REBUTTAL TESTIMONY

OF

JAMES D. SIMPSON

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I. INTRODUCTION

Q. ARE YOU THE SAME JAMES D. SIMPSON WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am. I provided Direct Testimony on behalf of National Grid RI - Gas ("National GRID" or the "Company").

Q. PLEASE STATE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A. The purpose of my rebuttal testimony is to respond to (1) the Direct Testimony of Bruce R. Oliver on behalf of The Division of Public Utilities and Carriers (the "Division"), filed July 25, 2008; (2) the Direct Testimony of John Farley on behalf of The Energy Council of Rhode Island (TEC-RI), filed July 25, 2008; (3) the Pre-filed Comments of the George Wiley Center, filed August 6, 2008, (4) the Comments Of Environment Northeast ("ENE") concerning National Grid's Decoupling Proposal, filed July 25, 2008; and (5) the Prefiled Comments of Seth Kaplan, Esq. on behalf of the Conservation Law Foundation. My silence on any issues should no be construed as agreement with any particular recommendation.

Q. ARE THERE ANY PRELIMINARY MATTERS THAT YOU WOULD LIKE TO COVER?

A. Yes, I would like to offer Updated Attachment NG-JDS-3, which is an updated version of the Summary of Gas LDC Decoupling Mechanism Proposals that I had

provided as Attachment NG-JDS-3 to my prefiled direct testimony; this Updated Attachment NG-JDS-3 reflects decoupling-related filings and regulatory approvals through June 30, 2008.

Q. PLEASE SUMMARIZE THE CURRENT STATUS OF DECOUPLING THAT IS REFLECTED IN UPDATED ATTACHMENT NG-JDS-3.

A. As of June 30, 2008, Concentric has identified thirty-three different LDCs that have filed or implemented decoupling approaches.

There are currently three LDCs in Missouri that have implemented Straight Fixed-Variable rate design for residential customers to recover all distribution costs through a fixed monthly customer charge; another LDC, Atlanta Gas Light charges all customers SFV-based demand charges.

Of the twenty-nine LDCs with approved or pending decoupling mechanisms, twenty-one LDCs have received regulatory approval and eight proposals are awaiting regulatory decisions.

In addition, several states are investigating decoupling on a generic basis; there have been significant developments in the following states:

- The Massachusetts Department of Public Utilities ("DPU") issued an order dated July 16, 2008 that set 2012 as the deadline for all Massachusetts electric and gas distribution companies to implement decoupling. The July 16 Order required all electric and gas distribution companies to notify the DPU by the end of August when they expect to file a rate case to implement decoupling.

- A report[1] was filed with the Minnesota Public Service Commission on June 30, 2008; the report established standards and criteria for decoupling proposals to be filed with the PSC.
- The New York Public Service Commission issued an Order effective April 20, 2007 directing electric and gas utilities to file proposals in ongoing and new rate cases for true-up revenue decoupling mechanisms.

Q. HOW IS THE REMAINDER OF YOUR REBUTTAL TESTIMONY ORGANIZED?

A. My rebuttal testimony is organized in three sections:

- First, I will provide an overview of my rebuttal testimony;
- Second, the Division and TEC-RI testimonies and the Wiley Center comments include numerous claims and representations about decoupling that I will comment on and;
- Third, I will provide the Company's response to several changes and modifications in the design of the Company's RPC decoupling mechanism that the Division, ENE, and TEC-RI have recommended.

[1] In response to 2007 legislation, the PSC initiated a collaborative process that was lead by the Regulatory Assistance Project. "Revenue Decoupling Standards and Criteria, A Report to the Minnesota Public Utilities Commission" issued June 30, 2008, was the result of that collaborative process.

