



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Rhode Island Division of
Public Utilities and Carriers
89 Jefferson Blvd.
Warwick RI 02888
(401) 941-4500

October 14, 2005

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

Re: New England Gas Company DAC Filing, Docket 3690.

Dear Luly:

Enclosed are an original and nine (9) copies of the prefiled testimony of Bruce Oliver, on behalf of the Division of Public Utilities and Carriers, in this proceeding.

Sincerely,

Stephen Scialabba
Chief Accountant

Cc: Service list

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

IN THE MATTER OF

**The New England Gas Company)
Proposal For Changes In Its)
Distribution Adjustment Charge)**

Docket No. 3690

**DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Division of Public Utilities and Carriers

October 14, 2005

TESTIMONY OF BRUCE R. OLIVER
Docket No. 3690
October 14, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

2 A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax
3 Station, Virginia, 22039.

4

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I
7 manage the firm's business and consulting activities, and I direct its preparation and
8 presentation of economic, utility planning, and policy analyses for our clients.

9

10 **Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?**

11 A. My testimony in this proceeding is presented on behalf of the Division of Public
12 Utilities and Carriers (hereinafter "the Division").

13

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

15 A. This testimony addresses the request of New England Gas Company (hereinafter
16 "NEG" or "the Company") for a change in its Distribution Adjustment Charge ("DAC")
17 which is set forth in testimony filed on August 1, 2005 and September 1, 2005 by
18 witness Peter C. Czekanski on behalf of the Company. More specifically, this
19 testimony discusses all elements of the Company's DAC calculations other than the
20 Earnings Sharing Mechanism. Issues relating to Earnings Sharing for the 12

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1 months ended June 30, 2005 will be addressed in subsequent testimony that is
2 scheduled to be filed by Division witness David Effron.

3

4 **Q. WHAT ARE THE MAJOR COMPONENTS OF THE COMPANY'S DISTRIBUTION**
5 **ADJUSTMENT CHARGE (DAC) CALCULATIONS?**

6 A. NEG's proposed DAC calculations comprise nine (9) major components. The
7 components of the Company's Distribution Adjustment Charge calculations include:

8

- 9 1. A System Pressure (SP) Factor
- 10 2. A Demand Side Management (DSM) Factor
- 11 3. A Low Income Assistance Program (LIAP) Factor
- 12 4. An Environmental Response Cost (ERC) Factor
- 13 5. An On-System Margin Credits (MC) Factor
- 14 6. A Weather Normalization (WN) Factor
- 15 7. An Earnings Sharing Mechanism (ESM)
- 16 8. A Reconciliation (R) Factor
- 17 9. An Allowance for Uncollectibles

18

19 The first eight components of the Company's DAC calculations are re-
20 examined, and subject to re-calculation on an annual basis. The last component
21 (i.e., the Allowance for Uncollectibles), was established through the Commission-
22 approved settlement in Docket No. 3401. The Reconciliation (R) Factor includes
23 adjustments for over- or under-recovery of costs during the 12-months ended June
24 30, 2005 for each of the first eight factors listed above. NEG's proposed
25 calculations for each of the components of the DAC are reviewed below.

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System Pressure Factor

Q. WHAT IS THE PURPOSE OF THE SYSTEM PRESSURE ADJUSTMENT?

A. Since the beginning of rate unbundling for firm service customers, this Commission has recognized that a portion of the Company's use of its LNG facilities is associated with the maintenance of operating pressures on its system. Given that both sales service and transportation service customers benefit from the maintenance of system operating pressures, it is appropriate that such costs be recovered from customers in both of those service classifications. However, in the absence of the System Pressure Adjustment, all of the Company's LNG costs would be recovered through its Gas Cost Recovery (GCR) charges. Thus, it is necessary for the Company to allocate a portion of its LNG costs to system pressure maintenance, and collect those costs through charges that are applied to both firm sales service and firm transportation service customers. The System Pressure factor within the DAC mechanism accomplishes this objective.

Q. HOW IS THE SYSTEM PRESSURE FACTOR DETERMINED?

A. As established in Docket No. 3401, the System Pressure factor is computed by multiplying Total LNG Commodity Related Costs by the System Balancing Factor

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1 (.2039) and dividing by projected, weather-normalized, annual Firm Throughput.
2 The .2039 factor reflects the results of an assessment which suggested that 20.39%
3 of LNG commodity related costs were used for System Pressure purposes, and
4 therefore, should be borne by all customers (i.e., sales and transportation service
5 customers) who utilize the Company's distribution system.

