated resiliency considerations into installation recommendations as part of this program.

Q. What is the proposed funding level associated with this program?

A. KEDLI is proposing a budget of $1.9 million for the Rate Year. The proposed budget amount and program scope is based on Staff's recommendation that the program replace the existing EmPower New York program. KEDLI currently collects from customers and remits payment to NYSERDA an amount that includes approximately $1.9 million annually for the EmPower

New York program. KEDLI has remitted this approximate amount for the EmPower New York program for each of the last two years. A breakdown of the new program budget by category is provided in Exhibit __ (SSP-4R). The program budget includes the cost of one full time analyst to manage the program and vendors providing energy efficiency services. As in the Energy Efficiency Transition Implementation Plan (ETIP), KEDLI recommends flexibility in how much is spent in each budget category as long as the program does not exceed the total annual budget.

Q. How is the KEDLI proposing to recover costs associated with the program?

A. KEDLI proposes to fund the program using its existing low income deferral balance, rather than collecting the budget amount through base rates as an operating expense, as suggested by Ms. Mammen. KEDLI would cap the budget at $1.9 million for the Rate Year and adjust that amount for inflation for subsequent years.

Q. Please describe the metric KEDLI proposes to use to track the effectiveness of this program.

A. The primary metric to be tracked and reported for this program will be number of customers served, just as it was for NYSERDA's EmPower New

York program. As mentioned in Ms. Mammen's testimony, dekatherm savings will also be tracked and reported. KEDLI also expects to conduct customer satisfaction surveys and to measure bill reductions associated with this program.

Q. Is KEDLI requesting that an Earnings Adjustment Mechanism be approved in conjunction with the new program?

A. Yes. KEDLI is proposing an Earnings Adjustment Mechanism ("EAM") for this program to provide an incentive to achieve cost savings and promote participation. The program is designed to drive customer engagement and deeper energy savings in each tier of the program, while also reducing the energy burden for low income customers, providing improvements for health and safety, and incorporating resiliency efforts. Exhibit __ (SSP-5R) describes KEDLI's proposal for an EAM.

Q. Is KEDLI's proposal for an EAM in line with the Commission's recent guidance in the REV proceeding?

A. Yes. The proposed EAM is within the framework recently approved by the Commission in its May 19, 2016 Order in Case 14-M-0101 (the "REV Track Two Order."). In the REV Track Two Order, the Commission endorses "outcome-based incentives [EAMs] as being appropriate where the programmatic inputs are not simple to isolate and where the beneficial outcome is influenced by a holistic approach and a range of company activities…."

IX. Payment Processing

Q. The Staff CSP recommends (at 47-48) that credit/debit card fees charged to residential customers to pay the Companies' bills be included in base rates and that the Companies provide an estimate of these costs in their rebuttal testimony. Please comment on this recommendation.

A. The Companies believe that offering no-fee credit/debit card payments could quickly result in 15-20 percent of residential bills being paid through credit/debit card transactions. Based on the information provided by the credit card companies, the Companies project that they would incur incremental costs in the range of $4.7 million to $5.2 million for KEDNY and $2.4 million to $2.7 million for KEDLI. The low end of the range assumes the Companies are qualified to participate in a discounted fee program offered by certain credit card vendors. The Companies have inquired about eligibility in the program and await word from the participating credit card companies. A breakdown of these costs is set forth on Exhibit ___ (SSP-2R).

No credit/debit card fees are included in the Companies' revenue requirements. The Companies are concerned about the level of costs associated with credit/debit cards fees and the impact of these costs on customers, especially those customers who do not use credit/debit cards to pay their utility bills. Notwithstanding these concerns, if the Commission wishes to implement the Staff CSP's proposal, the Companies would need authority to defer for future recovery any difference between the level of credit/debit card-related expenses included in rates and the Companies' actual expenses, as we do not know precisely how this proposal will affect customer participation and the overall amount of costs that the Companies will incur for credit/debit card payment processing. Deferral treatment of the differences would be similar to that adopted by the Commission for New York State Electric and Gas Corporation and Rochester Gas & Electric Corporation in Cases 15-E-0283, *et al*.[4]

Q. The Staff CSP recommends (at 51) that KEDNY's customers should not be required to pay transaction fees at third party payment centers. Does the Panel agree?

[4] *See* Cases 15-E-0283, 15-E-0284, 15-E-0285 and 15-E-0286, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corp. for Electric Service, et al.*, Joint Proposal (February 19, 2016).

A. We do not support Staff's proposal to expand the fee waiver to KEDNY. The fee waiver in KEDLI's territory was proposed because LIPA terminated the Management Services Agreement under which a National Grid affiliate managed LIPA's electric transmission and distribution system. The LIPA transaction made it more difficult for KEDLI customers to access bill-payment centers in KEDLI's service territory and justified a fee waiver. These circumstances do not exist in KEDNY's service territory, and expanding the fee waiver to KEDNY's territory would, in our opinion, unnecessarily impose third party payment center costs on all KEDNY customers.

Q. What would the impact of adopting the Staff CSP's proposal be on KEDNY's revenue requirement?

A. KEDNY estimates that it would incur $410,000 of incremental expenses associated with the Staff CSP's proposal. A breakdown of these costs, which are not included in KEDNY's revenue requirement, is set forth on Exhibit ___ (SSP-2R). As is the case with credit/debit card transaction fees, it is not possible to precisely determine how customers will respond to the elimination of transaction costs. Accordingly, we propose that KEDNY be permitted to defer for future recovery the difference between the level of transaction fee costs reflected in rates and the actual costs incurred if the Commission requires this change.

Q. Does this conclude your testimony?

A. Yes, it does.

Index of Exhibits

Exhibit ___ (SSP-1R)	Information Requests pertaining to Payment Processing
Exhibit ___ (SSP-2R)	Payment Processing Cost Detail
Exhibit ___ (SSP-3R)	Low Income Energy Efficiency Program Design
Exhibit ___ (SSP-4R)	Low Income Energy Efficiency Program Budget
Exhibit ___ (SSP-5R)	Low Income Energy Efficiency Program Earnings Adjustment Mechanism

Exhibit __ (SSP-1R)

Information Requests pertaining to Payment Processing

Date of Request: April 7, 2016 DPS Request No. DPS-407 LS-6
Due Date: April 18, 2016 KEDNY/ KEDLI Req. No. BULI-410

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY

Case 16-G-0058 KeySpan Gas East Corporation d/b/a National Grid
Case 16-G-0059 The Brooklyn Union Gas Company d/b/a National Grid NY

Request for Information

FROM: NYPSC, Leonard Silverstein

TO: National Grid, Shared Services Panel

SUBJECT: **SUSTAINABILITY HUB, BRENTWOOD OFFICE, CALL CENTER UPGRADES**

Request:

1. Provide Sanction Papers for the following Shared Services projects Sustainability Hub, the new Brentwood Office, and the call center technology upgrades.

2. Has the Companies' management approved each of these projects? If so, provide documentation of such approval.

Response:

1. There is no sanction paper for the Sustainability Hub or Brentwood Office projects as the budgets are less than the $3 million threshold required for sanctioning of property projects. The Company's response to DPS-241 provides a description and breakdown of the costs for the Sustainability Hub project. The Brentwood Office project is discussed in more detail in the response to DPS-227.

   The Call Center Technology upgrades is an IS project. IS projects require a sanction paper for projects greater than $1 million going to the US Sanctioning Committee for approval. As discussed in the response to DPS-214, the project is targeted for sanctioning in September

2016. Attachment 1 to DPS-214 is the Investment Request Summary form for the project. This document describes the project and provides a breakdown of the project costs.

2. The MetroTech Sustainability Hub and Brentwood Office projects have been approved by senior management and are included in the Companies' current capital budgets.

   The Call Center Technology upgrades project is still in the early stages. The project is expected to be a multi-year project with an in-service date of April 2019. The anticipated capital costs for the first year of the project have been approved by senior management and included in the current capital budget. As the project progresses and the work for performing the upgrades is scoped in more detail, additional funding will be requested in formal sanction papers for future year budgets. Please see the Companies' response to DPS-214 for a detailed description and breakdown of capital costs relating to this project.

<u>Name of Respondent</u>:
Mary Khan
Thomas Gill

<u>Date of Reply</u>:
April 18, 2016

Form 103

Date of Request: April 21, 2016 DPS Request No. DPS-214 AS-1 **SUPPLEMENTAL**
Due Date: May 2, 2016 KEDNY/ KEDLI Req. No. BULI-38

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY

Case 16-G-0058 KeySpan Gas East Corporation d/b/a National Grid
Case 16-G-0059 The Brooklyn Union Gas Company d/b/a National Grid NY

Request for Information

FROM: NYPSC, Anna Senatore

TO: National Grid, Shared Services Panel

SUBJECT: Call Center Technology Upgrade

Request:

1. Provide a detailed description and line-item accounting (**in excel format with all rows and columns shown, and all formulas and functions enabled**) of the technology improvements and changes to the customer service system.

   a. Include the proposed life expectancy from date of implementation and any supporting documentation underlying this figure.

   b. Provide a breakdown of the costs the companies would incur for the significant technology upgrade forecasted to cost $14.028 million in capital costs.

2. Explain in detail the proposed cost/benefits of the technology upgrades.

   a. Include any supporting documentation or analysis underlying the cost/benefit breakdown of the technology upgrades.

Provide a detailed description and line-item accounting of the KEDNY and KEDLI's rent expense forecast of $0.374 million and $0.173 million, mentioned on line 1, page 58 of the testimony of the Shared Services Panel.

Response:

In its response to Information Request DPS-214, the Company included an incorrect version of Attachment 1. The correct version is included here as Attachment 1. Please note that Information Request DPS-214 is also referenced in Information Request DPS-407.

Name of Respondent:
Wayne S. Watkins

Date of Reply:
April 28, 2016

Planning & Performance Management › IS US Investment Request Summaries: Customer Contact Center / SDC Technology Upgrade Imple Solution

nationalgrid

Investment Request Summary - IS US

INV ID:	3932	Project Name:	Customer Contact Center / SDC Technology Upgrade Implement Solution
Program:	Contact Center Operational Efficiencies		
Sponsor:	Vivienne Bracken	Title:	SVP Shared Services
Relationship Manager:	Jeffrey Dailey	Title:	Relationship Manager - FSS&C
Prog Delivery Manager:	Don Stahlin	Title:	Program Delivery Manager
Paper Author:	Kevin Kolakowski	Title:	Business Consultant

IS Roadmap Category: Contact Center Infrastructure / IVR Business Area: US F,SS&C Portfolio: SS Customer

☐ In-Flight Project? Invest Classification: High Category: Policy Driven Primary Policy Driver: Reliability Region: US

Project Description: The context for the project with background information

National Grid US Contact Centers technology requires significant upgrade to remain operational. Currently, all technology is at the end of support and National Grid will have to implement new technologies to provide operational efficiencies throughout US Customer Contact Centers. This is the second part of the initiative, which is to implement the proposed solution(s) that are identified by the feasibility study being performed by "INVP 2204F - Customer Contact Center Technology Analysis". This will be a program of work covering all of the subsequent projects required to implement the solutions.

Project Rationale: Highlight business challenge, capability or process the project addresses

Currently, all technology is at the end of support and National Grid will have to implement new technologies to provide operational efficiencies throughout US Customer Contact Centers.

Project Scope: Explain what is in scope and what is not in scope for the project

In Scope:
1) Implement the recommended solution(s) that come out of the "INVP 2204F - Customer Contact Center Technology Analysis" project.

Project Dependencies: Identify any core program or project dependencies, please include INVP numbers if known

- This project is contingent upon the completion of INVP 2204F - Customer Contact Center Technology Analysis and the completion of INVP 4172 - Cross Company Customer Sys Enhancements
- INVP4139 – Customer Interaction Channels : need to work in conjunction with the Customer Interaction layer analysis, being driven by this project, to ensure that we leverage an enterprise wide solution and avoid potential re-work or additional work downstream.

Basic Project Assumptions

Traditional implementation estimated (NG buys SW, buy/lease HW, installed in house). 2204F will determine options and associated cost estimates for other implementations (3rd party managed service, Cloud, etc.). Used 85/15 Capex/Opex split and spread costs over FY17, FY18 & FY19. RTB phases in FY18 & FY19 (3/4) and full cost in FY20. RTB depicted is full cost, current RTB will offset much of what's shown below.