II. OVERVIEW OF POSITION

Q. PLEASE PROVIDE AN OVERVIEW OF YOUR REBUTTAL TESTIMONY.

A. In this rebuttal testimony, I address a number of criticisms of decoupling. Most of these criticisms are based on mis-understandings or mis-representations of decoupling. To counter the objections to decoupling that the Division, TEC-RI and the Wiley Center have raised, I have developed the following themes: (1) The Company's decoupling proposal is directly related to its objective of being a forceful and effective provider of energy efficiency programs. However, traditional ratemaking creates significant financial disincentives that would prevent the maximization of the Company's energy efficiency efforts. (2) There is growing acknowledgement throughout the country that decoupling is a reasonable, appropriate and necessary modification to address the shortcomings of traditional ratemaking that are the result of energy efficiency programs and overall conservation. (2) Decoupling mechanisms have been in effect for more than twenty years; this experience provides ample evidence to show that decoupling is not radical, risky, or untested.

ENE, the Division, and TEC-RI offer several recommended modifications to the Company's proposed decoupling mechanism. Although the Company continues to believe that its proposed RDM proposal represents the best balance of several decoupling design considerations, I identify certain of the recommended

modifications that could also result in a workable decoupling mechanism that would allow the Company to mostly meet its objective of being a forceful advocate for all cost effective energy efficiency activities.

III. INTERVENOR STATEMENTS AND REPRESENTATIONS CONCERNING DECOUPLING

Q. PLEASE SUMMARIZE THE OVERALL POSITIONS CONCERNING DECOUPLING THAT THE DIVISION, CLF, ENE, TEC-RI AND WILEY CENTER HAVE TAKEN IN THEIR PREFILED TESTIMONY.

A. ENE and CLF ("Supporting Parties) support the Company's decoupling proposal. The following quote from ENE's comments summarizes ENE's position.

> ENE applauds the Utility's initiative to propose a rate mechanism which has the potential to support increased investments in cost-effective energy efficiency in Rhode Island. Many of the proposed changes set out in the National Grid's filings will help achieve the state's economic, energy efficiency, and environmental goals. In particular, we commend the Utility's proposal for recognizing the need to better align its financial incentives with customer and public policy interests in capturing all available energy efficiency opportunities that are cheaper than supply[2].

CLF is similarly supportive; Mr. Kaplan states,

> CLF and I support PUC approval of the decoupling portion of this Docket as the most expeditious and efficient route to eliminating the financial disincentives that prevent the maximization of energy efficiency and demand resources. Decoupling is especially desirable in Rhode Island at this specific time because it is being

[2] Comments of Environment Northeast, page 1

> implemented with, and as an aid to, other programs designed to increase efficiency and conservation.[3]

The Division, TEC-RI, and the George Wiley Center (Opposing Parties") oppose the Company's decoupling proposal and offer many arguments in support of their opposition to decoupling. The Division witness Oliver states that he "… specifically disagree(s) with the Company, regarding the need for, and appropriateness of, revenue decoupling ….[4]" TEC-RI witness Farley states that, "TEC-RI opposes the Company's decoupling proposal. It would distort the rate-setting process, set the stage for unintended consequences, produce inequitable outcomes, and do so without being a particularly effective way to promote energy efficiency.[5]"

Q. WHAT REASONS DOES ENE PROVIDE FOR THEIR SUPPORT OF DECOUPLING IN GENERAL, AND THE COMPANY'S DECOUPLING PROPOSAL IN PARTICULAR?

A. ENE provides the following reasons for their support of decoupling:

- The decoupling mechanism would remove the utility disincentive to support reductions in natural gas consumption;
- The 2006 Comprehensive Energy Act[6] recognized the need to invest in gas efficiency;

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3 Testimony of Seth Kaplan, Esq., page 14
4 Testimony Of Bruce R. Oliver, page 8
5 Direct Testimony of John Farley, page 19
6 The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006, passed by the General Assembly and signed by Governor Carcieri in 2006.

- The removal of the disincentive allows National Grid to aggressively pursue energy efficiency; and
- Other states are also pursuing and adopting decoupling.[7]

Q. DOES ENE PROPOSE ANY CHANGES TO THE COMPANY'S PROPOSED DECOUPLING MECHANISM?

A. Yes, ENE recommends several changes to the design of the Company's decoupling mechanism; I will address all of the decoupling design changes that ENE, the Division and TEC-RI have proposed in Section IV.