6
7 **Q. HOW HAVE NEG'S CALCULATED SYSTEM PRESSURE COSTS CHANGED**
8 **SINCE ITS LAST DAC FILING IN SEPTEMBER 2003?**

9 A. In the testimony and exhibits that Mr. Czekanski filed last year on July 30, 2004
10 (Attachment) PCC-3 in Docket No. 3548, NEG's analyses allocated \$1,908,365 of
11 the Company's LNG Commodity Related Costs to the DAC. Mr. Czekanski's August
12 1, 2005 testimony and exhibits in this proceeding present a similar analysis
13 (Attachment PCC-2), and that analysis allocates \$1,945,575 of LNG Commodity
14 Related Costs to the DAC for FY 2006. The Company's calculated System
15 Pressure Factor for the last year (FY 2005) was \$0.0564 per dekatherm (Dth).
16 Attachment PCC-2 to Mr. Czekanski's testimony filed July 30, 2005 computes a
17 System Pressure Factor of \$0.0544 per Dth. The calculations underlying that factor
18 were subsequently updated in Mr. Czekanski's September 1, 2005 Updated
19 Attachment PCC-3. As updated, NEG seeks a System Pressure Factor of \$0.0565
20 per Dth. Thus, the Company's revised System Pressure Factor calculations yield a

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1 charge per Dth that is virtually identical to the results of comparable calculations
2 made one year earlier. However, this appears to be a somewhat coincidental result,
3 given significant changes in the cost of LNG and the monthly distribution of
4 anticipated LNG use.

5

6 **Q. IS THE COMPANY'S UPDATED SYSTEM PRESSURE FACTOR APPROPRI-**
7 **ATELY COMPUTED?**

8 A. Yes, it is. The Company's updated System Pressure Factor computations appear to
9 be mathematically accurate and performed in a manner consistent with NEG's tariff.

10

11 **Q. IN TESTIMONY YOU FILED LAST OCTOBER REGARDING THE COMPANY'S**
12 **DISTRIBUTION ADJUSTMENT CHARGE, YOU RAISED CONCERNS**
13 **REGARDING NEG'S USE OF LNG FOR ECONOMIC DISPATCH PURPOSES.**
14 **HAS THE COMPANY RESPONDED TO THOSE CONCERNS?**

15 A. Yes, it has. On July 29, 2005 NEG filed an "LNG System Pressure Report" in
16 Docket No. 3458 that responds directly to those concerns.

17

18 **Q. ARE YOU SATISFIED WITH THE SUBSTANCE OF THE COMPANY'S**
19 **RESPONSE TO YOUR CONCERNS IN THAT REPORT?**

20 A. Yes, I am. In that report, the Company states:

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1 *“Mr. Oliver is correct in his assertion that part of the forecasted*
2 *increase in LNG this past winter season was associated with*
3 *economic dispatch. However, as a result of Mr. Oliver’s observations,*
4 *the Company monitored its use of LNG during the 2004-05 winter*
5 *season to determine if its LNG use was consistent with the*
6 *assumptions underlying the allocation of 20.39 percent for system*
7 *pressure. Through this monitoring the Company confirmed that, during*
8 *the past heating season, the Company’s LNG use was in compliance*
9 *with the allocation factor of 20.39%.”*
10

11 The report also outlines a procedure for addressing LNG that may be used
12 for economic dispatch purposes in future filings. The procedure that NEG proposes
13 has two key components. First, the Company will prepare its forecasts of System
14 Balancing Costs in a manner that excludes LNG dispatched for economic reasons.
15 Second, NEG will likewise exclude economically dispatched LNG volumes and costs
16 before computing the allocation of LNG costs to System Balancing for DAC
17 reconciliation purposes. This procedure is reasonable and should work acceptably
18 assuming that the Company and other parties remember to verify that LNG used for
19 economic dispatch purposes are appropriately excluded.

