# REBUTTAL TESTIMONY

# OF

# PETER C. CZEKANSKI

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## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Peter C. Czekanski, and my business address is 280 Melrose Street, Providence, Rhode Island 02907.

**Q. WHAT IS YOUR POSITION WITH THE COMPANY?**

A. I am Manager of Pricing for National Grid Rhode Island – Gas ("National Grid" or the "Company"). In that position, my responsibilities include overseeing the design, implementation and administration of rates charged by National Grid for natural gas service in Rhode Island. I also direct the development of the Company's sales and revenue forecasts.

**Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?**

A. Yes. On April 1, 2008, the Company submitted a request for base-rate relief to the Rhode Island Public Utilities Commission (the "Commission"). As part of that filing, I submitted pre-filed direct testimony to describe the Company's adjustments to the test-year billing determinants and the revenues that produce the rate-year billing determinants. In addition, my testimony described the proposed tariff changes, including changes to the Company's tariff for non-firm service.

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. On July 25, 2008, Mr. Bruce R. Oliver submitted testimony on behalf of the Rhode Island Division of Public Utilities and Carriers (the "Division") regarding a number of issues covered in my pre-filed testimony. In particular, Mr. Oliver made a number of claims and recommendations in relation to the Company's pricing structure for non-firm service. The issue of the Company's non-firm pricing structure was also addressed in the testimony of Mr. John Farley, on behalf of the Energy Council of Rhode Island ("TEC-RI") and Mr. James Grasso, president of SilentSherpa Energy Consulting and Professional Services, Inc. ("SilentSherpa"). My rebuttal testimony responds to the direct testimony of the Division, TEC-RI, and SilentSherpa on pricing and rate-design issues, but my silence on any issues should not be construed as agreement with any particular recommendation.

**Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?**

A. My rebuttal testimony is organized in three sections: Section I is a general introduction. Section II addresses the central public-policy decision before the Commission in relation to the Company's non-firm pricing structure and explains why the existing structure (along with enhancements proposed by the Company in this docket) serves the interest of firm customers to a greater extent than the pricing models proposed by the Division and other intervenors in this proceeding.

Section III addresses areas other than non-firm pricing, which were raised in the intervenor testimony.

**Q. WHAT IS THE COMPANY RECOMMENDING IN THIS TESTIMONY?**

A. The central debate in this case regarding non-firm pricing requires a public-policy decision by the Commission as to whether it will maintain the current value-of-service pricing structure, albeit with modifications to mitigate the effect of relatively higher costs of alternative fuels, or whether the Commission will move to a fixed, "cost-based rate," which will be more predictable and less expensive for large non-firm customers, but will shift revenues away from firm customers. There are several changes to the Company's non-firm procedures and tariff provisions that are under discussion among the parties, but these issues all take a "back seat" to the central policy issue and, in some cases, may be rendered moot by the Commission's policy decision. Therefore, the Company is recommending that the Commission rule on the underlying policy decision (i.e., whether to maintain the value-of-service system with some type of modification or to move to a fixed, cost-based price) in this proceeding, and then require the parties to work collaboratively to finalize the specific details of the remaining tariff provisions and non-firm procedures for later review and approval by the Commission. The Company believes that this will streamline the Commission's review in this proceeding and will resolve the central issue under debate, which is

essentially unsolvable by the parties because of the tradeoffs involved between non-firm and firm customers.

## II. PUBLIC POLICY ISSUE RELATING TO NON-FIRM PRICING

**Q. WOULD YOU PLEASE OUTLINE THE CENTRAL POLICY ISSUE RAISED IN THIS PROCEEDING IN RELATION TO THE PRICING OF NON-FIRM SERVICE?**

A. In this docket, the Division, TEC-RI and SilentSherpa are requesting that the Commission make a significant change in the pricing structure for non-firm distribution service. The existing non-firm pricing structure is aimed at producing benefits for firm-service customers, including residential, through a variable rate that changes from month to month in relation to the market price of the alternative-fuel option available to the non-firm customer. Although their proposals differ in some respects, the Division, TEC-RI and SilentSherpa are each requesting that the Commission establish a fixed, "cost-based" distribution rate for non-firm service, which would represent a significant discount as compared to firm rates. The intervenors claim that this shift from a variable, market-based rate to a fixed, cost-based rate is appropriate because: (1) the fixed rate will offer price stability and predictability for non-firm customers, (2) the fixed price would eliminate the Company's "discretion" in determining prices, and (3) the rate (as a fixed discount from firm rates) would recognize the "lesser quality of service" that non-firm customers allegedly receive. What the intervenors do not highlight