Q. HOW IS THE REMAINDER OF THIS SECTION ORGANIZED?

A. I have organized the reasons offered by the Division, TEC-RI and Wiley Center for their opposition to decoupling into two broad categories: (1) Regulatory Policy Implications of Decoupling and (2) Economic and Financial Considerations Related to Decoupling. I will describe and discuss the reasons provided by the Division, TEC-RI and Wiley Center for opposing decoupling in the sections that follow.

[7] Comments of Environment Northeast, pages 3 – 7.

1. REGULATORY POLICY IMPLICATIONS OF DECOUPLING

Q. PLEASE EXPLAIN THE OVERALL THEMES THAT ARE INCLUDED IN YOUR "REGULATORY POLICY" CATEGORY.

A. This category includes claims made by the Opposing Parties that (1) decoupling is bad regulatory policy and (2) utility-sponsored DSM programs are bad regulatory policy.

Q. PLEASE PROVIDE DETAILS CONCERNING THE FIRST OF THE OPPOSING PARTIES' CLAIMS THAT FALL INTO YOUR "REGULATORY POLICY" CATEGORY.

A. TEC-RI claims that decoupling represents an attempt to increase rates without a rate case and that decoupling would reduce the Commission's regulatory scrutiny of the Company:

> Decoupling eliminates regulatory lag, the feature of ratemaking whereby, over time, changes to costs and revenues impact the utility's margin until it becomes necessary to file a rate case. Rate cases are the most effective tool that regulators have to, well, regulate the utility. While it is understandable that the utility would want to avoid oversight of its operations and scrutiny of its books, rate cases serve a vital purpose. Rate cases are an important safeguard to the interests of the ratepayers, and they promote the effective functioning of regulation.[8]

[8] Direct Testimony of John Farley Submitted on Behalf of The Energy Council of Rhode Island (TEC-RI) page 20.

Q. DO YOU AGREE WITH TEC-RI'S CLAIM?

A. No, I do not. Let me start by providing background and perspective on traditional ratemaking, and the role of decoupling within the context of traditional ratemaking.

Traditional ratemaking, as it is applied in Rhode Island, is based on an examination of historical utility costs and billing determinants, with forward-looking adjustments to reflect the rate year. Traditional ratemaking as it is applied throughout the country is designed to allow regulated utilities to earn a fair rate of return if the conditions that affected utility revenues and costs during the historical test year period are generally similar and consistent with the conditions that affect utility revenues and costs during the future periods when the rates that are determined from the test year data will be charged. Traditional ratemaking may not produce reasonable results when the conditions that affect utility costs and revenues in the years that the rate case rates will be charged are very different from the conditions that were experienced during the test year.

The Company's Gas Cost Recovery Clause is an example of a common cost-related modification to traditional ratemaking. Decoupling measures are an increasingly common category of revenue-related modifications to traditional ratemaking. Decoupling measures address revenue-related shortcomings with traditional ratemaking in the same way that cost trackers address cost-related shortcomings with traditional ratemaking. Specific to the Company's decoupling proposal, as a result of a significant ramp-up of the Company's gas efficiency

programs and conservation efforts in general in Rhode Island, the conditions that will impact the Company's revenues in the future when the new base rates from this proceeding will be charged are likely to be very different from the projected rate year conditions that are the basis for the billing determinants that Mr. Czekanski will use to calculate those base rates. That is, the Company's future energy efficiency programs will result in lower use per customer, and revenues per customer in future years than in the rate year.

Traditional ratemaking has produced reasonable results in periods when revenues per customer were in line with the rate year levels from the utility's most recent rate case; a prudently run utility that took proper measures to control costs would collect distribution revenues from its customers that were sufficient to (1) cover expenses, with moderate inflationary pressures; (2) cover the costs of prudent growth; (3) allow the company to make infrastructure replacement and improvement investments and (4) allow the utility a reasonable opportunity to earn a fair rate of return.