Indicative Project Costs by Fiscal Year

($M)	Prior Years	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
CapEx		1.403	7.014	5.611	0.000	0.000	0.000	0.000	0.000	14.028
OpEx		0.990	0.743	0.743	0.000	0.000	0.000	0.000	0.000	2.476
Impact on RTB		0.000	0.359	1.076	1.435	1.435	1.435	1.435	1.435	8.610

Indicative Project Costs by Delivery Phase

($M)	Start-up	R & D	D & I	Closure	Total
CapEx					0.000
OpEx					0.000

Project Benefits - Type I only

($M)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Total
Type I - CapEx									0.000
Type I - OpEx		0.500	0.500	0.500	0.500	0.500	0.500	0.500	3.500
Revenue Generation									0.000

Key Business Benefits:
Describe benefits, both financial and non-financial, and when those benefits will be delivered. Provide a clear & concise business case stating the investment drivers – why do we need to do something and why now? Explain any Regulatory considerations and how this initiative aligns with the US Business Strategy.

Cost savings: ($0.500M annually)
- Potential telephone usage savings
- Potential savings associated with the At Home Agent program

Cost avoided:
- Reduce future IS maintenance costs

Customer satisfaction improvements:
- By replacing end of life platform with currently supported hardware and software, the customer call interaction experience should be improved

Reliability improvements:
- Meet regulatory requirements for customer call interaction recording obligations by replacing end of life platform with currently supported hardware and software.

Productivity Improvements:
- Scalability to leverage platforms and infrastructure for similar functional environments

Investment Prioritization

Benefits	*Impact*	*Weight*	*Score*
OpEx Annual Savings	0.5	[illegible]	.309
CapEx Annual Savings		[illegible]	0
Revenue Generation (annual)		[illegible]	
Financial Control	does not apply	[illegible]	0.000
Soft Financial Benefits	High	[illegible]	0.342
Regulatory Impact	High	[illegible]	1.008
Process & Personal Safety	does not apply	[illegible]	0.000
Reliability	High	[illegible]	0.981
Customer & Community Responsiveness	High	[illegible]	0.477
Employee Satisfaction	Low	[illegible]	0.046
Mitigates a Corporate Risk / Risk of not Doing	High= 40 or more	[illegible]	0.801
Jurisdictional Engagement	High	[illegible]	0.738
		Benefit Score:	4.702

Cost	*Impact*	*Weight*	*Score*
OpEx Cost	2.476	[illegible]	-2.196
CapEx Cost	14.028	[illegible]	-1.01
RTB Efficiency	71.607 %	[illegible]	-2.025
Union/Labor Relations	does not apply	[illegible]	0.000
Dependencies	Medium	[illegible]	-0.318
Elapse Time Duration	High	[illegible]	-0.594
Change Management Effort	High	[illegible]	-1.341
		Cost Score:	-7.482

Overall Priority Score: -2.780

Investment Risk and Complexity

Project Risk Score:	46	*Risk Score Description:* Impact = 6; Likelihood = 7; Based on the Risk Score Matrix, a [I-6,L-7] = 46
Project Complexity Score:	27	*Project Complexity Score Description:* See INVP 2204F Customer Contact Center Technology Upgrade Project Complexity.xls: https://projects.nationalgrid.com/sites/INVP2204/Shared%20Documents/xx-%20Archive%20(From%20BRM%20Site)/2%20Start%20Up/INVP%202204F%20Customer%20Contact%20Center%20Technolog

Key Risks Description: Provide detail on project risks & mitigation strategy:

IS Project Dependencies
If you don't see a project in the drop-down please contact the Planning & Performance team.

IS Projects: 3932 - Customer Contact Center / SDC Technology Upgrade Implement Solution

	Has a	dependency on IS Project:
1	Downstream	2204F - Customer Contact Center Technology Upgrade Analysis
2	Parallel	4139 - Customer Interaction Channels
3		
4		
5		
6		

Business Initiative Dependencies

IS Projects: 3932 - Customer Contact Center / SDC Technology Upgrade Implement Solution

	Has a	dependency on Biz Initiative:
1		
2		
3		
4		

Project Relationships

☐ Minor Works

Project Relationship: Program

Related Projects:

Benefiting Operating Companies:
Check all that apply

- ☐ Select All Companies
- ☐ Clear All Companies
- ☐ Select All Gas
- ☐ Select All Electric
- ☐ Select All Gen
- ☐ National Grid USA Parent
- ☐ KeySpan Energy Development Corporation
- ☐ KeySpan Services Inc.
- ☐ KeySpan Energy Corp
- ☑ KeySpan Energy Delivery New York
- ☑ KeySpan Energy Delivery Long Island
- ☐ KeySpan Generation LLC (PSA)
- ☐ KeySpan Glenwood Energy Center
- ☐ KeySpan Port Jefferson Energy Center
- ☐ KeySpan Energy Trading Svc LLC
- ☑ Niagara Mohawk Power Corp- Electric Distribution
- ☑ Niagara Mohawk Power Corp - Gas
- ☐ Niagara Mohawk Power Corp - Transmission
- ☑ Massachusetts Electric Company
- ☐ Massachusetts Electric Company - Transmission
- ☑ Nantucket Electric Company
- ☑ Boston Gas Company
- ☑ Colonial Gas Company
- ☑ Narragansett Gas Company
- ☑ Narragansett Electric Company
- ☐ Narragansett Electric Company - Transmission
- ☐ New England Power Company - Transmission
- ☐ New England Hydro - Trans Corp
- ☐ New England Electric Trans Corp
- ☐ NG LNG LP Regulated Entity

Enabling IS Capabilities
check all that apply

- ☐ Enterprise Content Management (ECM)
- ☐ Comprehensive Integration Services (CIS)
- ☐ Hybrid Cloud
- ☐ Next Gen Workplace
- ☐ Enterprise Mobility
- ☐ Reporting and Analytics
- ☐ Networks

Key Milestone Dates:
Select the 1st, 15th or last day of the month

Begin Start-up	Begin Requirements & Deign	Begin Development & Implementation	Begin User Acceptance Testing	Go Live	Project Completion	Project Closure
April, 2017					January, 2019	May, 2019

Business Resource Estimates:
of Full Time Equivalents

Start-up	Requirements & Deign	Develop & Implement	Business Resources UAT	Go Live Readiness	Post Go Live Support
			1	1	1

Resourcing Strategy:

This project will be resourced internally from both IS and the Business. The IS Manager and the Business Sponsor are fully committed to providing the necessary resources to ensure successful completion of the project.

Attached Supporting Documents

Recommendation Sign-off

Role	Name	Title	Date
Business Project Sponsor	Vivienne Bracken	SVP Shared Services	
Business Relationship Manager	Jeffrey Dailey	IS Business Relationship Manager	
IS Program Delivery Manager	Don Stahlin	IS Program Delivery Manager	

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Exhibit __ (SSP-2R)

Payment Processing Cost Detail

Credit/Debit Card Fee Analysis

Company	2015 Credit Card payments	2015 Debit Card payments	2015 Debit /Credit Card and Electronic payments	2015 Total Company payments	Percent Debit/Credit and Electronic payments
KEDLI	92,155	15,651	122,578	6,033,257	2.0%
KEDNY	296,536	56,186	367,526	11,654,002	3.2%

Please note: Volumes above include both residential and commercial accounts. For the purposes of this request only residential accounts are included in the analysis below. Electronic payments constitute customers using their banking information while paying on National Grid credit card processing site.

Analysis With Utility Rate Discount for Debit/Credit Card Processing Fees

Company	Estimate Percent Debit/Credit and Electronic payments	Estimate percent residential payments of total	Estimate Total Debit/Credit and Electronic residential payments	Estimate residential per payment cost all card types	Estimate residential total payment cost all card types	Estimate residential per payment cost VISA, MC, Discover	Estimate residential total payment cost VISA, MC, Discover
KEDLI	20%	89%	1,073,920	$2.25	$ 2,416,319	$1.50	**$ 1,610,880**
KEDNY	20%	89%	2,074,412	$2.25	$ 4,667,428	$1.50	**$ 3,111,619**

Please note: Estimate of the usage of Debit and Credit Cards to increase to 20% once the fee is removed. Estimate above only considers residential credit and debit card usage which is currently at a rate of 89% of existing payments.

Analysis Without Utility Rate Discount for Debit/Credit Card Processing Fees

Company	Estimate Percent Debit/Credit and Electronic payments	Estimate percent residential payments of total	Estimate Total Debit/Credit and Electronic residential payments	Estimate residential per payment cost all card types	Estimate residential total payment cost all card types	Estimate residential per payment cost VISA, MC, Discover	Estimate residential total payment cost VISA, MC, Discover
KEDLI	20%	89%	1,073,920	$2.50	$ 2,684,799	$2.25	**$ 2,416,319**
KEDNY	20%	89%	2,074,412	$2.50	$ 5,186,031	$2.25	**$ 4,667,428**

Please note: Estimate of the usage of Debit and Credit Cards to increase to 20% once the fee is removed. Estimate above only considers residential credit and debit card usage which is currently at a rate of 89% of existing payments.

Third Party Payment Processing Vendor Fee Analysis (KEDNY)

		Volume
Current Payments- Customer Office		314,636
Current Payments - Western		12,852
Total Payments		327,488
Cost Per Payment - Third Party	$	1.25
Total Cost - Third Party Vendor	**$**	**409,360.00**

Exhibit __ (SSP-3R)

Low Income Energy Efficiency Program Design

Proposed KEDLI Low Income Energy Efficiency Program – Program Design Details

Eligibility & Target Market

Eligibility will be determined at the time the customer applies for benefits, and will be based upon eligibility for benefits under the Company's current low income programs (*i.e.,* Reduced Residential Rate).

Tier One

The Tier One objective will be customer outreach, engagement, and education through traditional utility channels, marketing campaigns, and local community events. Tier One will drive behavioral energy efficiency and encourage customers to participate in the Tier Two offering.

Tier Two

Tier Two will include the following at no additional cost to participating customers:

- a home energy assessment;
- a health and safety survey;
- a customer interview about energy usage and home comfort; and
- direct installation of energy efficiency measures (such as pipe insulation for domestic hot water heaters and water flow restrictors).

Tier Three

The Tier Three offering will focus on measures recommended from Tier Two's home energy assessment, such as thermostats, the replacement of appliances like stoves and gas dryers, and weatherization measures. Funding for Tier Three is expected to come largely from the program budget, but will also work with other organizations to leverage existing funds.

Tier Four

Tier Four will be available for customers that install custom efficiency measures, require more extensive work on the home, or install certain quality of life measures. If the contractor determines that the location of existing equipment raises resiliency concerns (e.g., a boiler or hot water heater located in a basement below sea level that is at risk for flooding), KEDLI may provide additional funding to relocate equipment as part of equipment replacement. The relocation may involve more extensive home repair or preparation of a new space to accommodate such equipment. Funding for Tier Four may be provided in whole or in part by the Company, depending on the availability of other funding sources, financing opportunities, and budget.

Exhibit __ (SSP-4R)

Low Income Energy Efficiency Program Budget

	Rate Year	Data Year 1	Data Year 2	Data Year 3
Labor *	$144,542	$147,901	$151,341	$153,828
Travel and other expenses ~	$7,227	$7,395	$7,567	$7,691
TOTAL LABOR COSTS	**$151,769**	**$155,296**	**$158,908**	**$161,519**
Vendor Costs	$420,097	$420,097	$420,097	$420,097
Incentives and Services	$1,200,000	$1,250,830	$1,303,204	$1,358,259
Evaluation, Monitoring and Verification ^	$95,361	$98,222	$101,169	$104,204
QA/QC	$40,000	$40,000	$40,000	$40,000
TOTAL IMPLEMENTATION COST	**$1,755,458**	**$1,809,149**	**$1,864,470**	**$1,922,560**
TOTAL PROGRAM COSTS	**$1,907,228**	**$1,964,445**	**$2,023,378**	**$2,084,080**

* Based on Senior Analyst, Band E
~Based on 5% of labor costs
^ Calculated at 5% of total budget
**Adjusted for 3% inflation

Exhibit __ (SSP-5R)

Low Income Energy Efficiency Program Earnings Adjustment Mechanism

Proposed Metric for Program Effectiveness

The Company proposes to use the number of households served as the primary metric for tracking purposes and determining achievement of the proposed EAM. This metric encourages the Company to drive participation in its program to achieve its goal and encourages cost savings to drive participation within the limits of the program budget. The Company will also track estimated dekatherm savings achieved under the program. The Company proposes that the EAM amount be determined by using a percentage of the approved program budget, excluding labor costs, and scaled so that each tier of the program design has a return that reflects the value of participation in that tier. That is, participation in Tier Two of the program is expected to be high and deliver fewer savings per household than participation in Tiers Three and Four. However, because offerings in Tiers Three and Four are more costly, participation rates are expected to be much lower. Therefore, the scaled percentages are meant to reflect the value to the program and to the relative policy objectives achieved in each tier of the program. This proposal is also in line with the Commission's discussion on page 69 of the REV Track Two Order, which suggests that EAMs should be designed with a line of achievement.