20
21 **Demand Side Management Factor**

22
23 **Q. WHAT IS THE PURPOSE OF THE DEMAND SIDE MANAGEMENT FACTOR?**

24 **A.** The Demand Side Management Factor provides the Commission a mechanism for
25 adjusting NEG’s DSM Funding outside the context of a base rate proceeding.

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Q. WHAT IS THE LEVEL OF FUNDING CURRENTLY PROVIDED FOR DSM PROGRAMS THROUGH THE COMPANY'S BASE RATES?

A. As set forth in NEG's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 3, paragraph 3.2, the DSM funding presently embedded in base rates for NEG is **\$301,496** per year.

Q. WILL ANY DSM FUNDS BE CARRIED FORWARD FROM FY 2005?

A. Yes. The Company had a carry forward balance of uncommitted DSM funds at the end of FY 2005 of \$314,305. Thus, the total funds available for DSM programs during FY 2006 will be approximately \$615,000. However, a significant amount of funding earmarked for specific projects is yet to be expended. As a result, the Company's actual balance of unexpended DSM funding at the end of FY 2005 was \$1,274,475.

Q. HOW MUCH DID NEG ACTUALLY EXPEND FOR DSM PROJECTS IN FY 2004?

A. At the beginning of FY 2005, NEG had \$1,307,000 available for DSM projects. That included a carry forward balance from FY 2004 of \$1,007,000 and annual base rate collections of approximately \$300,000 for FY 2005. In this context, the Company's \$1,274,475 carry forward balance of unexpended DSM funds at the beginning of FY

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1 2006 implies that only \$32,525 of DSM funding was actually expended during FY
2 2005. Although last year NEG projected an end of FY2005 DSM balance of
3 \$433,600, actual expenditures have fallen short of expectations.

4

5 **Q. DO RATEPAYERS EARN INTEREST ON THE UNEXPENDED BALANCE OF**
6 **DSM FUNDS?**

7 **A.** No. Although interest is computed on any excess or shortfall in actual DSM
8 collections versus forecasted collections, no interest is provided on unexpended
9 DSM balances. Considering the comparatively small size of the DSM collections
10 variance over the past year relative to the size of the unexpended balance of DSM
11 funds, it could be argued that the unexpended DSM balance is providing the
12 Company cost-free working capital.

13

14 **Low Income Assistance Program Factor**

15

16 **Q. WHAT IS THE PURPOSE OF THE LOW INCOME ASSISTANCE PROGRAM**
17 **(LIAP) FACTOR?**

18 **A.** The Low Income Assistance Program (LIAP) Factor performs a function similar to
19 that of the DSM Factor. It provides a mechanism for the Commission to adjust the
20 funding of the Company's Low Income Heating Assistance Program (LIHEAP) and

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1 Low Income Weatherization Program activities outside the context of a base rate
2 proceeding.

3

4 **Q. WHAT IS THE LEVEL OF FUNDING CURRENTLY PROVIDED FOR NEG'S LOW**
5 **INCOME ASSISTANCE PROGRAMS THROUGH ITS BASE RATE CHARGES?**

6 A. As set forth in NEG's tariff, Section 3, Distribution Adjustment Charge, Schedule A,
7 Sheet 4, paragraph 3.3, the DSM funding presently embedded in base rates for
8 NEG is **\$1,793,901** per year.

9

10 **Q. WHAT WAS THE TOTAL OF NEG'S ACTUAL LIAP EXPENDITURES IN FY**
11 **2005?**

12 A. NEG entered For FY 2005 with a total of \$1,788,325 of funding available for low
13 income programs. That included \$1,585,000 current funding for LIHEAP, \$200,000
14 for low income weatherization, and \$3,325 as a carry forward of unexpended funds
15 from FY 2004. In this proceeding, the Company indicates that it has a carry forward
16 from FY 2005 of \$202,369. These figures suggest that the Company's actual low
17 income program expenditures for FY 2005 totaled \$1,585,956.

18

19 **Q. DOES NEG SEEK ADDITIONAL LIAP FUNDING THROUGH ITS PROPOSED**
20 **DSM FACTOR IN THIS PROCEEDING?**

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1 A. No, it does not. Therefore, the LIAP factor remains at zero.