However, the growing number of gas utilities that have implemented decoupling mechanisms in the past few years are clear indications that utilities - and their regulators - recognize that traditional ratemaking produces revenues that are not sufficient to allow utilities to cover expenses, prudently add customers, invest in infrastructure replacements and improvements and allow for a reasonable opportunity to earn a fair rate of return under current conditions, when utilities are

significantly expanding their energy efficiency programs and when there is substantial overall conservation.

Decoupling will not eliminate the Company's need to file regular rate cases; however, decoupling will allow the Company, the Commission, the Division, and all other intervenors to avoid the expense and time associated with frequent rate case filings that are driven by the results of energy efficiency and customer conservation.

Decoupling is nothing more than an alternative to traditional ratemaking, i.e. base rate proceedings; the differences between the two options can be stated in simple terms:

- In a period, like the present, that customer usage and revenues per customer are declining due to the impact of DSM programs and overall conservation, utility distribution rates will increase over time due to the combined impact of increases to the Company's costs and decreases in the Company's sales that result in decreased revenues per customer. These rate increases will occur as the result of one of the two approaches that are being discussed in this proceeding: (1) in the absence of decoupling, the rate increases will result from frequent, expensive base rate proceedings; (2) with the implementation of decoupling, the rate increases will result from (a) moderate annual decoupling factor adjustments combined with (b) less frequent periodic rate increase proceedings.

- The increases in rates over the long run from the two approaches will be approximately the same, however, bill impacts from frequent base rate increases, in the absence of decoupling will be perceived to be more dramatic than bill impacts from annual decoupling adjustments together with less frequent base rate increases.

Decoupling is a modification to traditional ratemaking that provides greater stability to customer rates, and avoids the unnecessary expense of frequent rate case proceedings.

Also, contrary to TEC-RI's claim, decoupling does nothing to address changes in costs; the Company will still be required to file rate cases on a regular basis to cover its increased costs and investments.

Q. PLEASE PROVIDE DETAILS CONCERNING THE SECOND OF THE OPPOSING PARTIES' CLAIMS THAT FALL INTO YOUR "REGULATORY POLICY" CATEGORY.

A. TEC-RI claims that decoupling would eliminate an important incentive that the Company has to carefully manage gas costs:

> The Company continues to procure gas commodity for the majority of the gas it distributes in Rhode Island. Without decoupling, the Company has added incentive to do everything it can to keep the commodity price as low as possible, since increases in commodity price lead to reductions in gas use, and reductions in gas use lead to lower revenues and earnings for the Company. With decoupling, that incentive goes away.[9]

[9] Direct Testimony of John Farley Submitted on Behalf of The Energy Council of Rhode Island (TEC-RI). page 24.

Q. DO YOU AGREE WITH TEC-RI'S CLAIM?

A. No, I do not. It is well established that gas prices are set in competitive markets, and that the Company - along with all other gas distribution companies that procure supplies for their customers – has no ability to influence or modify the prices that are set in these markets. Moreover, the Company is committed to managing its commodity purchases prudently.

In addition, Updated Attachment NG-JDS-3 provides valuable information concerning the experience of the twenty-one LDCs that have implemented decoupling. Fifteen of these twenty-one LDCs have had decoupling measures in effect for at least one year; Concentric's research has not found any indication that any of these LDCs have modified their gas procurement practices or that regulators have raised any issues or concerns with the gas procurement practices of these LDCs.

Q. PLEASE PROVIDE DETAILS CONCERNING THE THIRD OF THE OPPOSING PARTIES' CLAIMS THAT FALL INTO YOUR "REGULATORY POLICY" CATEGORY.

A. Both TEC-RI and the Division claim that decoupling is not necessary, based on the following logic: (1) the Company's decoupling proposal is tied to the Company's planned ramp-up of gas-efficiency programs, and (2), there is no need or basis for utility-sponsored energy efficiency programs, according to the Division and TEC-RI.