The Company will track energy savings achieved under the program.

Calculation

The Company proposes that the EAM be determined annually. In Exhibit __ (SSPR-4R), the line item for "Total Implementation Costs" reflects the annual budget value to be used in the consideration of the EAM.

For each tier, the Company recommends the following percentages be applied to the annual budget value to calculate the EAM per household served:

Tier Two	0.001%
Tier Three	0.005%
Tier Four	0.010%

The EAM per household served should then be multiplied by participation in each tier, resulting in a total EAM award to the Company.

Example

As an example, the Company provides the following using budget information for Rate Year 1 and assumed participation rates.

	Number of Households Served	Approx. Cost per Customer	Cost per Tier
Tier Two	1,500	$400	$600,000
Tier Three	500	$1,000	$500,000
Tier Four	130	$5,000	$650,000
		Expenditures	**$1,750,000**
		Annual Budget	**$1,755,458**

	EAM % for Tier	EAM Per Household Served (EAM % * Annual Budget)	Total EAM for Each Tier (EAM per Household * Number Households Served)
Tier Two	0.001%	$17.55	$26,325
Tier Three	0.005%	$87.77	$43,885
Tier Four	0.010%	$175.55	$22,821
		Total EAM	**$93,031**

Rebuttal Testimony of
GIOP

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of

Gas Infrastructure and Operations Panel

Ross W. Turrini
Johnny Johnston
Laurie T. Brown

Case 16-G-0058
Case 16-G-0059

Dated: June 10, 2016

TABLE OF CONTENTS

I. **<u>Introduction</u>**

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

A. The Gas Infrastructure and Operations Panel ("Panel") consists of Ross W. Turrini, Johnny Johnston and Laurie T. Brown.

Q. Is this the same Gas Infrastructure and Operations Panel that submitted testimony previously in these proceedings?

A. Yes. The terms defined in the Panel's direct testimony have the same definitions here.

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

A. The purpose of the Panel's rebuttal testimony is to respond to certain recommendations set forth in the prepared testimony of the Staff Infrastructure and Operations Panel ("Staff" or "SGIOP"), the City of New York Infrastructure and Operations Panel and Witnesses Radley Horton and Susanne DesRoches (collectively, "CNY"), and the Environmental Defense Fund ("EDF") regarding the Companies' proposed capital investment and operations plans. Specifically, the Panel's rebuttal testimony will address:

- <u>Unit Costs</u>: The Panel will explain in more detail the basis for the Companies' projected unit cost increases and the impacts of Staff's significant downward unit cost adjustments on the Companies' ability to deliver their accelerated LPP replacement and growth programs.

- Rate Year Forecast Versus Sanctioned Amounts: In response to Staff's downward adjustments to several capital programs to reflect the currently sanctioned amount, the Panel explains why a program's sanctioned amount does not necessarily reflect the level of investment required in the Rate Year.
- Blanket Reliability Programs: The Panel will address the consequences of Staff's proposed downward adjustments to the proactive Pressure Regulating Facilities program, System Automation program, Remote Control Valve installation program and the I&R Reactive/Compressed Natural Gas ("CNG") programs. The Panel will also discuss Staff's adjustments to the Companies' Water Intrusion programs.
- LNG Programs: The Panel will discuss proposed adjustments to KEDNY's salt water pump house, truck load/unload and maintenance area projects at the Greenpoint LNG Plant. The Panel will also discuss funding for the cold blowers at KEDLI's Holtsville LNG Plant.
- AMR Installations and Replacements: The Panel will address Staff's proposal to defer KEDNY's AMR Installation program and the impact

of this proposal on projected O&M savings. The Panel will also clarify the scope of KEDNY's AMR Replacement program.

- KEDLI's Brightwaters Yard Upgrade Project: The Panel will explain in more detail the budget and benefits of this project to upgrade an operating yard on Long Island.
- KEDNY's Newtown Creek Project: The Panel will discuss Staff's recommendation to remove the Newtown Creek project from the Rate Year capital budget.
- Enhanced Reporting Recommendations: The Panel will address Staff's recommendations for enhanced reporting on the Companies' capital investments.
- FTE and Salary Adjustments: The Panel will discuss certain of Staff's recommendations related to the Companies' O&M plans, including salary adjustments and recommendations to eliminate certain positions.

Q. Does the Panel sponsor any exhibits as part of its rebuttal testimony?

A. Yes. The Panel sponsors the following exhibits that were prepared under its direction and supervision:

Exhibit __ (GIOP-1R): Map of KEDLI's LPP Replacements

Exhibit __ (GIOP-2R): FY Budgets/Sanctions Amounts Compared to CY Forecasts

II. Unit Costs

Q. Please describe Staff's recommendations with regard to unit costs.

A. Staff identifies concerns with regard to increases in the Companies' unit cost forecasts compared to historic spending and recommends significant downward unit cost adjustments based on historic averages for KEDLI's accelerated LPP replacement program and the Companies' growth main programs.

A. KEDLI LPP Unit Cost Adjustment

Q. Please discuss Staff's recommended unit cost adjustment for KEDLI's LPP program and its impact.

Staff calculated its proposed $149/foot unit cost based on a three-year average using calendar year data that was presented in the Companies' response to Information Request ("IR") DPS-477 (MT-14). The result is a downward adjustment of $46.36 million (nearly 45 percent) to KEDLI's forecast cost of its proactive LPP replacement program. This adjustment would effectively prevent KEDLI from executing its accelerated LPP replacement program and, therefore, is inconsistent with the Commission's stated policy of removing all

LPP in 20 years. Moreover, reducing KEDLI's allowed unit cost has the effect of incenting the Company to target main replacements based on the lowest cost, instead of prioritizing main replacements based on risk (assessed using the Company's DIMP) and leak reductions, as supported by Staff's Gas Safety Panel and other intervenors. This is not the right result from a public policy or a safety perspective.

Q. Please explain the basis for Staff's downward adjustment based on the historical three-year (CY 2013 to 2015) LPP unit cost as a proxy for the unit cost in the Rate Year.

A. Staff based its adjustments on KEDLI's presentation of its historic unit cost data by calendar year in IR DPS-477 (MT-14), which contained an error. IR DPS-477 sought information on the Companies' historical unit costs for their proactive main replacement programs. In its response, KEDLI presented calendar year unit costs that were very low as compared to the fiscal year unit costs reported for corresponding years (Exhibit __ (SGIOP-1), Page 151 of 162). For example, the response to IR DPS-477 indicates a unit cost of just $94 per foot for CY 2013, a year in which KEDLI replaced 47.6 miles of LPP through its main replacement program. This was approximately 48 percent lower than the unit cost average for the other four years presented in IR DPS-477.

Upon further investigation, KEDLI determined that its response to IR DPS-477 did not fully reflect its LPP replacement costs in several years impacted by Superstorm Sandy. Specifically, while the LPP main replacement miles performed to address system damage resulting from Superstorm Sandy were reflected in the total annual replacement miles, the cost totals did not include the cost of these replacements, which were tracked separately. When the Superstorm Sandy-related LPP replacement costs are added to the calendar year cost totals, the unit cost for the affected years increases to levels consistent with the numbers reported for corresponding fiscal years (*e.g.*, the CY 2013 unit costs increased from $94 per foot to approximately $242 per foot).

<u>Table 1</u>: Revised KEDLI Historic Unit Costs

Calendar Year	2011	2012	2013	2014	2015	Three-Year Average
Unit Cost per IR DPS-477	$203	$173	$94	$142	$210	$149
Revised Unit Cost	$204	$174	$242	$174	$220	$212
Inflation Adjusted 2017 Unit Cost	$230	$192	$262	$185	$229	$225

Accordingly, KEDLI's revised three-year average (CYs 2013 to 2015) for its proactive main replacement program is $212 per foot. When adjusted for inflation, the three-year average increases to $225 per foot.

Q. Does Staff recommend a higher rate allowance for any incremental main replaced in the Rate Year?

A. Yes. While recommending a rate allowance of just $149 per foot for KEDLI's base mileage, Staff recommends a unit cost cap of $221 per foot (more than 48 percent higher) for any incremental miles replaced under the Gas Safety and Reliability Surcharge (SGIOP Page 114, Lines 18-22). Staff's higher cap is based on an analysis of the Company's historic fiscal year unit costs (FYs 2013 to 2015) (Exhibit __ (SGIOP-2), Page 7). This disparity highlights the inequity of using the understated historic unit cost data as a basis for the base mileage allowance. Clearly, the rate allowance for the base LPP mileage and incremental mileage should align.

Q. Does the Panel believe that KEDLI's historic unit costs for LPP replacements are indicative of its costs to complete this work in the Rate Year and Data Years?

A. No. Even KEDLI's revised historic three-year average understates the unit costs for the Rate Year and Data Years because the historic costs do not include factors (discussed below) that KEDLI expects will increase its costs significantly in these years. KEDLI's adjusted unit costs for the Rate Year and Data Years include the anticipated impacts of these factors and are reflected in its forecasts for the LPP replacement program.

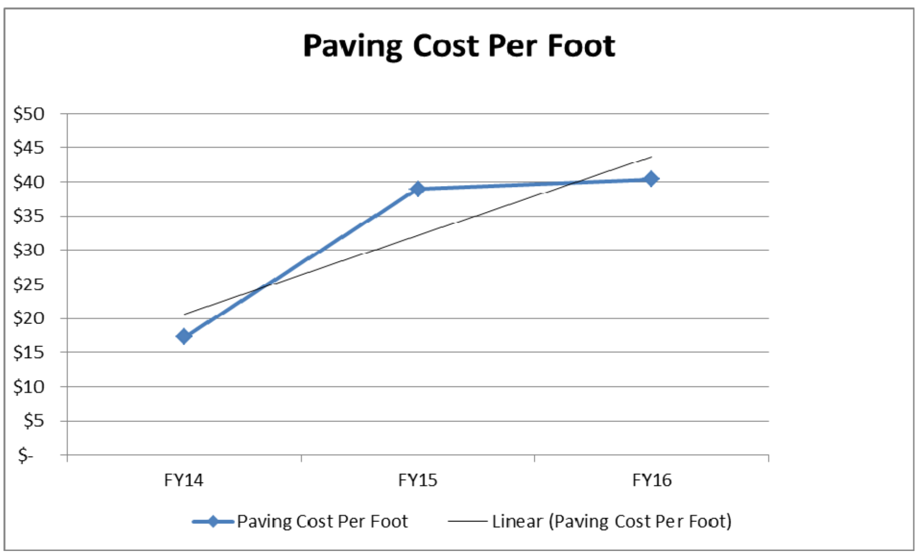
Q. Please identify the factors contributing to the increasing unit cost estimates for LPP replacement in KEDLI's forecasts.

A. KEDLI's unit cost forecasts for LPP replacement consider the following factors that are not fully reflected in its historic unit costs: increased municipal permitting and paving costs, higher construction costs to work in urban and coastal areas, and the changing mix of LPP replacement work to include more large diameter main.

Q. Please describe the impact of increasing paving and municipal permitting costs.

A. Historic costs do not reflect escalating paving and municipal permitting costs. Over the last several years, KEDLI has seen its paving costs increase as a result of more onerous municipal paving requirements. Faced with increasing costs to maintain their infrastructure, municipalities are looking to utilities to bear more costs to repave streets by requiring larger restoration areas, even curb-to-curb repaving, as a condition to permitting roadway excavations. These requirements, which are increasingly prevalent in KEDLI's service territory, have increased the Company's paving costs for its LPP replacements. For example, several municipalities (*e.g.*, Freeport, Glen Cove, Brookhaven, Islip, East Hampton, Huntington and Southold) have increased their paving cutback requirements (*i.e.*, the area that must be restored around an excavation) from 6-12 inches to two feet. Hewlett Harbor, Hewlett Neck, Woodsburgh and Muncy Park now require curb-to-curb restoration for many excavations. Additionally, county and state roads on Long Island now require panel-to-panel restoration (*i.e.*, the concrete slabs under the asphalt). As a result of more onerous paving requirements, KEDLI saw its paving costs increase from approximately $17 per foot of LPP in FY 2014 to $40 per foot of LPP in FY 2016.

Table 2: KEDLI Paving Costs



At the same time, KEDLI's cost to secure municipal road opening permits has increased from approximately $251 per permit in FY 2013 to more than $366 per permit in FY 2015.