is that the shift from the existing rate structure to a fixed, "cost-based" price for non-firm service would reduce the price paid by non-firm customers to a minimal level and would, therefore, deprive firm residential customers and commercial and industrial ("C&I") customers of several million dollars in annual revenues that they currently receive through the non-firm service offering to reduce their cost of service. This result occurs largely because the actual "cost" of providing non-firm service is minimal. Since the system is constructed and maintained to ensure uninterrupted service to firm customers on a year-round basis (i.e., through the peak winter periods), distribution capacity is available in the off-peak periods for use by non-firm customers at little or no additional cost. As a result, the establishment of a "cost-based" rate would significantly alter the basis for valuation of the available distribution capacity. Thus, the Commission's adoption of a fixed, cost-based rate in this proceeding would necessarily require a decision by the Commission to change its ratemaking policy on the valuation of distribution capacity, which is paid for and maintained by firm customers and used by non-firm customers when it is to their advantage to do so.

**Q. WHAT IS THE RATEMAKING THEORY THAT UNDERLIES THE CURRENT PRICING STRUCTURE FOR NON-FIRM SERVICE?**

A. Under the Company's tariff, only C&I customers with dual-fuel capability are eligible for interruptible or "non-firm" service. With dual-fuel capability, customers are free to use their alternative fuel to (1) meet their energy needs in

the event of an interruption on the gas distribution system, or (2) shift their usage to take advantage of price differentials that arise from time to time between natural gas and the customer's alternative fuel. The Company's distribution rates are designed to recover the fully allocated cost of constructing and maintaining the distribution system from residential and small, medium and large C&I customers who require and take service on an *uninterrupted* basis. Because non-firm customers are willing and able to take service on an interruptible basis, they do not pay the Company's distribution rates, and therefore, do not incur any of the costs of constructing and maintaining the distribution capacity over the long term.

The primary policy driver of the current pricing structure for non-firm service is that it recognizes that the Company's distribution capacity is paid for by firm customers and has a value in the marketplace, especially in terms of interruptible customers who are looking to use that capacity to avoid alternative fuel costs. Most importantly, the current pricing structure recognizes that the interests of firm-service customers are served in *maximizing* the value of the capacity. Therefore, the current pricing structure for non-firm service is a "value-of-service" framework, which means that the per-unit price charged to non-firm customers is set slightly below the cost of the customer's alternative energy option (usually No. 2 or No. 6 fuel oil). Value-of-service pricing is intended to recognize: (1) that there is a value associated with system capacity that is made available to non-firm customers who have not paid for the capacity, and (2) that

non-firm customers operate not only in the natural gas market, but also in an overall energy market, which permits them to take advantage of the least expensive source of energy among various sources. Value-of-service pricing, in one form or another, is widely used as the framework for non-firm service pricing because it recognizes that firm customers should benefit to the maximum extent possible from the use of capacity that they have paid for through rates.

**Q. HOW IS THE NON-FIRM RATE CURRENTLY CALCULATED?**

A. The Company's existing tariff establishes the non-firm rate on a monthly basis, priced so that the sum of the cost of natural gas and National Grid's distribution rate provides the customer with a discount off the cost of the customer's alternative fuel. The level of discount is based on the amount of gas that a customer can use and the type of alternative fuel, with discounts currently ranging from 2.25 percent to 22 percent. The distribution rate in this calculation is also subject to a floor price (generally $0.10 per dekatherm in the summer and $0.16 per dekatherm in the winter), but there is no cap or maximum charge.

**Q. WHAT HAPPENS TO THE REVENUES GENERATED FROM NON-FIRM CUSTOMERS?**

A. The customer share of revenues generated through non-firm service are used to offset distribution rates for firm service customers. Over the past three years, the total annual offset provided to firm service residential and C&I customers has

ranged from **$3.0 to $4.5 million**, including revenues of $1.6 million, which is an amount that is built into the Company's base rates (both existing rates and rates proposed for approval in this proceeding). Adding non-firm revenues to the Company's calculation of base rates reduces the amount of revenue to be collected through base rates from other firm rate classes. In addition to the $1.6 million built into base rates, customers receive 75 percent of all revenues collected in a year through the non-firm rate in excess of the $1.6 million. These revenues are credited to customers through the Distribution Adjustment Charge ("DAC") as a direct offset to monthly customer bills.