For example, Mr. Oliver states,

> In Rhode Island as in most other states, a wide array of energy efficiency products and services are available to gas customers through non-regulated entities. Although some may believe that energy efficiency goals can only be achieved through large scale utility-sponsored programs, the available evidence suggest that Rhode Island consumers have reduced their gas use noticeably with limited or no assistance from utility-administered programs. Programmable thermostats, insulation, replacement windows, high efficiency water heaters and HVAC systems are available from multiple competitive vendors that serve Rhode Island. Suggestions that the achievement of improved energy efficiency is dependent on utility-administered programs fails to provide due recognition to the accomplishments to date of unregulated vendors of energy efficiency products and services. Moreover, I would suggest that competitive suppliers of energy efficiency and conservation products and services have the ability to exercise greater creativity and flexibility in the structure of their offerings over time, and as a result, they are better able to adjust and tailor their offerings to respond to changing market conditions[10].

Mr. Oliver also claims,

> Decisions to implement energy efficiency/conservation measures are primarily customer decisions, not utility decisions.[3] Although the Company may assist customers in identifying opportunities to improve energy efficiency in their residences, offices, or other facilities, there are other non-regulated entities in the market place who are also working actively to encourage customer investment in energy efficiency programs and equipment. The Commission must remember that the encouragement of energy efficiency is NOT a monopoly service. Moreover, there is substantial evidence that non-regulated entities are striving to expand their market presence. Ultimately, decisions to engage in energy efficiency/conservation investment must remain the responsibility of individual customers, and their decisions will be driven more by changes in their costs of gas than by changes in utility distribution rates.[11]
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> <footnote 3> A possible exception may be found in programs that provide assistance to low income customers to weatherize and/or improve the energy

[10] Testimony of Bruce R. Oliver, pages 7, 8.
[11] Testimony of Bruce R. Oliver, page 13.

> efficiency of their homes. In those instances, the Company already has incentives to support such programs, since reductions in gas use by low income customers can reduce the levels of future uncollectible accounts write-offs.

On this subject, Mr. Farley states,

> The Company's energy efficiency program takes money from all ratepayers to pay for the energy efficiency services for a few ratepayers in a given year. The relatively few ratepayers who participate in the program in anyone year receive all or nearly all of the direct benefit of the program, while the remaining ratepayers bear nearly all of the costs of the program. Decoupling further exacerbates the problem.
> Decoupling encourages the following mind set on the part of the alert customer: by all means do as much energy efficiency as you can in your own facilities since that brings your bill down. But whatever you do don't support programs where you pay for somebody else's efficiency because you will pay twice: once when you pay the surcharge for the program and again when you get the bill from decoupling.[12]

Q. DO YOU AGREE WITH THESE STATEMENTS CONCERNING UTILITY SPONSORED ENERGY EFFICIENCY PROGRAMS?

A. No, I do not. Neither Mr. Farley nor Mr. Oliver have offered any support for their claims. To the contrary, it is widely accepted that utility sponsored energy efficiency programs are necessary, and it has been shown on numerous occasions that utility-sponsored energy efficiency programs are successful at removing barriers that would otherwise prevent all cost-effective energy measures from being adopted. The efforts of customers and non-regulated energy efficiency providers alone, without the significant contribution of LDC-sponsored DSM programs, will not result in an optimal level of conservation efforts.

[12] Direct Testimony of John Farley, pages 30, 31.

