



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Patrick C. Lynch, Attorney General

February 10, 2006

VIA ELECTRONIC FILING

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

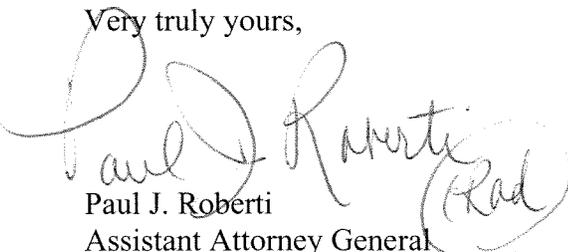
Re: **New England Gas Company;**
Distribution Adjustment Clause (DAC) Filing/
Docket No. 3690

Dear Ms Massaro:

Enclosed for filing on behalf of the Division of Public Utilities and Carriers is an original and nine (9) copies of the Surrebuttal Testimony and Exhibits of David J. Effron.

Thank you for your assistance in this regard.

Very truly yours,


Paul J. Roberti
Assistant Attorney General
Chief, Regulatory Unit

Enclosures

cc: Thomas F. Ahern, Administrator
Service List (Via Electronically and Regular Mail)

NEW ENGLAND GAS COMPANY

DISTRIBUTION ADJUSTMENT CLAUSE FILING

RIPUC DOCKET NO. 3690

**BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**SURREBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON**

ON BEHALF OF THE

**DIVISION OF
PUBLIC UTILITIES AND CARRIERS**

FEBRUARY 10, 2006

1 Q. Please state your name.

2 A. My name is David J. Effron.

3

4 Q. Have you previously submitted testimony in this docket?

5 A. Yes. I submitted direct testimony on January 19, 2006. My qualifications,
6 background, and experience are included with my direct testimony.

7

8 Q. What is the purpose of this surrebuttal testimony?

9 A. In this surrebuttal testimony, I respond to the Rebuttal Testimony of Robert J.
10 Riccitelli dated January 30, 2006. In particular, I respond to the rebuttal
11 testimony of Mr. Riccitelli regarding 1) the allocation of administrative and
12 general expenses to the mercury incident and 2) the balance of accumulated
13 deferred income taxes ("ADIT").

14

15 Q. At pages 5-6 of his rebuttal testimony, Mr. Riccitelli implies that any time spent by
16 NEG employees on the mercury incident was not diverted from the performance of
17 their normal responsibilities. Has the Company presented any evidence that would
18 support such a conclusion?

19 A. No. Nor do I believe that it would be possible to do so. Absent detailed time
20 records for Fiscal Year 2005, it is not possible to know how much time
21 management and administrative employees spent on the mercury incident or how
22 much time they spent on their normal responsibilities compared to the time that
23 would have been spent if the mercury incident had not occurred. Therefore, it is

1 necessary to come up with a method to allocate administrative and general expenses
2 to the mercury incident. I believe that the allocation method that I used in my direct
3 testimony is a reasonable method.

4

5 Q. Mr. Riccitelli claims that your proposed adjustment to the balance of ADIT
6 inherently assumes that the level of bonus depreciation that has been available to
7 the Company for the last several years will be available to it in the first six months
8 of 2005. Is this claim accurate?

9 A. Mr. Riccitelli offers this testimony in the context of rebutting my proposal to adjust
10 the balance of ADIT for the average of the true-ups booked by the Company
11 subsequent to the end of fiscal years 2001, 2002, and 2003. His claim is accurate
12 only to the extent that the true-ups were related to bonus depreciation on which
13 deferred taxes should have been booked in those three years. The Company has
14 offered no evidence that those true-ups were booked as the result of bonus
15 depreciation. Therefore, I still believe that my proposal to adjust ADIT for true-ups
16 that have regularly been booked by the Company is reasonable.

17

18 Q. Are you making any revisions to your calculation of ADIT?

19 A. Yes. The Company now estimates that the balance of ADIT will decline by only
20 \$18,000, rather than \$211,000 from December 31, 2004 to June 30, 2005. This
21 relatively minor decline does not seem unreasonable, and I have adjusted my
22 calculation of ADIT accordingly (Schedule DJE-2S, page 4). My only remaining

1 adjustment to the Company's balance of ADIT is the adjustment related to the
2 average of the true-ups booked in prior years.