**Q. WHAT IS THE THEORY OFFERED BY THE INTERVENORS IN SUPPORT OF A FIXED COST-BASED RATE AND HOW DOES IT DIFFER FROM THE THEORY OF A VALUE-OF-SERVICE RATE?**

A. It is notable that the Division, TEC-RI and SilentSherpa do not identify or discuss the need to apply a pricing policy that maximizes benefits to firm customers who have paid for the distribution system. Instead, these intervenors seek to establish a rate that is more favorable to large and extra-large dual-fuel customers in terms of both the price level and the variability of that rate. The arguments that the intervenors cite in favor of a shift in policy are several and differ slightly between each party.

**Q. DOES THE COMPANY HAVE CONCERNS IN RELATION TO TEC-RI'S POLICY CLAIMS?**

A. Yes. TEC-RI argues for the establishment of a fixed, "cost-based" non-firm rate, but does not advocate for a specific price level. TEC-RI argues that a change in policy is needed because the value-of-service pricing model was designed for the circumstance where the cost of oil was *lower* than natural gas and tying the price of interruptible service to the price of oil was a way to encourage the sale of natural gas at a price that was attractive as compared to fuel oil (TEC-RI at 9). TEC-RI argues that the "value-based pricing method breaks down" when the price of oil is more than natural gas (id. at 10). Next, TEC-RI argues that non-firm customers "give up rights on the system" and receive a "lower quality of service" than firm customers, and therefore, should pay a lower rate than firm customers (id. at 6, 8, 10). TEC-RI also claims that the current system allows the Company "too much discretion in determining prices" and results in a price that changes from "month to month in an unpredictable manner" (id. at 5). Based on these factors, TEC-RI argues for a cost-of-service based non-firm rate that does not vary every month and that represents a fixed discount from distribution rates (id. at 6, 14).

**Q. DOES THE COMPANY AGREE WITH THE POLICY CLAIMS ASSERTED BY TEC-RI?**

A. No. The Company respectfully disagrees with TEC-RI's claims. As an initial matter, the Company disagrees with the conclusion that, because the value-of-service methodology is used to encourage the use of natural gas when oil prices are lower than natural gas prices, it does not apply when oil prices are higher than natural gas. In fact, value of service pricing methodology is equally applicable in both pricing scenarios because the central purpose of the pricing mechanism is to *produce an appropriate value for the use of distribution capacity so that revenues are available to firm customers to offset the cost of that capacity.* The value-of-service pricing methodology allows the Company to price non-firm distribution service at a discount to oil, so that when oil prices are dropping (thereby inducing dual-fuel customers to use oil rather than natural gas), the Company can encourage the continued use of natural gas services by dropping its non-firm rate below prevailing oil prices.

Without this pricing mechanism, dual-fuel customers would bypass the gas-distribution system and use their alternative fuel because it offers them a pricing advantage. With this mechanism in place, the Company can sell its non-firm service at a discount to oil and maintain a level of revenues for the benefit of firm customers, which would otherwise be unavailable. Similarly, when fuel oil prices are higher than natural gas, the value-of-service pricing methodology allows the

Company to capture increased benefits for firm customers since the value of the excess distribution capacity is greater in a marketplace characterized by higher oil prices. Thus, the idea that value-of-service pricing is valid only when oil prices are higher than natural gas is misguided and does not provide a valid basis for a policy change by the Commission in this proceeding.

**Q. WHAT ABOUT TEC-RI'S CLAIM THAT NON-FIRM SERVICE IS A "LESSER SERVICE" AND THEREFORE, SHOULD BE OFFERED ALWAYS AT A FIXED DISCOUNT TO FIRM SERVICE?**