Also, the Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006 enacted by the State of Rhode Island clearly states that the Company has a key role in providing energy efficiency programs:

> (D)emand side management programs, … shall be administered and implemented by the distribution company, subject to the regulatory reviewing authority of the commission.[13]

Finally, ENE and CLF are long-standing advocates of utility sponsored energy efficiency programs, ENE states,

> In 2006, the General Assembly passed and Governor Carcieri signed the Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006. This brought an unprecedented focus on energy efficiency to Rhode Island. Not only did the Act create a least cost procurement model, it required new gas efficiency programming. This recognition of the dramatic cost savings of efficiency programs is one significant step towards increased investments in efficiency that is cheaper than supply. (Footnotes omitted)[14]

CLF also expresses strong support for utility sponsored energy efficiency programs:

> …(D)ecoupling is an important step in achieving (all cost-effective energy conservation and energy efficiency): decoupling removes a major disincentive that structurally pushes the utility, a major player in the statutory and administrative scheme put in place by the Comprehensive Energy Statute, away from fully and completely playing the role of conservation and efficiency provider to its customers.[15]

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13 R.I.G.L § 39-2-1.2(e)
14 Comments of Environment Northeast, page 4.
15 Testimony of Seth Kaplan, Esq., pages 12, 13.

Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE GENERAL TOPIC OF CONSERVATION AND DECOUPLING?

A. Yes, I would also like to comment on the claims made by Mr. Farley and Mr. Oliver that decoupling produces perverse results because customers that conserve would be penalized, and that decoupling erodes the incentive for customers to conserve energy. Mr. Farley states that

> Decoupling also erodes the incentive for customers to conserve energy. Customers who do a great job saving energy will see their distribution rates increase as a result. At the end of the day, it is customers who create energy savings, not utilities. Improving the utility's bottom line while penalizing the customers who produce the savings in the first place does not seem like a winning strategy for fostering energy efficiency.

On the same subject, Mr. Oliver claims,

> Moreover, revenue decoupling mechanisms which employ rate adjustments that raise charges to offset conservation/energy efficiency related reductions in gas use only serve to discourage those very actions by making the evaluation of energy cost savings, paybacks, and return on investment more complex and uncertain for customers considering conservation/energy efficiency options. With many customers facing rising energy costs and tight credit, they need confidence that anticipated savings from conservation and energy efficiency investments can be realized and will not be eroded by distribution rate adjustments that ratchet their bills upward to offset efficiency gains.

First, in response to Mr. Farley's comments, I want to clarify that the savings that a customer would experience from conserving energy would not be offset by the decoupling-related rate increases. Conserving customers benefit from reductions to the distribution and Gas Cost Recovery portions of their bills; decoupling

mechanisms have no affect on the GCR portion of the bill, which represents approximately 70% of the total bill.

Q. COULD YOU PLEASE PROVIDE MORE DETAIL ON THE IMPACT OF DECOUPLING ON CUSTOMERS' BILLS?

A. Yes. I have prepared Rebuttal Attachment NG-JDS-3[16] to show the impact of conservation and decoupling on customers' bills for all eight firm rate classes. I will focus on Residential Heating, which is provided on Rebuttal Attachment NG-JDS-3, page 1 of 8 to explain and describe this analysis; the results from this attachment are similar for all classes.

This analysis shows that a typical residential heating customer that installed conservation measures to reduce heating load by 10 percent would reduce gas demand by 66 therms[17], or 7.1% of total annual demand. Before factoring in future rate increases – either base rate increases or decoupling-related rate increases – that resulted from conservation-related declining sales, this typical customer's annual gas bills would decrease by $90.55, or 6 percent; $71.43 of the gas bill decrease would come from GCR savings. In the following years, the GCR savings will remain unchanged[18], but future changes to base rates or the RDM factor in the Company's DAC in response to declining average use will

[16] Rebuttal Attachment NG-JDS-3 is based on the monthly gas use and proposed rates that were used to prepare Attachment NG-DAH-5. Conservation savings in therms were calculated to be 10% of the typical customers base use or temperature sensitive use, depending on the customer class. Residential Non-Heat, Large HLF and Extra Large HLF were assumed to install base load conservation measures; all other classes were assumed to install heating load conservation measures.