2

3 **Q. IS THERE NEED FOR AN INCREASE IN THE COMPANY'S LOW INCOME**
4 **PROGRAM FUNDING?**

5 A. Without question gas bills for all gas customers in Rhode Island this winter will most
6 likely be higher than those in any prior year. However, all gas customers in Rhode
7 Island will be facing much higher gas bills this winter, and any meaningful effort to
8 provide greater assistance to low income customers through gas rates will only
9 amplify the problems faced by other residential consumers, schools, governments,
10 and businesses in the state. Moreover, the problems associated with low income
11 customers' needs for energy assistance are broader in scope than just a program
12 focused solely on gas pricing can effectively address. Many low income customers
13 are also facing significant increases in electricity and/or heating oil bills that a gas
14 utility rate program cannot and should not be designed to address. Thus, the best
15 venues to gain greater assistance for low income customers for this winter are the
16 state and federal legislatures which have the ability to reallocate tax revenue and/or
17 restructure governmental low income assistance programs in a manner that
18 addresses the entirety of low income residents energy needs through a single con-
19 sistentlly applied program. Thus, in my opinion legislated programs that apply to all

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1 fuels would be preferable to an expansion of funding through the DAC, as that
2 would necessarily exacerbate already large bill increases for other gas consumers.

3

4 **Environment Response Cost Factor**

5

6 **Q. PLEASE DESCRIBE THE PURPOSE OF THE ENVIRONMENTAL RESPONSE**
7 **COST (ERC) FACTOR?**

8 A. The primary function of the ERC Factor is to provide the Company a means of
9 recovering “reasonable and prudently incurred” environmental response costs while
10 limiting impacts on customers’ bills. Costs subject to recovery through the ERC
11 Factor include:

12

13 (1) Costs for evaluation, remediation and clean-up of sites associated
14 with NEG’s ownership and operation of manufactured gas plants,
15 manufactured gas storage facilities, and manufactured gas plant-
16 related off-site waste disposal locations;

17

18 (2) Costs for removal and disposal of mercury regulators and meters; and

19

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1 (3) Costs for acquiring property associated with the clean up of such
2 sites;

3
4 (4) Litigation costs, claims, judgments, and settlements associated with
5 environmental clean up activities.

6

7 **Q. HOW ARE REASONABLE AND PRUDENTLY INCURRED ENVIRONMENTAL**
8 **RESPONSE COSTS RECOVERED THROUGH THE ERC FACTOR?**

9 A. According to the terms of the settlement approved by this Commission in Docket No.
10 3401, such Environmental Response Costs shall be recovered through a 10-year
11 straight-line amortization, subject to the restriction that the ERC Factor shall be
12 limited to an increase of no more than \$0.01 per therm in any annual DAC filing.
13 Moreover, the ERC Factor is computed to reflect an adjustment to the \$1,310,000 of
14 Environmental Response Costs that is presently included in NEG's base rate
15 charges. Thus, the dollar amount subject to recovery through the ERC Factor in any
16 year reflects the sum of all applicable 10-year ERC amortizations less the
17 \$1,310,000 of budgeted base rate recoveries, and the ERC Factor reflects that net
18 dollar amount divided by forecasted firm throughput.

19

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1 **Q. WHAT IS THE NET DOLLAR AMOUNT THAT NEG PROPOSES IN THIS**
2 **PROCEEDING FOR RECOVERY THROUGH ITS ERC FACTOR?**

3 A. As shown in Attachment PCC-3, filed on August 1, 2005, the Company seeks
4 approval of a net recovery of (\$693,867). That net dollar amount reflects:

5

6 1. A 10-year amortization of \$12,510,252 of net ERC costs incurred
7 through the end of FY 2002;

8

9 2. A 10-year amortization of (\$6,012,673) of net ERC costs for FY
10 2003;

11

12 3. A 10-year amortization of (\$472,960) of net ERC costs for FY
13 2004;

14

15 4. A 10-year amortization of \$136,707 of net ERC costs for FY 2005;
16 and;

17

18 5. A deduction of \$1,310,000 for budgeted base rate recovery of
19 ERC costs during the annual period in which the proposed ERC
20 Factor will be effective.

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Q. WHAT IS THE AMOUNT OF THE ERC FACTOR THAT NEG PROPOSES IN THIS PROCEEDING?