A. The Company does not agree with this claim either. TEC-RI claims that non-firm customers "give up certain rights and receive a lower quality of service" because they must agree to interrupt service "at the Company's convenience to improve reliability for the firm customers," who "retain all rights on the system" (TEC-RI at 8, 10). Thus, TEC-RI concludes that, because the non-firm customer gives up certain rights and service levels that the firm customer enjoys, the rate for non-firm service should have a similar structure as firm service, but be set at an "appropriate discount" (TEC-RI at 15). The Company disagrees with this statement because it turns reality on its head. Non-firm customers are not giving anything up for the benefit of firm-service customers. Firm service customers require reliability in the form of uninterrupted service, and they pay for it through distribution rates, which are designed to recover 100 percent of the cost of a distribution system that is constructed to meet the requirements of all firm service

customers on a year-round basis, which means that there will be times in the off-peak season that capacity is available for use by non-firm customers, with the sale of that capacity producing a value to offset the costs incurred by firm customers. Thus, interruptible customers do not "give up rights," by choosing to avoid taking firm service, nor do they "improve reliability" by enduring an interruption. In fact, interruptible customers are customers who have *chosen* to utilize system capacity only in the off-peak period so that they can avoid incurring a share of the total system costs that would be proportionate to their full-time use of the system. By definition, interruptible customers are allowed to use the system *only when it is not needed by firm customers who have paid for the system.* Thus, they do not increase reliability by agreeing to be interrupted; instead, they take advantage of the opportunity created when firm customers pay for a system that will ensure reliability throughout the year, but that is not used to maximum capacity at all times. Moreover, when non-firm customers take service from the Company, they take it at the same quality of service that firm service customers enjoy, despite the fact that they have not paid for the system.

**Q. WHAT ABOUT TEC-RI'S CLAIM THAT THE CURRENT SYSTEM PROVIDES THE COMPANY WITH TOO MUCH DISCRETION IN SETTING NON-FIRM PRICES AND THAT NON-FIRM RATES MUST BE MORE PREDICTABLE?**

A. The pricing of non-firm service requires a balancing of interests between: (1) the Company's firm customers, who are primarily residential and smaller C&I customers that have paid for the Company's distribution capacity through rates, and (2) non-firm service customers, who are large and extra-large C&I customers that want to use that distribution capacity for their own benefit to avoid high oil prices, but who also are important to the economic health of Rhode Island. Although the concept of a fixed, cost-based price for non-firm service may be appealing in terms of the interests of larger dual-fuel customers, it will deprive smaller residential and C&I firm customers of significant value, which is legitimately due to them during times when the distribution capacity they have paid for has a relatively higher value in the marketplace. Thus, if the interests of smaller firm customers are to be furthered in any respect in relation to non-firm service, there must be flexibility in the pricing regime. A level of flexibility is necessary for the Company to achieve the greatest possible benefit for firm customers, while working with non-firm customers to derive the market-based price. The Company recognizes that a fixed rate would be more predictable for dual-fuel customers; however, the balancing of interests weighs in favor of ensuring that the value to firm customers is maximized. If predictability is of

paramount important to a non-firm customer, the customer always has the opportunity to take firm service or to make a commitment to use natural gas and enter into a multi-month non-firm contract agreement.

**Q. WHAT ARE THE COMPANY'S CONCERNS WITH REGARD TO SILENTSHERPA'S POLICY CLAIMS?**

**A.** In terms of the policy underlying the non-firm pricing structure, SilentSherpa argues that the capacity utilized by non-firm customers is "already paid for by the firm service customer," and therefore, if the non-firm customer did not agree to utilize the distribution capacity in off-peak periods, it would "go unused and be of no value to the utility" (SilentSherpa at 8). SilentSherpa also argues that, because distribution service is a monopoly service, the rate for non-firm service should be cost-based, with the cost of non-firm service being "marginal at best" (id.). Thus, without naming a rate, SilentSherpa argues that the charge for non-firm service ought to be minimal. Lastly, SilentSherpa makes a number of factual allegations regarding the Company's actions and intentions in relation to non-firm service. These factual allegations are addressed below.

**Q. WHAT ARE THE COMPANY'S CONCERNS IN RELATION TO THE DIVISION'S POLICY ARGUMENTS RELATING TO NON-FIRM SERVICE?**

A. Like TEC-RI and SilentSherpa, the Division argues that the Commission should change its ratemaking policy for non-firm rates because the current pricing mechanism has six problems to be addressed: (1) the premises supporting value-of-service pricing no longer exist or have substantially eroded; (2) the current system hinders the efficient operation of competitive natural gas and oil supply markets; (3) "parity" between oil and gas prices no longer exists and natural gas will have a price advantage over fuel oil alternatives into the future; (4) dual-fuel customers have migrated to firm service because of the price disparity; (5) the non-firm pricing arrangements with some customers "appear" to have created "inappropriate and undue price discrimination among customers having the same alternate fuel type," and (6) the monthly determination of prices for non-firm customers places unnecessary administrative burdens on the Company (Division at 51).