Table 3: KEDLI Permit Costs

FY Year	# of Permits	Total Permit Cost ($M)	Cost/Permit
2013	9,550	$2.398	$251.12
2014	10,605	$2.798	$263.87
2015	9,906	$3.631	$366.52

KEDLI's accelerated LPP replacement program is only expected to exacerbate the upward trend for permitting and paving costs as municipalities react to the increased scope of work.

Q. Why is KEDLI forecasting higher unit costs to reflect more work in urban and coastal areas?

A. KEDLI has historically targeted the highest risk-ranked main segments in the less densely populated areas of Long Island (*e.g.*, side streets and soft ground areas) where LPP can be removed from the system cost effectively. However, as the Company further accelerates its rate of main replacement, KEDLI will need to target LPP in more densely populated areas (*e.g.*, western Nassau County) and this will increase costs. Increased costs are attributable to, *inter alia*, more onerous work time restrictions around rush hour construction, which requires more work to be performed off hours and during nights and weekends. Other factors increasing costs in urban areas of KEDLI's service territory include:

- Increased traffic control costs (additional flagpersons and signage)
- More costly excavation because of concrete and thicker roadways
- A higher concentration of underground infrastructure, which restricts the Company's ability to utilize cost effective technologies, *i.e.*, horizontal directional drilling and other trenchless installation methods
- Higher costs to stage materials and equipment

KEDLI works closely with municipalities to minimize costs associated with construction (*i.e*., by coordinating main replacements with municipal paving projects), but many of these costs are driven by demographic and geographic factors and, therefore, are not within the control of the Company to reduce.

Work in coastal areas (*i.e*., flood prone) requires upgrading lower pressure systems to high pressure systems, which are generally more expensive projects because of the additional meter and regulator work, as well as the cost associated with retiring low pressure regulator stations. Exhibit __ (GIOP-1R) is a map showing that KEDLI's LPP replacements for CY17, CY18 and CY19 will be concentrated in the more urban, congested and coastal areas of western Long Island.

Q. Please explain how the mix of work for replacement main is changing and impacting unit costs.

A. The Company expects an increase in replacement of large diameter pipe as compared to prior years, and the DIMP risk-based approach dictates that the Company prioritizes higher-risk, not necessarily lower cost replacements. Because large diameter pipe is generally more expensive to replace, KEDLI's average unit costs will continue to rise as it targets more of its large main over the next several years.

Q. What are the risks of underestimating unit costs?

A. Staff's proposed unit cost will frustrate KEDLI's ability to deliver its aggressive goals for LPP replacement in 20 years and, therefore, is inconsistent with Commission policy. While the Companies appreciate Staff's concerns for managing increasing unit costs, the reality is that the cost to perform LPP replacements is trending up, not down. KEDLI and Staff need to ensure that allowed unit costs fairly reflect the costs the Company will incur to complete this important work in the Rate Year and the years to follow.

Q. Does the Panel agree with the Staff Gas Safety Panel's recommendation to increase inside meter relocations as part of the LPP replacement program?

A. Yes. As discussed in the rebuttal testimony of the Companies' Gas Safety Panel, the Companies support relocating more meters outside when it is safe and practical in coordination with the LPP replacement program. However, this additional work will result in additional costs. While the Companies' forecasts assume some number of meter relocations in their unit cost estimates, accelerating meter relocations will require additional resources. Therefore, the Companies' main replacement forecasts will need to be adjusted to reflect the additional cost of relocating meters consistent with Staff's recommendation. The cost to relocate meters generally ranges from $500 to $2,000 in KEDLI's territory and from $500 to $2,500 in KEDNY's territory. Relocations in New York City can be more expensive as a result of the need for protection posts, additional piping, carpentry work, paving or brick work. The Companies have not included these costs in their current LPP replacement forecasts.

Q. Please address CNY's recommendation that the Companies' accelerate the replacement of LPP in designated flood zones and EDF's

recommendation to consider methane emissions in the Companies' LPP prioritization.

A. With regard to CNY's recommendation, the Companies are agreeable to working with CNY and Staff to evaluate potential modifications to the LPP risk ranking algorithm to provide additional consideration for the replacement of main segments in FEMA designated flood zones. Similarly, as discussed in EDF's testimony, the Companies will analyze potential modifications to the algorithm to consider methane emissions as a factor in prioritizing main segments for replacement.

B. <u>Growth Main Unit Cost Adjustments</u>

Q. Please describe Staff's proposed recommendations on the Companies' growth main budgets.

A. Staff recommends downward adjustments in the Rate Year for the following KEDNY growth program line items: Growth Commercial Main from $446 to $356 per foot and Growth Residential Main from $294 to $173 per foot. For KEDLI, Staff recommends a downward adjustment for Growth Residential Main from $240 to $89 per foot. These adjustments are based on five-year averages of the Companies' fiscal year costs in these categories. The Companies are concerned that these downward adjustments to unit costs for the growth programs are not realistic and may limit the Companies' abilities to meet actual demands for new services.

Many of the same factors driving increases in LPP unit costs will impact KEDNY's cost to install growth main (*e.g.*, increased permitting and paving costs). Therefore, KEDNY believes that Staff's adjustment based on the five-year historical average is not appropriate because it fails to account for the impact of these factors on unit costs in the Rate Year and Data Years.

Q. Please describe Staff's proposed adjustments to KEDLI's growth main unit costs.

A. Staff's recommended downward adjustment to the unit costs for KEDLI's growth residential program is unclear. Staff's testimony states that the adjustment is to the residential growth category, but the numbers referenced appear to address the commercial growth category. KEDLI assumes that Staff intended to adjust the commercial growth category from $240 to $89 per foot based on a five-year average, because $240 is the Company's unit cost forecast for the commercial growth category, and $89 is the five-year average of the Company's historic unit costs in the commercial growth category.

A downward adjustment based on the five-year average historical unit costs is not appropriate given the upward cost pressure on the Company's main installations.

III. Rate Year Forecast Versus Sanctioned Amounts

Q. Staff has made several downward adjustments to reduce the Rate Year forecast to reflect the amount currently sanctioned for FY 2017. Does the Panel agree with Staff's downward adjustments to reflect the currently sanctioned amounts rather than the forecast amounts?

A. No. These adjustments appear to be based on a misunderstanding of the Companies' budgeting and sanctioning processes and/or a misunderstanding about how the Rate Year forecasts, presented in this case on a calendar year basis, translate to fiscal year budgets for sanctioning purposes. Downward adjustments to the Companies' Rate Year forecasts based on the currently sanctioned amounts are not justified.

Q. Please clarify the misunderstanding.

A. Sanctioned amounts do not reflect the program funding requirements in the Rate Year. The timing of the sanction process is not aligned with the capital planning process for purposes of forecasting the Rate Year budgets. As described in more detail in the Panel's direct testimony, the Companies developed long term investment plans that were used to develop the forecast for the Rate Year and Data Years. Project sanctioning, however, normally occurs immediately prior to the fiscal year in which the investment is planned. For example, the FY 2018 capital plan (which includes nine months of CY 2017 from April 2017 to December 2017) will be formally sanctioned in early 2017. Thus, currently sanctioned or partially sanctioned dollars shown in FY 2017 sanctioning documents do not represent the full forecast for projects proposed in the Rate Year. Sanctioned dollars are not a substitute for the Companies' Rate Year forecasts. Setting budgets for the Rate Year based on currently sanctioned amounts will drastically under fund the Companies' capital programs.

With regard to Staff's assertion that the lack of sanctioning papers has compromised its ability to analyze certain capital programs, the Companies note that they have provided detailed descriptions for significant capital programs in the Rate Year. These descriptions contain information that is sufficiently similar to the information in sanctioning papers (Exhibit __ (GIOP-4). Moreover, the Companies have answered numerous IRs regarding their proposed capital programs.

Exhibit __ (GIOP-2R) reconciles the difference between the sanctioned amounts and the Companies' Rate Year forecasts for the programs subject to Staff's recommended adjustments.

Q. Would the Panel provide an example where a proposed sanctioning adjustment would negatively impact the Companies' ability to manage their systems?

A. As an example, Staff proposes a downward adjustment for KEDNY's IMP program of $9.67 million (59 percent) to reflect the currently sanctioned FY 2017 amount. As described in the Panel's direct testimony, the Company's IMP is a safety program mandated by the Pipeline Safety Improvement Act of 2002 that requires operators to assess transmission pipelines using in-line inspections ("ILI") and other assessment methods.

KEDNY's IMP budget is "zero based," meaning the level of investment is developed based on the actual amount and type of work planned in each year. In the Rate Year, KEDNY proposes IMP investments to make additional pipelines ILI enabled. Staff's Gas Safety Panel supports the Companies' proposed IMP investments, including the expanded use of ILI (Staff Gas Safety Panel Page 74, Line 23-24). Staff's proposed reduction to the program based on the currently sanctioned amount, however, would prevent KEDNY from executing its IMP program and would delay the Company's ability to comply with the ILI requirements that are currently pending with PHMSA.

IV. <u>Blanket Reliability Programs</u>

Q. Is the Panel concerned with Staff's proposed adjustments to the Companies' blanket reliability programs?

A. Yes. The Panel is concerned that these recommendations appear to be based on a misconception that the Companies' larger, special reliability projects should enable the Companies to reduce spending for blanket reliability programs to levels more aligned with recent historic costs. In fact, the Companies' special reliability projects do not address the work included in blanket programs for necessary replacement of aging regulating stations and obsolete telemetry equipment. De-funding the proactive Pressure Regulating Facilities, System Automation, RCV and I&R Reactive/CNG programs will impair system safety and reliability.

Q. Please explain why the Companies' investments in the Pressure Regulating Facilities category are required to maintain system reliability.

A. The Pressure Regulating Facilities forecast is part of the budget for the Companies' blanket Heater and Regulator Station Management programs, as described in the Companies' respective Exhibits __ (GIOP-4). These budgets are dedicated to replacement or overhaul of older regulating stations that no longer meet current company standards for design (*i.e.*, over pressure protection) and are at, or near, the end of their useful lives. These replacements/overhauls enable compliance with regulatory requirements for the operation of the gas system, are necessary to maintain system integrity and are not included in any other budgets. These stations are critical to safe and reliable system operation. Failure to perform replacements/overhauls of these stations could result in station failures.

Q. Please explain the need for incremental investments in system automation.

A. As stated in the Panel's direct testimony, the System Automation Program includes installation of Remote Terminal Units ("RTUs") to provide enhanced ability to monitor system performance and remotely adjust pressures on the gas system, which gives Gas Control and system operators visibility to system conditions and the ability to react to changing operations. The program also includes replacing aging and obsolete telemetry equipment that is used to communicate with pressure regulating stations and increase deployment of telemetry equipment on the Companies' systems. CNY's testimony supports these types of investments in the interest of enhancing the Companies' communication capabilities and ability to monitor pressures and operability of gate stations, particularly in areas prone to flooding (CNY's Gas Infrastructure Panel (KEDNY), Page 16, Lines 14-18). Furthermore, system automation helps to reduce leaks and methane emissions by providing a mechanism to reduce pressures automatically if a leak or equipment failure is detected on the system.

Q. Is it necessary to replace aging telemetry equipment?

A. Yes. The need for replacing aging telemetry equipment is critical. As stated in the program description found in the Companies' respective Exhibits __ (GIOP-4), in the stations that are currently equipped with telemetry equipment, that equipment will soon be obsolete. This equipment is no longer supported by third-party communications vendors (Verizon and AT&T) and, therefore, can no longer communicate effectively with receiving telemetry equipment outside the station. Staff's adjustment to the system automation budget eliminates the funding for these critical replacements.

Q. Does the Company agree with Staff's recommended removal of the RCV program from the Rate Year based on PHMSA's deferral of the RCV issue from its current notice of proposed rulemaking to a future rulemaking?

A. No. The Companies believe investment in RCVs is prudent to improve the safety of the gas systems in light of recent incidents such as San Bruno. RCVs were an important component of the National Transportation Safety Board's recommendations following that incident. While PHMSA has delayed formal action on RCVs, it is still anticipated they will enact requirements in a future rulemaking.

Q. What would be the effect of Staff's proposed downward adjustment to the I&R Reactive/CNG budget?

A. Because much of the I&R Reactive program budget involves mandated reliability work, a reduction to the forecast incremental spend in this category will primarily impact the Companies' plans to refurbish and maintain CNG fill stations. If this budget is reduced, the Companies will no longer be able to maintain the CNG fill stations, and some may need to be retired.

Q. What are the benefits of continuing to maintain the CNG fill stations?

A. Functioning CNG fill stations are critical to the viability of natural gas vehicles ("NGV") in the service territory. The Companies support the expansion of NGVs because of the significant economic and environmental benefits. Staff has also expressed support for expanding NGV utilization in the Companies' service territories (Staff Gas Policy and Supply Panel, Page 22, Lines 6-9).