3

4 Q. Have you prepared a new set of schedules incorporating the effect of this
5 modification?

6 A. Yes. I have prepared an exhibit consisting of Schedules DJE-1S and DJE-2S. As
7 can be seen on these schedules, the modification to the ADIT balance does not
8 change the ratepayer share of over-earnings calculated in my direct testimony.

9

10 Q. Does this conclude your surrebuttal testimony?

11 A. Yes.

12

NEW ENGLAND GAS COMPANY
CALCULATION OF EARNINGS SHARING
(\$000)

1	Net Income Available for Common Equity	\$ 12,773
2	Common Equity Supporting Rate Base	<u>106,469</u>
3	Earned Return on Common Equity	12.00%
4	Benchmark Return on Common Equity	<u>11.25%</u>
5	Return on Equity above Benchmark	0.75%
6	Earnings above Benchmark	795
7	Company Share of Earnings above Benchmark - 50/50 Sharing	398
8	Company Share of Earnings above Benchmark - 75/25 Sharing	<u>-</u>
9	Ratepayer Share of Earnings above Benchmark	398
10	Revenue to be Refunded	\$ 612
11	Firm Throughput (000 Therms)	<u>357,640</u>
12	Earnings Sharing Factor (\$/therm)	<u>\$ 0.0017</u>

Line Notes

1	Net Income Available for Common Equity		DJE-2S, Page 1
2	Rate Base	\$244,194	DJE-2S, Page 3
	Common Equity Ratio	<u>43.60%</u>	DJE-2S, Page 4
	Common Equity Supporting Rate Base	<u>\$106,469</u>	
3	Line 1 / Line 2		
4	Per Settlement		
5	Line 3 - Line 4		
6	Line 5 * Line 2		
7	Line 5 (up to 1.00%) * Line 2 / 2, not Less than Zero		
8	((Line 5 - 1.00%)*Line 2)/4, not Less than Zero		
9	Line 6 - Line 7 - Line 8		
10	Line 9 /.65 (1- Tax Rate)		
11	Attachment PCC-6		
12	Line 10 / Line 11		

NEW ENGLAND GAS COMPANY
RESULTS OF OPERATIONS
YEAR ENDED JUNE 30, 2005
(\$000)

	(1) Company <u>Position</u>	<u>Adjustments</u>		Division <u>Position</u>
Revenue	\$ 410,616			\$ 410,616
Operation and Maintenance Expense	339,053	(1,092)	(2)	337,961
Depreciation and Amortization	20,753			20,753
Other Taxes	22,243			22,243
Income Taxes	6,754	371	(2)	7,126
Operating Expenses	388,803	(721)		388,083
Operating Income	21,813	721		22,533
Interest on Short-Term Debt	671	2	(3)	673
Interest on Long-Term Debt	8,687	29	(3)	8,716
Other Interest	118			118
AFUDC	(207)	-		(207)
Total Interest Expense	9,269	31		9,300
Net Income	12,544	690		13,234
Preferred Dividends	459	2	(3)	461
Net Income for Common Equity	<u>\$ 12,085</u>	<u>\$ 688</u>		<u>\$ 12,773</u>

Sources:

(1)	Attachment RJR-1, Page 2		
(2)	Schedule DJE-2S, Page 2		
(3)	Rate Base	\$244,194	DJE-2S, Page 3
	Interest on Short-Term Debt	0.28%	673 DJE-2S, Page 5
	Interest on Long-Term Debt	3.57%	8,716 DJE-2S, Page 5
	Preferred Dividends	0.19%	461 DJE-2S, Page 5

NEW ENGLAND GAS COMPANY
DIVISION ADJUSTMENTS TO INCOME
YEAR ENDED JUNE 30, 2005
(\$000)

Operation and Maintenance Expense:

Legal Fees	(1)	(223)
Comprehensive Review - Health, Safety & Environmental	(2)	(383)
Southern Union - Supplemental Retirement	(3)	(135)
Mercury	(4)	<u>(352)</u>
Total Adjustment to Operation and Maintenance		<u>(1,092)</u>

Income Taxes:

Revenue	(5)	410,616
Operating Expenses	(5)	380,957
Interest	(5)	<u>9,300</u>
Taxable Income		20,360
Income Tax Expense	35%	<u>7,126</u>

Sources:

(1)	Response to DIV 2-13	(150+73)	
(2)	Response to DIV 1-17	2/3*574	
(3)	Response to DIV 1-05	(173-3341)*2/3*2323/36335	
(4)			
	Administrative and General Salaries	RJR-4, Page 325	9,814
	Employee P&B Allocated to A&G Salaries	RJR-4, Pages 325, 355	4,330
		9814/37100*16370	
	Office Supplies and Expenses	RJR-4, Page 325	3,093
	Administrative Expenses Transferred	RJR-4, Page 325	<u>(4,018)</u>
	Total Expenses Subject to Allocation		13,219
	"Below the Line" Mercury, as Adjusted	RJR-1, Page 9 + 223 above	8,863
	Total O&M, net of Costs to be Allocated	RJR-4, Page 114	<u>324,402</u>
	Total		333,265
	Mercury Costs as Percentage of Total		2.66%
	Adjustment to Expenses		<u>352</u>

(5) Schedule DJE-2S, Page 1

NEW ENGLAND GAS COMPANY
RATE BASE
YEAR ENDED JUNE 30, 2005
(\$000)

	(1) Company <u>Position</u>	<u>Adjustments</u>		Division <u>Position</u>
Utility Plant in Service	\$501,152			\$501,152
Less- Reserve for Depreciation	<u>(232,758)</u>	1,101	(2)	<u>(231,657)</u>
Net Plant	\$268,394	\$1,101		\$269,495
Add:				
Materials & Supplies	2,105			2,105
Prepaid Expenses	480			480
Deferred Debits	2,460			2,460
Gas Inventories	-			-
Cash Working Capital	12,190			12,190
Deduct:				
Accumulated Deferred FIT	(35,160)	(304)	(3)	(35,464)
Accumulated Deferred ITC	(1,542)			(1,542)
Contributions in Aid of Construction	(1,162)			(1,162)
Customer Deposits	(2,869)			(2,869)
Injury and Damages Reserve	<u>(1,499)</u>	-		<u>(1,499)</u>
Rate Base	<u>\$243,397</u>	<u>\$797</u>		<u>\$244,194</u>

Source:

- (1) Attachment RJR-1, Page 5
- (2) Response to DIV 1-03, Revised
- (3) Schedule DJE-2S, Page 4

NEW ENGLAND GAS COMPANY
RATE BASE ADJUSTMENTS
YEAR ENDED JUNE 30, 2005
(\$000)

Accumulated Deferred FIT			
Balance	Jun-04	(1)	33,749
	Sep-04	(2)	34,802
	Dec-04	(3)	35,855
	Mar-05	(3)	35,846
	Jun-05	(3)	<u>35,837</u>
Average Balance			35,218
Adjustment for Accrual True-Up		(4)	<u>246</u>
Adjusted Average Balance			<u>35,464</u>

Sources:

(1)	Attachment RJR-2	
(2)	Attachment RJR-2	$33,749+2106/2$
(3)	Attachment RJR-2	$33,749+2106$
(4)	Attachment RJR-2	$(165+408+165)/3$

NEW ENGLAND GAS COMPANY
RATE OF RETURN

	<u>Ratio</u>	<u>Cost Rate</u>	<u>Wtd. Cost</u>
Short Term Debt	8.80%	3.13%	0.28%
Long Term Debt	45.70%	7.81%	3.57%
Preferred Stock	1.90%	9.93%	0.19%
Common Equity	43.60%	11.25%	4.91%
Total	<u>100.00%</u>		<u>8.94%</u>

Source: Settlement, Section II.F
Attachment RJR-1, Page 10 for Short Term Debt Rate