The Company's concern is that the Division's policy drivers do not focus on the creation of a pricing system that values capacity for the benefit of firm customers; instead, the Division's policy drivers are essentially summarized as: (1) a desire to lower the cost of non-firm service because rising oil prices are increasing the price of non-firm service under the value-of-service model, and (2) a desire to

create a fixed rate that is predictable for non-firm customers and eliminates the need for any action by the Company (along with any maximization of revenues for firm customers).

**Q. WHAT ABOUT THE DIVISION'S CLAIM THAT THE PREMISE OF VALUE-OF-SERVICE PRICING IS NO LONGER VALID?**

A. This is similar to the argument made by TEC-RI and addressed above in my testimony. This argument is fundamentally based on the idea that value-of-service was designed for the exclusive purpose of pricing a *bundled* gas supply and distribution service, and not as a mechanism for pricing the value of distribution capacity on its own. Specifically, the Division argues that because non-firm customers can now purchase *gas commodity* in the marketplace from a supplier who is competing with other gas suppliers to provide the service (i.e., because there is "gas-on-gas" competition), the comparison to the customer's cost of alternative fuel has become irrelevant, and there is, therefore, no need to employ a "value-of-service" mechanism to set the price for non-firm service (Division at 52). While it is true that market alternatives for the pricing of *gas commodity* exist; the same is not true for the pricing of distribution capacity and the Division's argument blurs the distinction between gas commodity sales and distribution-capacity sales. Therefore, if the idea is to identify the value of capacity that is being sold on a non-firm basis to large dual-fuel customers, then the value of service pricing model remains directly relevant and appropriate

because it is aimed at identifying the cost that the customer would incur to take delivery of the alternative fuel and ensuring that the Company's firm customers realize a relative value for use of the gas delivery system in place of that alternative fuel.

Like TEC-RI, the Division also states that the value-of-service methodology is used to encourage the use of natural gas when oil prices are lower than natural gas prices, but it somehow does not apply when oil prices are higher than natural gas. In fact, value of service pricing methodology is equally applicable in both pricing scenarios because the central purpose of the pricing mechanism is to *produce an appropriate value for the use of distribution capacity so that revenues are available to firm customers to offset the cost of that capacity.* The value-of-service pricing methodology allows the Company to price non-firm distribution service at a discount to oil, so that when oil prices are dropping (thereby inducing dual-fuel customers to use oil rather than natural gas), the Company can encourage the continued use of natural gas services by dropping its non-firm rate below prevailing oil prices. Similarly, when fuel oil prices are higher than natural gas, the value-of-service pricing methodology allows the Company to capture increased benefits for firm customers since the value of the excess distribution capacity is greater in a marketplace characterized by higher oil prices. Thus, the idea that value-of-service pricing is valid only when oil prices are higher than

natural gas is misguided and does not provide a valid basis for a policy change by the Commission in this proceeding.

**Q. DOES THE COMPANY HAVE ANY OTHER CONCERNS WITH THE POLICY ARGUMENTS MADE BY THE DIVISION?**

A. Yes. The Division notes that the Company has recently experienced a significant level of migration from non-firm service to firm service because the value-of-service pricing system has made it more economical for certain large C&I customers to take firm service than to take non-firm service (Division at 53). The Divisions claims that the Commission should change the existing pricing structure for non-firm service to establish "reasonably predictable non-firm rates below the firm service alternative" and to encourage migration from firm service to non-firm service over the next year in order to "stabilize the composition" of the non-firm customer base (Division at 53-54). The Company disagrees with this proposition for several reasons. As an initial matter, it is unclear to the Company how "stabilizing" the composition of the non-firm customer base serves the interests of the Company's firm customers or of the Commission in its ratemaking capacity. The Company firmly believes that the expansion of firm gas service revenues provides a benefit to all customers because it means that the system's fixed costs can be spread over a larger base; thereby reducing the burden for all firm customers.

Second, if it is more economical for the non-firm customer to take firm service than to take non-firm service or to use its alternative fuel – then the customer should be taking firm service. Non-firm service is not designed or intended to provide large, dual-fuel customers with a more economical option than firm service and the Commission should not establish a fixed, cost-based price for the sole purpose of creating that economic advantage. Non-firm service is intended to *attract* usage of the system where the customer is in a position to bypass the system for a more favorable, alternative fuel source and would otherwise do so if the economics allow. If the customer is *not willing or able to bypass the system* because the economics of the situation are not advantageous to the customer, then the customer should be taking firm service and sharing the costs of the system with smaller, firm customers.