A. NEG proposes an ERC Factor for FY 2006 of (\$0.0019) per therm. That represents a net credit to firm customers. For FY 2005, the Company proposed an ERC Factor of (\$0.0018). Thus, the change in the level of the Company's ERC factor from last year to this year is minimal .

Q. DO THE COMPANY'S CLAIMED ENVIRONMENTAL RESPONSE COSTS FOR FY 2005 INCLUDE ANY COSTS FOR THE TIDEWATER SITE MERCURY RELEASE INCIDENT?

A. According to NEG's response to Division Data Request DIV 1-16, all cost associated with that incident have been treated as below-the-line expenses and are not included in the environmental response costs for which NEG seeks recovery in this proceeding.

Q. WHAT IS THE MAGNITUDE OF THE COSTS ASSOCIATED WITH THE TIDEWATER SITE MERCURY RELEASE THAT HAVE BEEN EXCLUDED FROM THE COMPANY'S ENVIRONMENT RESPONSE COSTS IN THIS PROCEEDING?

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1 A. As explained to me by Mr. Czekanski, the costs associated with that incident are
2 reflected on line 8 of Attachment RJR-1 that was filed with Mr. Riccitelli's September
3 1, 2005 testimony. The amount reflect on that line is \$8,640,215.

4
5 **Q. DO YOU HAVE ANY ADJUSTMENTS TO THE FY 2005 EXPENSES THAT NEG**
6 **SEEKS TO INCLUDE IN ITS ENVIRONMENTAL RESPONSE COST**
7 **CALCULATIONS?**

8 A. No. I do not. The Company's claimed environment response expenses for FY 2005
9 are comparatively modest and net to only \$136,707.

10

11 **On-System Margin Credits**

12

13 **Q. WHAT IS THE ROLE OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR?**

14 A. The On-System Margin Credit (MC) Factor performs two functions. First, it provides
15 NEG a mechanism for recovery of shortfalls, if any, in the actual on-system margin
16 revenue derived from non-firm sales and transportation services relative to the \$1.6
17 million of annual on-system margin revenue presently assumed in the design of the
18 Company's base rates. Second, the MC Factor provides a mechanism for sharing
19 of on-system margin revenue in excess of the level assumed in the design of base
20 rates. If actual non-firm margin revenue exceeds \$1.6 million within the 12-month

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1 period ending June 30th of any year completed subsequent to the effective date of
2 this tariff provision, the MC Factor provides an incentive to the Company to
3 maximize such margin revenue by enabling NEG to retain 25% of such revenue
4 while crediting 75% of on-system non-firm margins to firm service customers as an
5 offset to their distribution system costs.

6
7 **Q. DID NEG ACHIEVE ON-SYSTEM NON-FIRM MARGINS IN EXCESS OF \$1.6**
8 **MILLION FOR THE 12-MONTH PERIOD ENDED JUNE 30, 2004?**

9 A. Yes. Mr. Czekanski's August 1, 2005 testimony in this docket indicates that NEG
10 recorded non-firm margin revenue for the 12-months ended June 30, 2005 of
11 \$3,152,849. Thus, \$1,552,849 of non-firm margin revenue was collected during FY
12 2004 in excess of the \$1.6 million annual level on On-System Margin Revenue
13 presently assumed in the design of NEG's base rates. As explained above, 75% of
14 that amount or \$1,164,637 is subject to distribution as a credit to firm customers
15 through the MC factor in the Company's DAC calculations. NEG retains 25% or
16 \$388,212. The resulting On-System Margin Credit (MC Factor) per therm is
17 \$0.0029. The proposed MC Factor for FY 2006 is more than four times the \$0.0007
18 factor that the Company proposed for FY 2005

19

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1 **Q. WHAT EXPLAINS THE INCREASE IN THE LEVEL OF ON-SYSTEM MARGINS**
2 **THAT NEG ACHIEVED IN FY 2005?**

3 A. The factors contributing to the significant increase in On-System margin revenue
4 between FY 2004 and FY 2005 are discussed in NEG's response to Commission
5 Data Request COMM 1-01. As explained therein, the observed increase was
6 heavily influenced by two key factors. One was the addition of new gas-fired power
7 plant which added roughly 500,000 Dth of gas use over the prior year. The other
8 was an increase in oil prices relative to prices for natural gas that allowed the
9 Company to significantly increase the margins derived from sales of interruptible gas
10 service.