Q. Does the Panel agree with Staff's adjustments to the Companies' Water Intrusion programs?

A. Yes. KEDNY and KEDLI's Water Intrusion programs address unanticipated instances of water in gas mains that can potentially cause service disruptions. Based on the Companies' historic three-year average expenditures in this area, Staff recommends downward adjustments in the Rate Year for KEDNY and KEDLI of $0.828 million and $0.216 million, respectively (SGIOP Pages 47-48). Because it is difficult to forecast the amount of Water Intrusion work that will be required in the Rate Year and Data Years, the Companies agree to this adjustment to their capital budgets. The Companies have been successful in coordinating water intrusion work with other construction activities whenever practical and believe that the programs can be adequately managed to Staff's recommended budgets.

V. LNG Program Investments

Q. What adjustments did Staff make to KEDNY's capital plans for the Greenpoint LNG Plant?

A. Staff recommends adjustments to KEDNY's forecasts for the salt water pump house project, the truck/load unload station project, and the project to relocate the plant's maintenance area because they believe these costs are reflected in other programs, not justified and/or not expected to be completed in the Rate Year.

Q. Does the Panel agree with Staff's recommended adjustments to the Salt Water Pump House project?

A. Yes, in part. KEDNY agrees that a downward adjustment in the amount of $0.169 million is appropriate because the Company inadvertently included these costs twice. However, while Staff agrees that there is a need to update, rebuild and storm harden the plant's fire suppression systems as soon as practicable, Staff recommends an additional downward adjustment to the remaining budget for the pump house project ($6.5 million total) on the basis that the Company should delay investment in this project until it has fully considered other alternatives. The Panel disagrees with this adjustment. The fresh water system in the area of the plant is not sufficient to support the fire suppression system. A salt water pump house is the only viable option for providing the required volumes of water. In addition, the Commission has directed KEDNY to accelerate fire suppression system upgrades at the

Greenpoint LNG Plant (Case 12-G-0544). For these reasons, KEDNY believes is it prudent to proceed with this project in the Rate Year.

Q. Does KEDNY agree that the Truck Load/Unload Station program should be removed from the Rate Year because the Fire Department of New York City ("FDNY") has not yet approved it?

A. No. KEDNY acknowledges that the FDNY has not yet approved the project, but is actively pursuing approval. KEDNY has provided the FDNY information to facilitate its review, and the Company is in regular contact with the FDNY regarding this project. The Company anticipates approval prior to the Rate Year and believes the project should stay in the budget.

Q. What is KEDNY's position on Staff's proposed elimination of the Relocation of Maintenance Area special program?

A. KEDNY does not oppose deferral of this program from the Rate Year, but intends to pursue the project in the near term and would propose to include it in a multi-year rate plan.

Q. Does the Panel have any comments on Staff's recommendations for KEDLI's Holtsville LNG Plant capital plans?

A. Yes. Staff recommends removing the cold blower replacement project because, in Staff's view, the Company has not articulated sufficient justification for the project. During extreme weather when barometric changes occur rapidly, two cold blowers are required to be in service to maintain LNG tank pressure and prevent venting LNG vapor to the atmosphere. A third blower has already been purchased, but the existing piping system is too small to allow it to operate in tandem with either of the other blowers. The project included in the CY 2017 Special Project budget is to install the third blower and to make piping modifications to allow any two blowers to operate in tandem. This project will provide operational reliability in the event one of the blowers fails.

VI. Non-Infrastructure Adjustments

A. AMR Programs

Q. Regarding KEDNY's AMR Installation Program, Staff recommends levelizing installation of the remaining AMR units over five years. From an operations perspective, can KEDNY accommodate this change from a three-year program to a five-year program?

A. Yes, the Company could extend this program over five years, but recommends an alternative to the levelized installation schedule Staff proposes to mitigate incremental O&M costs.

Q. What O&M costs result from extending the AMR Installation program from three to five years?

A. The Company currently forecasts completing AMR deployment in CY 2019, with the majority of the remaining AMRs installed in CYs 2017 and 2018. Delaying full AMR deployment for an additional two years, and levelizing installation over that period, will necessitate continued manual meter reading for a longer period, and to a greater extent, than forecast. The Company previously estimated that full AMR deployment would result in a total annual O&M savings of $5.8 million. If the AMR deployment is levelized over a five-year period, the Company will not realize its forecast O&M savings until full deployment is reached.

Q. What does KEDNY recommend to mitigate the increased O&M costs for a five-year program?

A. Instead of the levelized schedule proposed by Staff, KEDNY recommends a front loaded schedule with more installations in the Rate Year and Data Years. Accelerating deployment in the first three years will decrease O&M requirements in later years of the program as the Company reduces the number of manual meter reads.

Table 4: Revised AMR Deployment Schedule

CY	Proposed Budget ($M)	Estimated Installs
2016	7.87	160,000
2017	8.7	140,000
2018	8.13	100,000
2019	5.0	70,000
2020	3.0	50,000

Because KEDNY will be required to manually read meters through 2020 under this revised AMR deployment schedule, the Company's forecast meter reading expenses would increase by approximately $1.4 million in Data Year 1 and $2.8 million in Data Year 2.

Q. Staff also recommends decreasing KEDNY's AMR Replacement line item on the basis of Staff's unit cost calculation for replacing 35,000 AMR devices in the Rate Year. Does the Panel agree with this adjustment?

A. No. Staff's adjustment does not reflect all of the AMR units the Company anticipates purchasing in the Rate Year. This budget item includes the cost to purchase the devices used to facilitate AMR communication, *i.e.*, encoder receiver transmitters ("ERTs"). The Companies purchase ERTs every year to (i) proactively replace existing ERTs that are at or near the end of their 20-year service lives, (ii) reactively replace existing ERTs on meters because of unanticipated failures, (iii) install ERTs on new meters purchased for the Base

Growth-Meter Purchases program, and (iv) install ERTs on the meters required for the mandated Purchase Meters (Replacement) program. The 35,000 units used to calculate Staff's adjustment represents only the proactive ERT replacements the Company anticipates it will perform in the Rate Year. KEDNY's Rate Year forecast for this program also includes the cost to purchase the ERTs required for the reactive replacements (10,000 units) and those required for the base growth and mandated programs (approximately 38,000 units). In FY 2016, KEDNY purchased 96,310 ERTs through this program at a cost of approximately $5.8 million, which aligns with Staff's proposed unit cost of approximately $61 per unit, including unit cost and installation.

B. <u>KEDLI's Brightwaters Yard Upgrade Project</u>

Q. Does the Panel agree with Staff's adjustment to remove the Brightwaters Yard Upgrade Project from KEDLI's forecast?

A. No. As described in the Panel's Corrections and Updates testimony, this project will upgrade the Brightwaters operating yard to provide a welding shop and additional storage for construction equipment. The proposed Brightwaters Yard facility will provide a controlled environment for welders to work on piping and regulation station projects. Additionally, the welding facility will reduce welder time lost to inclement weather days, travel time to and from project sites, field set up/break down for welders and support personnel, field staff required to support the welders, and the need for crane rentals and equipment to support field welding operations. The facility will also provide for storage of Company coring, drilling and weather sensitive equipment that is being purchased to support the increased work load that requires inside storage. These efficiencies will help to control costs and support KEDLI's increased capital workload on Long Island.

VII. KEDNY's Newtown Creek Project

Q. Please describe Staff's position on the Newtown Creek project.

A. Pointing to a recently identified issue with the volume of biogas produced by the wastewater treatment plant and the fact that the Company has never attempted this type of project before, Staff expresses concern that the project's in-service date will not occur during the Rate Year. Staff also expresses concern that the project's budget has increased significantly over the past several years. For these reasons, Staff recommends a downward adjustment to remove the project's revenue requirement from the Rate Year.

Q. Does the Panel agree with Staff's adjustment to remove the project from the Rate Year forecast?

A. No, but the Panel acknowledges the project schedule has been extended and there is a risk of further extensions. If the biogas production issue is resolved in the next several months, then construction will commence in CY 2016 and the project should be in service in the Rate Year. If the production issue is not resolved in the next few months, the project's in-service date would be delayed beyond the Rate Year. In either case, the Company believes the Newtown Creek project should be included in a multi-year rate settlement because the Company fully expects to complete this project in the next one to two years.

Q. Does Staff make any recommendations regarding recovery of the Newtown Creek project's costs?

A. Yes. Staff suggests that the Commission should consider: (i) limiting the level of investment reflected in the cost of service to be more in line with the projected revenues from the sale of biogas, (ii) requiring any excess revenues be used to write down the assets in lieu of the proposed sharing mechanism, and (iii) encouraging the City of New York to provide full property tax abatement for 20 years to improve the economics of the project.

Q. Does the Company support Staff's proposed modifications for cost recovery for the Newtown Creek project?

A. No. Because this project will support the development of renewable gas supply sources for the benefit of the Company's customers, as well as environmental benefits in KEDNY's service territory in the form of reduced carbon emissions, the Company believes it should recover the full revenue requirement with an offsetting credit for the value of gas sold to sales customers, as described in the Panel's direct testimony. The revenue sharing mechanism with the City of New York will only operate to the extent the Company's customers have been fully compensated for the project through the sale of gas and any environmental credits and, therefore, is a reasonable accommodation to the City for the use of its property and the biogas. That said, the Company is agreeable to using its share of any excess revenues to write down the project. The Company also supports any further tax abatements that may be available for the project.

VIII. <u>Capital Investment Reconciliation and CSC Deferral Mechanisms</u>

Q. Does the Panel agree with Staff's proposed Capital Investment Reconciliation Mechanism?

A. No. Under Staff's proposal, the Capital Investment Reconciliation Mechanism would act as a downward only capital tracker measuring the actual net revenue requirement for the plant in service in the Rate Year with the net revenue requirement approved by the Commission. To the extent the

Companies' net plant in service was lower than forecast, the revenue associated with the plant not in service would be deferred with carrying charges for the benefit of customers (SGIOP Pages 105-106). While KEDNY and KEDLI are willing to consider a net plant reconciliation mechanism, particularly one that includes upside incentives, in the context of a multi-year rate plan, the Companies do not believe a capital tracker in a one-year case is appropriate or necessary.

Q. Does the Panel agree with Staff's recommendation not to include a deferral mechanism to recover City/State construction ("CSC") costs in excess of the Rate Year allowance?

A, No. Staff suggests that a CSC deferral mechanism is not appropriate in a one-year case because the Companies have a dedicated staff to manage CSC spending and the Companies should be incented to control their CSC costs. Staff's position fails to acknowledge the extent to which these costs are increasing beyond the Companies' control and difficult to forecast - even in the near term. As discussed in the Panel's direct testimony, the Companies' CSC forecasts are based on their current estimates of municipal construction activity in the Rate Year, which are informed by historical spending levels and guidance from municipalities on future spending. In practice, the Companies' forecasts have regularly underestimated the level of CSC spending in recent years as municipalities have increased infrastructure investments to unprecedented levels. For example, KEDNY overspent its FY 2016 CSC budget by more than $85 million to accommodate increased work in the City of New York. Forecasting CSC spending is particularly challenging because the Companies do not always have the municipalities' construction plans until after CSC budgets are set, and large municipal projects (*e.g*, Flatlands and LaGuardia) can be added, removed, accelerated or delayed at any time on relatively short notice. For these reasons, the Panel believes a two-way deferral mechanism for its CSC costs is appropriate to ensure the Companies are reasonably compensated for the work required to accommodate municipal construction.

IX. <u>Enhanced Capital Reporting Recommendations</u>

Q. What does the Panel propose with regard to Staff's recommended reporting requirements?

A. The Company will work with Staff to develop a mutually agreeable reporting format that addresses Staff's recommendations. Ideally, the reporting format would incorporate aspects of the Companies' internal reporting practices to minimize the incremental administrative burden. The Companies will also examine the reports the Commission currently receives to determine whether they could be leveraged or consolidated. The Companies will determine the most efficient means to gather and organize the requested information, and will consult with Staff on a mutually agreeable format.

X. O&M Salary Adjustments and FTEs

Q. Does the Panel agree with Staff's adjustment to the salaries of the Companies' incremental FTEs?

A. No. Staff adjusts the Companies' forecast salary expense to reflect the lower range of salaries by position. However, the Companies' recent experience is that salaries at the low end of the range will not attract sufficient talent to fill these positions. Given the constrained labor market, particularly for engineers who are in high demand, recruiting qualified personnel demands that the Companies offer salaries at the mid-point of the market or risk losing candidates to competitors offering higher salaries. Accordingly, the Rate Year salaries for these new positions should reflect the mid-point rates consistent with the Companies' proposal.