[17] Rebuttal Attachment NG-JDS-3. page 1, line 7, Col A.

impact the typical customer's base rate bill savings. The extent of the impact that declining average use has on the typical customer's future base rate bill savings depends on how much the other customers in the Residential Heating class conserve. If this typical customer is the only customer in the Residential Heating class to conserve[19], the annual gas bill savings will continue to be $90.55, or 6 percent of the customer's total annual bill. At the other extreme, if all Residential Heating customers installed the same conservation measures, the typical customer would still realize savings related to the GCR portion of the bill of $71.43, or a 4.7 percent reduction in the annual gas bill.

I want to emphasize that these results are not unique or specific to the Company's proposed decoupling mechanism. The Company's rates will be increased in response to declining use: (1) without a decoupling mechanism, these rate increases will all be the result of rate increase proceedings[20]; (2) with the Company's decoupling proposal, these rate increases will be the result of smaller annual changes in the RDM factors plus less frequent rate increase proceedings.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE IMPACT OF DECOUPLING ON CONSERVATION EFFORTS?

A. Yes, I do. Both Mr. Farley and Mr. Oliver suggest that the energy efficiency decisions that customers make, which are based in part on projections of projected

[18] Assuming constant gas prices.
[19] Of course, it is completely unlikely that the typical customer would be alone in installing conservation measures.

savings from reductions in utility bills, will be distorted and that customers will be discouraged from making energy efficiency investments if the Company's rates are adjusted annually by an RDM factor. This claim is not correct. Customers that are sufficiently sophisticated to base their energy efficiency decisions on projected utility bill savings will factor periodic base rate increases into their projections; as I have already explained, annual RDM factor adjustments are simply in substitution for a portion of projected base rate increases, and not, as Mr. Farley and Mr. Oliver suggest, in addition to projected base rate increases.[21]

Q. PLEASE PROVIDE DETAILS CONCERNING THE FOURTH AND FINAL OF THE OPPOSING PARTIES' CLAIMS THAT FALL INTO YOUR "REGULATORY POLICY" CATEGORY.

A. TEC-RI challenges the link that the Company has made between utility-sponsored energy efficiency programs and decoupling. TEC-RI observes that,

> (T)he majority of the reduction in NUPC occurred prior to July 1, 2007, the start date for the Company's efficiency programs. Thus, the reductions in use per customer that have motivated the Company to propose revenue decoupling cannot reasonably be attributed to the Company's own energy efficiency programs.

Q. DO YOU AGREE WITH TEC-RI'S STATEMENT?

A. No, I do not. TEC-RI apparently misunderstands the meaning and implications of the Company's experience with declining NUPC that is demonstrated in

[20] Each of these frequent rate increase proceedings will involve considerable time and expense for all parties.

Attachments NG-JDS-4, NG-JDS-5, and NG-JDS-6 plus the response to TEC-1-69. I prepared those graphs to show that conservation can have a significant impact on Company sales and revenues, because recent historical data clearly shows that conservation did have a significant impact.

As the Company, CLF, and ENE have all stated, decoupling and the Company's future energy efficiency programs are closely linked. The Company has a stated objective to be a "Green" company, which includes a commitment to significantly ramp up its energy efficiency programs. However, it would be financially irresponsible for the Company to aggressively pursue energy efficiency that would cause reductions in future sales and revenues without a decoupling mechanism to break the link between sales and revenues that traditional ratemaking creates.

B. ECONOMIC AND FINANCIAL CONSIDERATIONS RELATED TO DECOUPLING

Q. PLEASE EXPLAIN THE OVERALL THEMES THAT ARE INCLUDED IN YOUR "ECONOMIC AND FINANCIAL CONSIDERATIONS" CATEGORY.

A. This category includes claims made by the Opposing Parties that (1) decoupling would unjustly enrich the Company; and (2) decoupling is not necessary.

[21] Further discussion of base rates and RDM factors is provided in Section III.B., Economic and Financial Considerations Related to Decoupling.

Q. PLEASE PROVIDE DETAILS CONCERNING THE FIRST OF THE OPPOSING PARTIES' CLAIMS THAT FALL INTO YOUR "ECONOMIC AND FINANCIAL CONSIDERATIONS" CATEGORY.