11
12 **Q. CAN NEG REASONABLY ANTICIPATE SIMILAR LEVELS OF ON-SYSTEM**
13 **MARGINS FROM NON-FIRM GAS SERVICE FOR FY 2006?**

14 A. Probably not. The prices for natural gas are now well above equivalent crude oil
15 prices in terms of dollars per MMBtu, and they are in much closer proximity to No. 2
16 fuel oil prices now than a year ago. NYMEX Natural gas commodity prices for the
17 coming winter season are now in the range of \$14.00 per MMBtu. That compares
18 with current NYMEX crude Oil prices that are in the range of \$64.00 per barrel or
19 about \$10.30 per MMBtu and current NYMEX futures prices for No. 2 fuel oil that

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1 are in the range of \$2.00 to \$2.10 per gallon or roughly \$14.50 to \$15.00 per MMBtu
2 for the coming winter.

3

4 **Q. ARE NEG'S CALCULATIONS OF SHARED MARGINS FOR FY 2005 AND THE**
5 **MC FACTOR FOR FY 2006 REASONABLE AND APPROPRIATE?**

6 A. I have reviewed the monthly data and calculations presented in PCC-4 attached to
7 Mr. Czekanski's August 1, 2005 testimony, and conclude that the mathematical
8 computations present in that exhibit are correct. However, I have not attempted an
9 audit of the Company's reported revenue by month for non-firm service customers.

10

11 **Weather Normalization**

12

13 **Q. WHAT IS THE INTENDED ROLE OF THE COMPANY'S WEATHER NORMAL-**
14 **IZATION FACTOR?**

15 A. The Weather Normalization Factor provides a mechanism for moderating the
16 impacts of weather on the Company's revenue. When winter weather, as measured
17 in Heating Degree Days (HDDs), is warmer than normal, NEG's collection of fixed
18 costs through its charges for distribution service declines below the level anticipated
19 under normal weather conditions. If the resulting decline in heating degree days is
20 significant, a positive Weather Normalization Factor is computed for the subsequent

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1 DAC period to compensate the Company for a portion of the revenue foregone due
2 to reduced system throughput. On the other hand, colder than normal winter
3 weather causes system throughput and distribution charge revenue to increase
4 relative to expected revenue levels under normal weather conditions. If recorded
5 HDDs are greater than anticipated normal degree day levels, a negative Weather
6 Normalization Factor (credit) returns a measure of excess revenue collections to
7 customers during the subsequent DAC period.

8 However, the Weather Normalization Factor only addresses heating degree
9 days recorded for each year that are more than 2% above or below normal heating
10 degree day levels when accumulated over the defined winter season (i.e., the
11 months of November through April). If recorded actual HDDs are within plus or
12 minus 2% of normal levels for the winter season, the Weather Normalization Factor
13 for the subsequent DAC is zero. On the other hand, if total HDDs for the winter
14 season are beyond the range defined by normal HDD expectations plus or minus
15 2%, each heating degree day beyond that range is multiplied by \$9,000 per degree
16 day to obtain the total dollar amount to be recovered from, or credited to, customers
17 through the Weather Normalization Factor.

18

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1 **Q. WAS THE 2004-2005 WINTER SEASON A SUFFICIENTLY WARMER OR**
2 **COLDER THAN NORMAL TO TRIGGER THE COMPUTATION OF A NON-ZERO**
3 **WEATHER NORMALIZATION FACTOR FOR NEG?**

4 A. Yes. As shown in Attachment PCC-5 filed with Mr. Czekanski's August 1, 2005
5 testimony in this docket, the actual number of heating degree days for the months of
6 November 2004 through April 2005 was 5,052. That is 178 degree days above the
7 threshold identified for computing credits to customers.

8
9 **Q. WHAT AMOUNT OF CREDIT RESULTS FROM THE COLDER THAN NORMAL**
10 **WEATHER EXPERIENCED DURING THE WINTER OF 2004-05?**

11 A. The multiplying the 178 HDDs that were above the normal HDD level plus 2% by
12 \$9,000 per excess HDD generates a Weather Mitigation Credit for firm customers of
13 \$1,602,000. Dividing that result by Annual System Throughput for FY 2006 of
14 35,767,814 produces a Weather Normalization (WN) Factor of (\$0.0045) per therm.