It should be noted that the Division states that the Company's objective in establishing a cap for the value-of-service pricing is to "stem the migration of non-firm customers to firm service" (Division at 57). This is a misunderstanding of the Company's perspective. As the Company stated in response to Data Request DIV 6-26, the Company's objective is to stem the migration of firm-service customers to non-firm service, because the system is better served when the firm gas load is expanded and the fixed costs of the system spread over that larger customer base.

Lastly, the Division claims that the existing value-of-service pricing framework creates the opportunity for "undue discrimination" among similarly situated customers, yet the Division's recommendation to establish a rate that is more economic than firm service does exactly that. Since a "cost-based" non-firm rate would be available only to dual-fuel customers, all other large C&I customers would remain subject to the Company's firm service rates. However, the Division's central argument for this new "more economic rate" is that the cost of alternative fuel is so high as to be non-competitive, and therefore, value-of-service pricing is inapplicable (Division at 51-53). Thus, in proposing to set a rate that is a fixed discount to firm service, the Division seeks to create favorable economics for a particular customer class that, according to the Division, has no alternative fuel options that are "competitive" with the price of gas service. Again, non-firm service is not a service that is provided to large and industrial customers to provide them with an economic alternative to firm service; it is an "opportunity" service that is provided *exclusively* to dual-fuel customers who have the ability to bypass the system, so that the system may achieve value for firm service customers, where it would not otherwise do so. As a result, this view on the migration of non-firm customers to firm service does not represent sound ratemaking policy.

**Q. WHAT ACTION IS THE COMPANY RECOMMENDING FOR THE COMMISSION IN THIS PROCEEDING ON THE ISSUE OF NON-FIRM SERVICE?**

A. As mentioned at the outset of my testimony, resolution of the debate on non-firm pricing requires a public-policy decision by the Commission as to whether it will maintain the current value-of-service pricing structure, albeit with modifications to mitigate the effect of relatively higher costs of alternative fuels, or whether the Commission will move to a fixed, "cost-based rate," which will be more predictable and less expenses for large non-firm customers, but will shift revenues away from firm residential and C&I customers. The Commission should render a decision on this policy decision in this proceeding, and then require the parties to work collaboratively to finalize the specific details of the remaining tariff provisions and non-firm procedures for later review and approval by the Commission. The Company believes that this will streamline the Commission's review in this proceeding and will resolve the central issue under debate, which is essentially unsolvable by the parties because of the tradeoffs involved between non-firm and firm customers.

## III. OTHER ISSUES

**Q. DO YOU HAVE ANY SPECIFIC COMMENTS RELATED TO OTHER ISSUES RAISED IN THE INTERVENORS' TESTIMONY?**

A. Yes. Both Mr. Oliver (Division at 72) and Mr. Farley (TEC-RI at 4) suggest or recommend that the shareholder should contribute to the cost of the proposed low-income discount. The Company believes that its proposal for the 10 percent discount to be collected from other customers is appropriate in terms of both amount and recovery through rates. The Company is entitled to recover all reasonable and prudently incurred costs from customers through rates and the cost of the low-income discount is a necessary and appropriate approach for assisting customers who have difficulty in paying. The cost of the discount is no different than the funding made available for the supplemental LIHEAP and Low-Income weatherization programs.

In addition, Mr. Oliver suggests on behalf of the Division that the Commission should disallow the costs of the Gas Marketing Program, but keep the revenues associated with the incremental customers projected to result from the program in the base rates set in this proceeding (Division at 32). Mr. Oliver's recommendation is based on the assumption that the existing cost differential between natural gas and heating oil will motivate those customers to convert to gas service in any event. For the reasons stated in Mr. Mongan's Rebuttal Testimony, the Company disagrees with proposition that this customer load will

result without any efforts by the Company to educate customers or facilitate the conversion process through the types of activities that would be undertaken through the Gas Marketing Program. In addition, it is not consistent with legal or ratemaking principles to include "future" growth in a post-test year period. The Company has proposed to do so only because the Company is requesting approval of the costs that will be incurred to initiate and conduct the Gas Marketing Program. If the Commission does not allow the costs, the load growth that was projected to result from the program should be removed from the proposed rates consistent with generally accepted ratemaking practice.

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

A. Yes.