Q. Does the Panel agree with Staff's adjustments to the Companies' proposed incremental FTEs?

A. Not entirely. The Companies do not agree with the following FTE adjustments:

- KEDNY LNG Field Engineer – Staff recommends removing this position consistent with the delay in certain capital investments at the Greenpoint LNG Plant. This position should be retained because engineering support precedes capital expenditures. Engineering support to develop the project scope and detailed design occurs at least one year prior to capital investment. A delay in hiring LNG engineers could further delay needed investment in KEDNY's LNG plant.
- I&R Technicians – Staff proposes downward adjustments to the number of I&R Technicians (KEDNY 2; KEDLI 0.75) because Staff believes the maintenance requirements for newly installed I&R equipment should be minimal. The Companies believe this adjustment is inappropriate because these technicians are not only required to maintain the newly installed I&R equipment, but also maintain the Companies' aging equipment that will require increasing levels of repair as this equipment approaches the end of its useful life.
- Compliance Analysts – these positions are addressed in the rebuttal testimony of the Companies' Gas Safety Panel.

The Companies agree with Staff's recommended adjustment to eliminate one Gas Estimator FTE from each Company and to reduce each Company's allocation of the Gas Estimating Manager position from 0.5 to 0.33 FTE.

Q. Does this conclude your testimony?

A. Yes, it does.

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Rebuttal Testimony of the Gas Infrastructure and Operations Panel

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Exhibit ___ (GIOP-1R)	Map of Planned KEDLI LPP Replacements
Exhibit ___ (GIOP-2R)	FY Budget/Sanctioned Amounts Compared to CY Forecasts

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

Exhibit __ (GIOP-1R)

Map of Planned KEDLI LPP Replacements

KeySpan Gas East Corporation d/b/a National Grid
The Brooklyn Union Gas Company d/b/a National Grid NY
Case 16-G-0058 & 16-G-0059

Exhibit__(GIOP-1R)
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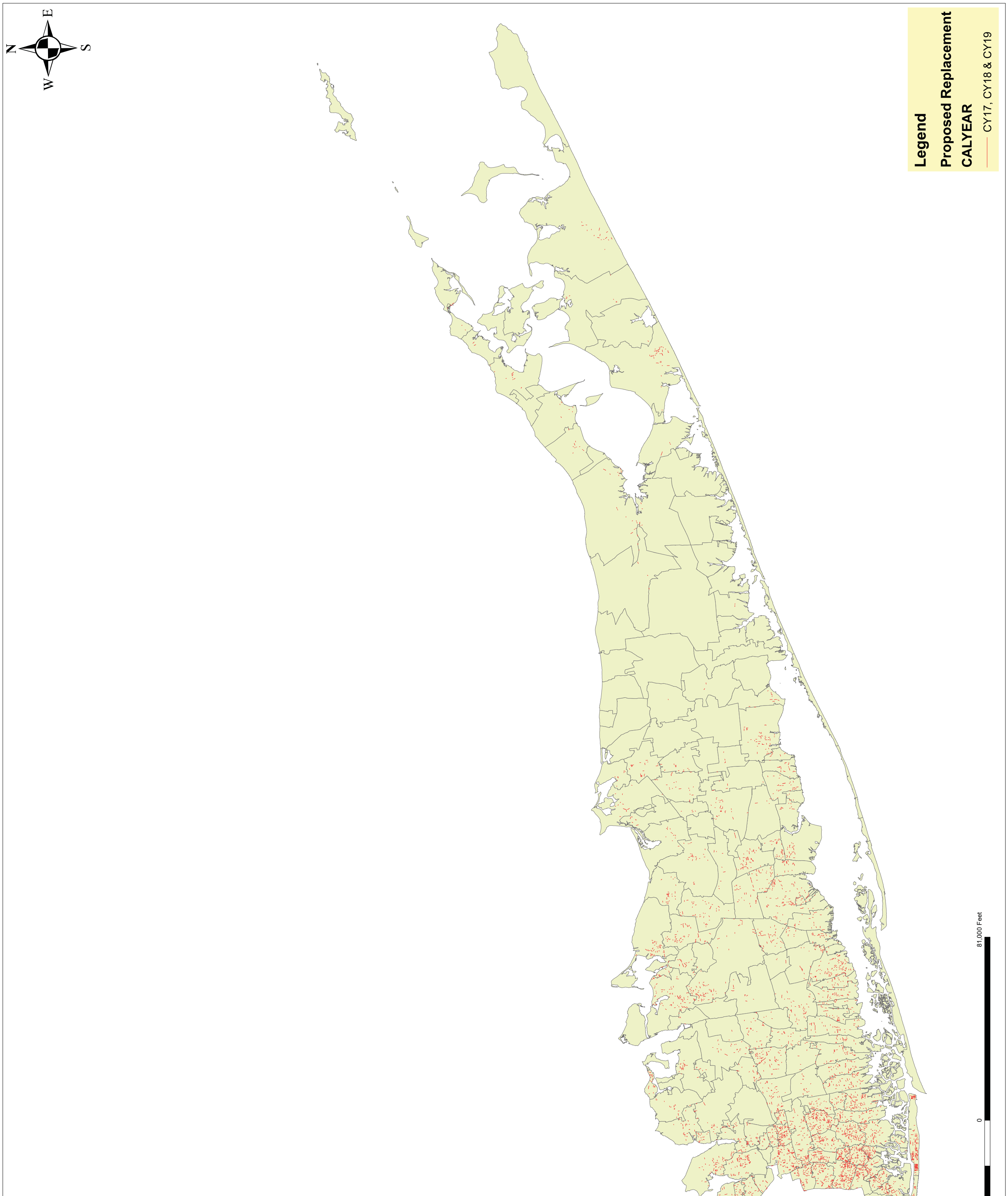

Rebuttal Testimony of the Gas Infrastructure and Operations Panel

Exhibit __ (GIOP-2R)

FY Budget/Sanctioned Amounts Compared to CY Forecasts

KEDNY
Capital Investment Plan vs FY17 Sanctioning
$000

Classification	Category	FY'17 Capital Plan	FY'18 Capital Plan	FY17 Blanket / Program Sanction Paper (CapEx / COR)			CY'17 Capital Plan	CY'18 Capital Plan	CY'19 Capital Plan
				CapEx	COR	Total			
Growth	Base Growth- Meter Purchases	$ 1,872	$ 2,048	$ 1,872	$ -	$ 1,872	$ 2,027	$ 2,138	$ 2,244
Mandated	Pipeline Integrity - IMP	$ 7,210	$ 18,782	$ 7,210	$ -	$ 7,210	$ 16,877	$ 11,818	$ 4,226
Mandated	Purchase Meters (Replacements)	$ 3,436	$ 3,758	$ 3,436	$ -	$ 3,436	$ 3,719	$ 3,923	$ 4,119
Reliability	Gas System Reliability - Gas Planning /RCV Program	$ 480	$ 6,601	not required (under $1m)			$ 3,557	$ 5,815	$ 5,098

Notes:
Annual Blankets/Programs are sanctioned on a FY basis once the Capital Plans are approved.
Only annual FY Blakets/Programs over $1m require sanctioning.
Only first year of approved Blanket/Program Capital Plans is sanctioned.
The above FY'17 Blankets/Programs were sanctioned in Feb/Mar.
The CY'17 Capital Plan rate case request was based on the time phasing of the FY'17/FY'18 Capital Plans.
There are no sanction papers for the CY'17 Capital Plan rate case request.
Base Growth - Meter Purchases and Purchase Meters (Replacements) are sanctioned together.

KeySpan Gas East Corporation d/b/a National Grid
The Brooklyn Union Gas Company d/b/a National Grid NY
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KEDLI
Capital Investment Plan vs FY17 Sanctioning
$000

Classification	Category	FY'17 Capital Plan	FY'18 Capital Plan	FY'17 Blanket/Program Sanction Paper (CapEx/COR)			CY'17 Capital Plan	CY'18 Capital Plan	CY'19 Capital Plan
				CapEx	COR	Total			
Growth	Base Growth- Meter Purchases	$ 2,162	$ 2,297	$ 2,188	$ -	$ 2,188	$ 2,284	$ 2,398	$ 2,518
Mandated	Latent Damage	$ 988	$ 2,000	$ 1,000	$ -	$ 1,000	$ 1,750	$ 2,030	$ 2,071
Mandated	Purchase Meters (Replacements)	$ 2,768	$ 2,941	$ 2,666	$ 135	$ 2,801	$ 2,924	$ 3,070	$ 3,224
Reliability	Gas System Reliability - Gas Planning/RCV Program	$ 143	$ 2,618	not required (under $1m)			$ 2,000	$ 2,893	$ 3,109

Notes:
Annual Blankets/Programs are sanctioned on a FY basis once the Capital Plans are approved.
Only annual FY Blakets/Programs over $1m require sanctioning.
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Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
and KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Rebuttal Testimony

of the

Gas Safety Panel

Robert De Marinis, Susan Fleck and Annette Saxman

June 10, 2016

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I. Introduction

Q. Please introduce the members of the Gas Safety Panel.

A. The Gas Safety Panel (the “Panel”) consists of Robert De Marinis, Susan Fleck and Annette Saxman.

Q. Is this the same Panel that submitted testimony previously in these proceedings?

A. Yes. The terms defined in the Panel’s direct testimony have the same definitions here.

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

A. The purpose of the Panel’s rebuttal testimony is to respond to certain recommendations set forth in the prepared testimony of (i) Staff Witnesses Christopher Stolicky, Suresh Thomas, Sergey Peschanyy and Michael Pasinella (the “Staff Gas Safety Panel” or “SGSP”) regarding the Companies’ gas safety and reliability performance measures; (ii) the SGSP’s testimony on the Companies’ safety programs; and (iii) the Staff Gas Policy Panel’s proposed incentives to relocate “room set” meters and repair additional leaks. Specifically, the Panel’s rebuttal testimony will address:

(i) The SGSP's recommendations to raise (*i.e.*, make more stringent) certain performance targets above the levels proposed by the Companies in CY 2017 and beyond, including:

(a) Increases to the Companies' LPP mileage replacement targets;

(b) Require KEDNY and KEDLI to reduce their backlog of annual total leaks by 750 and 150 leaks, respectively, and maintain a year-end backlog of workable leaks of no greater than 25 leaks;

(c) Revisions to the Companies' damage prevention targets requiring the Companies to maintain overall excavation damage ratios in the total damages, mis-marks and company/contractor damage categories at or below the CY 2014 statewide performance averages; and

(d) Modifications to the performance measure for violations of the safety rules and regulations contained in 16 NYCRR Parts 255 and 261 and expanding the metric to include audits of the Companies' LNG facilities.

(ii) The SGSP's proposal with regard to the Companies' safety programs, including: first responder training, compliance analysts, the independent compliance assessment, relocation of inside meters and inactive accounts.

(iii) The SGSP's proposal to enhance gas safety reporting.

II. Staff's Proposed Performance Measures

Q. Before discussing the SGSP's specific proposals on safety performance measures, would the Panel like to comment generally on the SGSP's discussion of the Companies' commitment to safety and compliance?

A. Yes. KEDNY and KEDLI have worked to develop a culture where safety and compliance are paramount. The Companies are focused on people, process, systems and technology and have taken action to reinforce National Grid's commitment to compliance with regulatory obligations, including: (i) an employee training "Thinking Beyond the Word Compliance" program, (ii) expanding the damage prevention, quality assurance and compliance analyst programs, (iii) engaging employees in compliance discussions at every level through the use of "performance hubs" that provide visibility to compliance performance, (iv) participation in industry best practice and peer-to-peer reviews and (v) enhancing Customer Meter Services field units to track and document compliance requirements. As discussed in the Panel's direct testimony, the Companies are also adopting the American Petroleum Institute's ("API") recommended pipeline safety management standards (Recommended Practice 1173) and the Companies have retained an independent third party compliance assessor to provide a comprehensive review of the Companies' programs to improve compliance going forward.

The Companies' efforts have resulted in measurable improvements in several key performance areas, as described in the Panel's direct testimony. The Companies submit that their safety records, and their demonstrated efforts to improve compliance performance, are testaments to their commitment to improvement in the areas of safety and compliance. Certainly the Companies acknowledge that there are opportunities for improvement, but it simply cannot be said that the Companies take lightly their duties to customers, employees and local communities to operate safely.

Q. Does the Panel agree with Staff's general approach to the performance metrics of applying more stringent performance targets to every measure?