15
16 **Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S WEATHER**
17 **NORMALIZATON FACTOR CALCULATIONS FOR FY 2006?**

18 A. Yes. I find those calculation have been performed in compliance with the proce-
19 dures set forth in the Company's tariff, and are mathematically correct.

20

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1 **Reconciliation Factor**

2

3 **Q. HOW IS THE RECONCILIATION (R) FACTOR COMPUTED?**

4 A. The Reconciliation (R) Factor component of the Company's DAC adjusts for
5 differences between revenue collections associated with each component of DAC
6 and either actual costs or budgeted revenue by component, adjusted for interest on
7 deferred balances. In this proceeding, the R Factor computations include recon-
8 ciling adjustments for System Pressure, Demand Side Management, Low Income
9 Assistance, Environmental Response Costs, On-System Margin Credits, Weather
10 Normalization, Earnings Sharing, and the previous Reconciliation Factor.

11

12 **Q. WHAT IS THE RESULT OF NEG'S R FACTOR COMPUTATIONS?**

13 A. Updated Attachment PCC-6, page 1 of 9, reflects a computed Reconciliation Factor
14 of \$0.0014 per therm for application in the Company's 2006 fiscal year. That result
15 is quite similar in magnitude of the \$0.0015 per therm Reconciliation Factor that
16 NEG computed a year ago for FY 2005. However, the contribution of the various
17 elements included in the Company's Reconciliation Factor determinations has
18 changed noticeably. Thus, any similarity in the relative magnitude of the Recon-
19 ciliation Factors for FY 2005 and FY 2006 appears coincidental.

20

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1 Q. ARE THE RECONCILING ADJUSTMENTS THAT NEG HAS COMPUTED AS
2 PART OF THE "R" FACTOR COMPONENT OF ITS DAC REASONABLE AND
3 APPROPRIATE?

4 A. Yes, I find that NEG's reconciliation adjustments are accurately computed.

5

6 **Distribution Adjustment Charge (DAC) Summary**

7

8 Q. WHAT IS LEVEL OF THE DISTRIBUTION ADJUSTMENT CHARGE THAT NEG
9 PROPOSES IN THIS PROCEEDING?

10 A. The Company's proposed DAC charge is presented in Updated Attachment PCC-1
11 filed on September 1, 2005. That proposed DAC represents a net credit of \$0.0030
12 per therm for all customers, including the adjustment of uncollectible accounts.

13

14 Q. DO YOU PROPOSE ANY CHANGES TO DAC CALCULATIONS THAT NEG HAS
15 PRESENTED IN THIS PROCEEDING?

16 A. Yes. As noted earlier, I would encourage the Commission to require NEG to include
17 in its DSM Factor a credit to customers for interest earned on unexpended DSM
18 balances.

19

TESTIMONY OF BRUCE R. OLIVER
Docket No. 3690
October 14, 2005

1 **Q. WHAT WOULD BE THE IMPACT OF THAT CHANGE ON THE COMPANY'S DSM**
2 **FACTOR AND ON THE OVERALL DAC RATE THAT NEG PROPOSES IN THIS**
3 **PROCEEDING?**

4 A. I estimate that for FY 2005 the sum of monthly interest computations on expended
5 DSM balances using the same interest rate that NEG applies to on reconciliation
6 balances in Attachment PCC-6, pages 2 through 6, would be in the range of \$30,000
7 to \$35,000. That appears to be enough to increase the overall DAC credit for FY
8 2006 from \$0.0030 to **\$0.0031**.

9
10 **Q. WHAT ARE THE IMPACTS OF THE COMPANY'S PROPOSED DAC ON**
11 **CUSTOMERS' BILLS?**

12 A. As shown in Attachment PCC-8 to Mr. Czekanski's September 1, 2005 testimony,
13 the computed bill impacts of DAC that NEG proposes in this proceeding range from
14 -0.2% to -0.5%. However, those percentages assume no change in the Company's
15 GCR charges as proposed in its September 1, 2005 GCR filing. The increases that
16 NEG now proposes in its September 30 GCR filing will only serve to further reduce
17 the significance of bill impacts associated with the proposed DAC.

18
19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes, it does.