A. No. The Companies share Staff's goal of improving safety performance in all areas and, in particular, improving performance in the gas safety metrics. However, the Companies do not believe it is reasonable to continually ratchet up penalty thresholds for every measure without demonstrating that current targets are inadequate or considering the cost implications of more stringent performance metrics. Moreover, because weather and other factors can influence the Companies' performance in a given year, there should be a reasonable opportunity to account for these external factors in measuring performance under the metrics. The Panel's direct testimony included recommendations to incorporate mechanisms to account for the impact of external factors in the LPP, leak management and emergency response metrics. The Companies believe these recommendations are appropriate.

A. LPP Replacement Metric

Q. Please explain the SGSP's recommendations for modifying the negative revenue adjustments and incentives for the Companies' LPP replacement programs.

A. The SGSP proposes extending the current negative revenue adjustment for failure to achieve LPP replacement targets (*i.e.*, a penalty of eight pre-tax basis points if the Companies fail to remove the targeted level of LPP) (SGSP Page 20, Lines 5-18). The SGSP proposes to increase the mileage penalty targets as follows:

Table 1: LPP Target Proposals

<table>
<tr><th>Proposal</th><th>CY17</th><th>CY18</th><th>CY19</th><th>Cumulative Target</th></tr>
<tr><td>KEDNY</td><td>45</td><td>45</td><td colspan="2">150</td></tr>
<tr><td>SGSP</td><td>55</td><td>60</td><td>65</td><td>180</td></tr>
<tr><td>KEDLI</td><td>105</td><td>105</td><td colspan="2">345</td></tr>
<tr><td>SGSP</td><td>115</td><td>135</td><td>155</td><td>405</td></tr>
</table>

Recognizing that this proposal is a significant increase in the main replacement targets, the SGSP proposes an alternative that would afford the Companies the option of a cumulative three-year target in lieu of annual targets. That is, KEDNY and KEDLI could elect cumulative three-year targets of 180 miles and 405 miles for CY17 to CY19, respectively, with a corresponding negative revenue adjustment of 24 basis points each (SGSP Page 20, Lines 13-24).

The SGSP also proposes an incentive (*i.e.*, positive revenue adjustment) of two basis points for each full mile of main replaced above the annual targets, capped at 10 basis points. However, this would be available only if the Companies met the annual LPP performance targets (rather than the cumulative three-year targets) (SGSP Page 21, Lines 4-15).

Q. Does the Panel agree with the SGSP's proposed modification to the LPP targets and incentive?

A. No. While the Companies fully support the Commission's goal of eliminating all leak prone facilities in 20 years, the Companies believe the SGSP's proposed annual penalty targets are overly aggressive.

The Companies' rate filings proposed significant increases in LPP replacements, with KEDNY replacing an average of 50 miles of LPP (a 100 percent increase over its CY 2012 target) and KEDLI replacing an average of 115 miles (a 130 percent increase over its CY 2014 target). The Companies also proposed incentive targets that, if achieved, would eliminate all LPP in 20 years. While acknowledging the Companies have proposed increases to their LPP targets, the SGSP recommends further increasing KEDNY's CY 2017 penalty target by five miles (55 miles total), and increasing KEDNY and KEDLI's annual penalty targets by 5 and 20 miles, respectively, each year thereafter. Given the resource and logistical challenges associated with replacing an additional 5 and 20 miles of LPP each year, the Companies do not believe Staff's proposed penalty targets are appropriate.

Next, Staff proposes to increase KEDNY's capital budget in the Rate Year to reflect the cost of replacing five additional miles, but does not provide for the associated O&M costs (*i.e*., disconnects and reconnects) for these additional miles or for the capital and associated O&M to meet the higher annual targets after the Rate Year. KEDNY and KEDLI must be allowed to recoup their prudently incurred costs of delivering this important program. This is the purpose of the Companies' proposed Gas Safety and Reliability surcharges, which Staff accepts. However, the surcharges must include all incremental capital and O&M associated with replacing incremental LPP up to and in excess of the annual targets in and beyond the Rate Year.

Finally, the Companies believe they should be able to earn an incentive under both the annual and cumulative targets because achieving the incentive targets will require significant efforts and the Companies should be encouraged to accelerate main replacements. Therefore, to the extent the Companies are able to exceed the cumulative LPP replacement target at the end of the three-year measurement period, the LPP metric should provide for an incentive of two basis points for each full mile above the target.

Q. Does the Panel agree with the SGSP's recommendation that the Companies increase onsite inspections for LPP replacements?

A. Yes. KEDNY and KEDLI will continue to perform all mandated safety inspections for their main replacement projects. In addition, as described in the Panel's direct testimony, the Companies are adding quality assurance/quality control resources to complete additional field inspections of main replacements and other projects.

Q. Did the SGSP address the Companies' proposal to include an exception in the LPP metric for *force majeure* events?

No. The Panel's direct testimony included a recommendation that the Companies be excused from any failure to meet the replacement targets to the extent the Companies' failure is caused by circumstances beyond their reasonable control (*e.g.*, extreme weather, permitting and paving delays with municipalities). While

Staff did not address this proposal, the Companies believe is it appropriate that they be excused from performance penalties to the extent that extraordinary circumstances prevent them from achieving the LPP replacement targets.

Q. Does the Panel agree with the SGSP's recommendation to enhance LPP reporting?

A. Yes. Staff's recommendation largely adopts the Companies' proposal on this point. As discussed in the Gas Operations and Infrastructure Panel's direct testimony, the Companies propose to provide LPP reports on a quarterly basis, including main retired (pipe material, feet and location), cost data, opportunistic replacements and the status of the Company's LPP replacement work plan. The Companies and Staff will need to discuss an appropriate format for these reports.

B. Leak Management

Q. What is the SGSP's recommendation concerning the Companies' proposed leak backlog performance metric?

A. The SGSP supports the Companies' proposal to align KEDNY and KEDLI's leak management performance measures by including two metric components: (i) a metric monitoring the Companies' backlog of Types 1, 2A and 2 leaks, which require repair at designated intervals under federal and state codes (commonly referred to as "workable leaks"), and (ii) a total leak metric measuring the year-end backlog of Types 1, 2, 2A and 3 leaks. The SGSP recommends, however, that the Companies increase the targets for the total leak metric to eliminate 150 (KEDNY) and 750 (KEDLI) leaks per year (a 50 percent increase in the number of leaks eliminated each year as compared to the Companies' proposed targets). For the workable leak metric, the SGSP proposes that the Companies maintain no more than 25 leaks in their respective year-end backlogs of workable leaks (five fewer than proposed by the Companies). Finally, the SGSP recommends an equal weighting of six basis points for both components of the leak management metric, whereas the Companies proposed a weighting of eight basis points for the workable leak backlog and four basis points for the total leak backlog.

Q. Did the SGSP provide any support for its proposed total leak backlog targets?

A. No. The SGSP offers no support as to why it believes repairing an additional 50/150 non-hazardous leaks each year is an appropriate use of resources.

Q. Does the Panel agree with the SGSP that KEDNY and KEDLI should reduce the total leak backlog by the proposed targets of 150 and 750 leaks per year, respectively?

A. While the Companies concur that lowering the overall level of system leaks is desirable, the Companies disagree with the SGSP proposal to increase the target for non-hazardous leaks beyond the already significant reductions proposed by the

Companies. The Companies do not believe they should be diverting resources from other programs that provide greater safety benefits, such as LPP replacements. Even if the Companies agreed that the deployment of the additional resources to reduce non-hazardous leaks was prudent, the Companies could not reasonably be expected to achieve the performance targets proposed by the SGSP without funding for these incremental resources. The SGSP does not propose incremental funding for the O&M associated with their higher leak repair targets.

Moreover, for reasons beyond their control (*e.g.*, weather), the Companies could experience sharp increases in the number of non-hazardous leaks late in the year, which could place the Companies in jeopardy of missing aggressive annual targets regardless of their efforts to manage leaks throughout the year. To address this issue, the Companies have proposed an adjustment mechanism for the metric targets to account for severe weather (*i.e.*, frost degree days). The SGSP does not address this proposal.

Q. The SGSP asserts that the removal of LPP will help reduce the number of leaks KEDNY and KEDLI will experience and, therefore, help the Companies to meet their leak backlog targets. Does the Panel agree?

A. Yes, but not in the short term. While the replacement of LPP is the most efficient method for reducing leaks on the Companies' distribution systems over time, the results of accelerated LPP replacements are unlikely to be realized in the next three years. As described in the Gas Operation and Infrastructure Panel's direct testimony, leak rates will begin to go down only when sufficient incremental LPP has been replaced to offset the new leaks experienced on the remaining leak prone facilities. But even at the accelerated LPP replacement rate proposed by the SGSP, the replacement of LPP will not reduce leaks at a level that will meet Staff's proposed performance target for total leaks over the next several years without repairing incremental leaks.

Q. Does the Panel agree with the SGSP's proposed targets for the workable leak metric?

A. Yes, the Companies agree to a year-end workable leak target of 25 leaks.

Q. What is the Panel's position with regard to the SGSP's proposed total leak baselines of 3,650 (KEDNY) and 10,700 (KEDLI) for CY 2017?

A. The Companies believe the baseline for the total leak target should be the Companies' actual year-end CY 2016 leak backlog.

Q. Does the Panel agree with the SGSP's recommendation that the workable leak target and total leak target should be weighted equally?

A. No. The Companies prioritize the repair of Type 1, 2A and 2 leaks because of the safety concerns associated with these leaks. Because Type 3 leaks pose no immediate hazard, there are minimal safety benefits realized from repairing additional Type 3 leaks. Staff's proposed negative revenue adjustments do not differentiate the Companies' performance relative to potentially hazardous versus non-hazardous leaks. The Companies do not believe that the level of negative revenue adjustment that is applied to potentially hazardous leaks should be applied to non-hazardous leaks and, therefore, supports assigning eight basis points to the workable leak metric and four basis points to the total leak metric.

Q. Does the Panel agree with the SGSP proposal for an incentive to repair leaks above the total leak backlog targets?

A. Yes. The Companies support the SGSP's proposed incentive to repair additional leaks above the leak backlog targets, as well as the recovery of the associated costs through a Gas Safety and Reliability Surcharge (discussed in the testimony of Staff's Rate Panel). However, as discussed above, the Companies' revenue requirements must also reflect the cost of the leak repairs necessary to achieve backlog reduction targets.

C. Damage Prevention

Q. Please address the SGSP's recommendations concerning the proposed adjustments to the Companies' damage prevention metrics – overall damages, mis-mark damages and Company/contractor damages.

A. The SGSP recommends adjusting the damage performance standards to reflect the 2014 statewide performance levels for damage prevention metrics (SGSP Page 36, Lines 5-11). The proposed penalty thresholds in most instances significantly exceed the Companies' historical performance, particularly for KEDLI. While reducing excavator damage is important, the Companies should not be penalized for failure to attain performance levels that far exceed the present standards for satisfactory performance and, with regard to several of the damage prevention measures, the past performance gains the Companies have been able to achieve over the last several years.

Table 2: Damage Prevention Performance Targets

KEDNY

Damage Prevention Metric	2015 Performance	Current Metric Target	Company Proposed Target CY 17	Staff's Proposed Target CY 17
Total Damages	1.63	2.14	1.93	1.71
Mis-Marks	0.38	0.45	0.45	0.37
Co. and Contractor	0.03	0.10	0.10	0.08

KEDLI

Damage Prevention Metric	2015 Performance	Current Metric Target	Company Proposed Target CY 17	Staff's Proposed Target CY 17
Total Damages	2.36	4.4 – 4.2	2.78	1.71
Mis-Marks	0.57	1 - 0.91	0.69	0.37
Co. and Contractor	0.06	0.25	0.15	0.08

Q. What is the Panel's position on the SGSP proposal that the Companies be held to performance targets based on statewide performance levels?

A. The Panel does not believe this approach should be adopted. Setting targets based on the performance of other utilities in the state fails to account for the actual conditions on the Companies' systems and the geographic areas in which they operate. Depending on the LDC's service territory, there are several variables that can affect a utility's damage prevention statistics, including: (i) the amount of one-call tickets received each year, (ii) the location of underground utility facilities (generally located within a single corridor in city streets), which impacts the ability to map, locate and mark underground facilities, (iii) the average size of excavation projects (*e.g.*, large municipal projects afford LDCs the ability to deploy dedicated inspectors whereas small, dispersed excavations do not allow for close oversight without significantly greater resources), and (iv) the experience of excavators operating in the service territory (excavators working in city streets are generally more experienced at navigating underground utility facilities). The SGSP proposal to target state-wide performance numbers fails to consider these differences in operating conditions across the state. Damage prevention performance targets should be based on company-specific data, ensuring the metric fairly compares the Companies' annual performance against their historical performance. Statewide levels that have little relation to the Companies' circumstances serve only to preordain a punitive result.

Q. With regard to KEDNY, does the Panel agree with the proposed damage prevention performance targets?

A. Yes, in large part. While KEDNY's performance compared favorably to the statewide average in CY 2014 (a year in which it achieved 15 to 79 percent improvements in the damage prevention measures), it will be a challenge to sustain those levels, as demonstrated by its CY 2015 performance. Nor can it be assumed that the 2014 performance statistics are reflective of the CY 2017 operating environment in the City of New York. As discussed in the Panel's direct testimony, sustaining this level of performance will be especially challenging given the significant increase in construction work on KEDNY's gas system (including the retirement of hundreds of miles of LPP), and significantly increased municipal and third party construction activity in the City. Notwithstanding these challenges, KEDNY accepts the GSPS's proposal for the Total Damages and Company/Contractor metric. However, KEDNY believes its proposed target for mis-marks (0.45) is appropriate given the recent performance history and the increasing levels of anticipated construction activity.

Q. For KEDLI, please explain why the Panel believes the "total damage" prevention target proposed by the SGSP is not appropriate.

A. Under the SGSP's recommendation, KEDLI would be required to further improve its performance from to 2.36 to 1.71 overall damages per 1,000 one-call tickets in CY 2017 or incur a negative revenue adjustment equal to four pre-tax basis points. This represents an improvement of nearly 28 percent between the performance periods. It is simply unreasonable to expect that improvements of this magnitude can be achieved in this timeframe, especially considering the significant improvements KEDLI has already achieved in this area over the last several years.

Consider also that the statewide average is over weighted with the performance results from KEDNY and Con Edison, which operate exclusively in the City of New York and together represent more than 42 percent of one-call tickets issued in CY 2014. Excavations in New York City are closely monitored by various City agencies, in addition to the LDCs and Staff. This translates into generally stronger results in the area of total damages. Indeed, excluding Con Edison and KEDNY from the total damage metric reduces the state-wide performance from 1.71 to 2.10

damages per 1,000 one-call tickets. As discussed above, this demonstrates that the state wide average is not an appropriate measure for KEDLI.

Q. Please explain KEDLI's position on the mis-mark metric.

A. The SGSP's proposed target of 0.37 represents a nearly 35 percent improvement as compared to CY 2015. It is not realistic to expect the Company to achieve this level of improvement in such a short time because, among other reasons, the Company has already leveraged opportunities to improve performance and the remaining tools at its disposal are less likely to result in further dramatic improvements in performance (*e.g.*, damage prevention advisors are not effective in improving mis-mark performance).

Q. What is KEDLI's position on the Company and Company Contractor damage metric proposed by the SGSP?

A. KEDLI has significantly improved its performance in this metric over the past few years, having most recently achieved a low of 0.01 damages from Company and Company Contractor per 1,000 one-call tickets in CY 2012 as compared to a high of 0.06 most recently in CY 2015. This metric is affected, in part, by the volume of work the Company performs. Given that KEDLI will significantly increase construction work in coming years to achieve the ambitious capital plan set forth in this case, maintaining its current level of performance will be a challenge. Therefore, KEDLI does not believe Staff's proposal for this measure is reasonable.

D. Emergency Response

Q. Does the Panel agree with the SGSP's position that gas leaks and odor calls resulting from mass area odor complaints, significant weather related occurrences or major equipment failures should be included in the emergency response metrics?

A. No. These matters should be excluded from the metric not only because they are outside the Companies' control, but they unfairly distort the metric. Mass area odor complaints can easily result in high volumes of calls in short periods of time, which strain the Companies' resources and disproportionally impact the metric results.

There is no question the Companies must respond to every emergency call – including calls resulting from mass area odor complaints (*e.g.*, fuel barge deliveries). In these cases, however, the volume of calls will result in higher response times, notwithstanding the Companies' best efforts. Indeed, on a single day in October 2015, KEDNY received nearly 270 separate odor calls as the result of a series of non-gas mass odor incidents. These events reduced KEDNY's 30-minute response time average by nearly one percentage point, and caused it to dip below the penalty threshold. To address the impacts of these non-gas odor calls, KEDNY needed to expend significant resources to improve its results in subsequent months. The Companies do not believe this is a prudent, efficient use of resources, and believe that a mass odor exception should be added to the metric to allow the Companies to manage their leak response resources in a more cost effective and efficient manner with no negative impact on public safety.

Con Edison has had these exclusions for its emergency response metrics since at least 2007. Staff has offered no reason for the Companies to be treated differently from Con Edison, particularly when one of the focuses of the recent data audit was to standardize the metrics across the State. As such, the Companies' proposal should be adopted.

E. Gas Violations Metric

Q. Please summarize the SGSP's proposal for the gas safety violations metric.

A. The SGSP proposes to apply KEDNY's current gas safety violations metric to both KEDNY and KEDLI (similar to the Companies' proposal) but recommends the following modifications: (i) implementing an annual cap of ten violations for each code section subject to the metric, (ii) increasing the amount at risk for the first ten high risk and other risk violations and (iii) increasing the scope of the audit to include annual audits of the Companies' LNG facilities.

Q. Does the Panel agree with these proposed modifications?

A. Not entirely. The Companies agree with the proposed cap on the number of annual violations per code section. The Companies also support the SGSP's recommendation that any negative revenue adjustment assessed under this metric be invested in gas safety programs. The Companies do not agree, however, with the SGSP's proposal to the extent it fails to incorporate the Companies' recommendation to implement certain additional adjustments. The Companies continue to believe that the total amount at risk (currently 100 basis points) should be reduced to reflect a more reasonable level that is in proportion to the financial penalties for the other gas safety metrics. Next, the metric should include annual violations thresholds below which the Companies would not incur negative revenue adjustments. Finally, the Companies believe the parties should re-visit the high risk and other risk designations to better reflect the level of risk presented to the public by the applicable code provisions.

Q. What is the Panel's position with regard to the SGSP's proposal to expand the metric to include the annual audits of the Companies' LNG facilities?

A. The Companies are agreeable to expanding the scope of the metric to include LNG audits. However, including the additional LNG audits will significantly increase the Companies' exposure under the metric by adding new areas/regulations that are subject to negative revenue adjustments. There are currently approximately 120 code sections designated by Staff as high risk for purposes of this metric. Adding the LNG regulations increases that number by 60 code sections or 50 percent. Accordingly, the Companies believe the metric should be adjusted to reduce the negative revenue adjustment for each individual violation to reflect the expanded scope of adding LNG audits to the metric. The Companies also propose a phase-in period for incorporating the LNG audits within the scope of the metric.

III. Gas Safety Programs

A. First Responder Training and Communication

Q. Does the Panel agree with the SGSP's recommendation to include more drills and live training events?

A. Yes. In addition to various enhancements to the Companies' gas safety training programs for first responders, the Companies plan to advance first responder coordination through more integrated field response drills, and have already made plans to conduct drills in the next 12 months.

Q. Does the Panel agree with the SGSP's recommendation to communicate with first responders using similar radio frequencies?

A. No. The Companies believe their established communications protocols with first responders are effective. For KEDLI, coordinating radio frequencies with more than 100 local fire and police departments on Long Island is not practical. In New

York City, even assuming first responders would allow the Companies to utilize shared radio frequencies, the Companies do not believe this proposal would provide significant benefits.

B. Compliance Analysts

Q. Does the Panel agree with Staff's recommendation to eliminate the Compliance Analyst positions?

A. No. Staff suggests that the Companies' rates should not include the cost of Compliance Analysts because, in Staff's view, they "serve as a secondary, and in some cases tertiary, review of completed documentation" that is duplicative of existing compliance processes and systems and, therefore, are not appropriately included in rates (SGSP Page 65, Lines 10-24). Staff mischaracterizes the nature of the work performed by the Compliance Analysts and significantly understates the safety benefits realized through these positions.

Compliance analyst work is not merely focused on reviewing and correcting existing records. Rather, this is a forward looking program to drive performance and support a compliance culture in the field. The Compliance Analysts review records to identify potential compliance gaps and then use that information to change behavior prospectively through targeted education and training. Among other benefits, embedding Compliance Analysts among the field operations organizations provides a resource for supervisory and field personnel to answer questions about procedures. Compliance Analysts become a means of strengthening internal engagement, which is an essential element of the Companies' efforts to implement the API 1173 pipeline safety management standards. And these Compliance Analysts will only become more important over the next several years as the Companies increase their construction and other operations activities and the industry adapts to new and emerging safety regulations (*e.g.*, plastic fusion, service line, Horsehead, PHMSA's expanded integrity management/verification regulations). Maintaining a staff of dedicated compliance personnel is a best practice in the industry and is critical to driving continued safety and compliance improvements.

C. <u>Independent Compliance Assessment</u>

Q. Does the Panel agree with the SGSP's recommendation to limit its independent compliance assessment to a one-year program?

A. No. Given the breadth of the state and federal safety regulations, and the constantly evolving regulatory environment, the Companies believe this program will deliver the most value if there is ongoing review, albeit at a reduced scope following the initial baseline assessment. The assessments in subsequent years will target areas identified as requiring improvement in the baseline assessment, as well as new and emerging safety regulations. The Companies view the independent compliance assessment as an important ongoing program, not a discrete project.

D. <u>Relocating Inside Meters</u>

Q. Does the Panel agree with the SGSP that the Companies should be pursuing opportunities to relocate inside meters as part of main replacement and other programs?

A. Yes. As discussed in the Panel's direct testimony, the Companies support relocating meters outside when doing so is safe and practical. But moving inside meters outside often presents operational challenges, including where relocations may be impractical (*e.g.*, exterior obstacles prevent relocation) or unsafe (relocated to areas subject to pedestrian or vehicular traffic), as well as instances when customers are unhappy with the aesthetics of outside meters. Notwithstanding, the Companies agree that main/service line replacement programs present good opportunities to relocate inside meters and agree to pursue them as Staff suggests.

Q. What about the proposal for a positive incentive to relocate room sets?

A. The relocation of room sets poses the additional challenge of reconfiguring internal piping systems, which can be very complex and expensive. Any recommendation regarding removal or relocation of these systems requires careful and comprehensive study in collaboration with jurisdictional building authorities and building owners. The Gas Technology Institute is currently performing a study (the "GTI Study") in connection with the Commission's Service Line Proceeding that is considering, *inter alia*, a risk analysis of inside piping. National Grid has recommended that the scope of the GTI Study be expanded to examine relocating inside meters, including exploring alternative building designs and other options incorporating state-of-the-art construction concepts. The results of this study could be used to develop a strategy for relocating room sets and other inside meters. That said, the Companies are interested in exploring a potential incentive mechanism for relocating room sets.

E. <u>Inactive Accounts</u>

Q. Does the Panel agree with the SGSP's recommendation that the Companies revise their procedures for inactive accounts to provide for a more stringent time requirement for addressing these accounts?

A. No. Over the past two years, the Companies have significantly improved their processes and procedures with regard to inactive accounts. As discussed in the Panel's direct testimony, and acknowledged by the SGSP, the Companies now have in place a structured approach that has proven effective in reducing the number of inactive accounts (SGSP Page 79, Lines 1-13). The Panel's Corrections and Updates testimony described a further enhancement that is currently being implemented whereby the Companies will schedule an appointment to lock the gas service/meter in all cases when a customer requests termination of service. The Companies are also prioritizing inactive accounts with metered gas consumption. With the benefit of these improvements, which will continue to reduce the amount of time accounts remain inactive, the Companies believe they have a very effective process in place for addressing inactive accounts.

While the Companies are agreeable to amending their procedures to reflect recent enhancements to their inactive account process, they do not believe the current timeline for physically cutting service/legal replevin should be reduced. These extraordinary steps should be reserved for those cases where the Companies have exhausted all other reasonable options.

F. <u>Gas Safety Reporting</u>

Q. Does the Panel agree with the SGSP proposal to incorporate the recommendations from the data audit into the gas safety performance measures?

A. For the most part, yes. As discussed in the Companies' Implementation Plan filed on May 19, 2016 in Cases 13-M-0314 and 15-M-0566, the majority of recommendations have been incorporated into the calculation of the performance measures targets in these filings. However, because the report was still in draft form at the time of the Companies' filing and the Commission's order releasing the report, which was issued on April 20, 2016, modified some of the recommendations, some have not been incorporated. For example, some of the recommendations related to the emergency response measures have not been incorporated into the filings and would require incremental resources to implement, which are not reflected in these filings.

Q. Does the Panel agree with Staff's recommendation to submit an annual report within 60 days following the end of the calendar year?

A. The Panel agrees with an annual report, but recommends that the report should be submitted by April 1st of each year, consistent with historic practice. This reporting schedule also aligns with the annual service quality reporting requirements.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.