A. TEC-RI states that the Company's decoupling proposal is flawed because "this decoupling method generates revenues higher than needed to meet revenue requirements whenever the customer count increases beyond that established in the latest rate case."[22]

Mr. Oliver expresses a similar view of traditional ratemaking:

> (A)ny growth in total revenue for a class, based on growth in the number of customers included in the class, should be viewed as a direct offset to revenue that may have been lost due to reductions in gas use per customer. The Commission's focus should be on whether the Company has a reasonable opportunity to earn a fair rate of return based on the costs that the Commission has reviewed and accepted as appropriate. It is not necessary or appropriate for the Commission to speculate as to the manner in which the Company's costs might vary with changes in the numbers of customers served or the numbers of new customers added to the system.

Q. DO YOU AGREE WITH THE VIEWS OF TRADITIONAL RATEMAKING THAT MR. FARLEY AND MR. OLIVER HAVE STATED?

A. No, I do not. Their interpretations are contrary to the concept and real world application of traditional ratemaking. As I previously explained, traditional ratemaking "works" in periods that revenues per customer are in line with the rate year levels from the utility's most recent rate case; a prudently run utility that took

proper measures to control costs would collect distribution revenues from its customers that were sufficient to (1) cover expenses, with moderate inflationary increases; (2) cover the costs of prudent growth; (3) allow the company to make infrastructure replacement and improvement investments and (4) allow the utility a reasonable opportunity to earn a fair rate of return.

Q. PLEASE DESCRIBE WHAT YOU MEAN WHEN YOU SAY THAT TRADITIONAL RATEMAKING "WORKS" IN CERTAIN CONDITIONS.

A. Traditional ratemaking "works" in periods that revenues per customer are in line with the rate year levels from the utility's most recent rate case. To explain this in more detail, I will describe the effects of traditional ratemaking with respect to two different categories of customers: (a) existing customers, and (b) new customers.

Concerning the way that traditional ratemaking applies to existing customers, consider a hypothetical LDC that just completed a rate case and put new rates into effect. For a few years after that rate case, (1) if that LDC did not add any new customers or lose any existing customers, and (2) if existing customers' usage patterns did not change so that actual revenues per customer were the same as rate case revenues per customer, then the LDC's actual annual revenues would be the same as the rate year revenue requirement. The LDC could not avoid filing a rate case for very long though, because the rate year revenue requirement would not

[22] Direct Testimony of John Farley, page 18.

allow for inflationary cost increases or for infrastructure replacement projects. However, this level of revenues may be acceptable for a short period of time, if the LDC applied prudent cost management techniques.

Concerning the way that traditional ratemaking applies to new customers, if that same hypothetical LDC that just completed a rate case added new customers, the LDC would incur incremental costs for each new customer to: (1) install a service line from the main in the street to the new customer's premise, (2) install a meter and meter fit, (3) install a riser and (4) establish the necessary metering and billing records and other administrative actions. In addition, if any of the new customers were not located on a distribution main, the LDC would have to install new mains to extend the distribution system to the new customers.

Even if a main extension is not required, the incremental costs that the LDC would incur to add new customers are substantial. In the first several years of service, the incremental revenues from a new customer are less than the incremental revenue requirements associated with that new customer, because the return on the net incremental plant[23] is high in the first years of service, but diminishing over time[24]. So, with respect to new customers, the LDC could not avoid filing a rate case for very long because adding new customers is costly in the short run. Nonetheless, this level of incremental revenues may be acceptable for a short period of time to an LDC that added new customers prudently.

[23] Net incremental plant equals the total incremental plant associated with these new customers less accumulated depreciation.

Q. WHAT HAPPENS WHEN TRADITIONAL RATEMAKING DOES NOT "WORK"?

In contrast to the above discussion, traditional ratemaking does not "work" when revenues per customer are less than the rate year levels. This is the case because revenues from existing and new customers will not be sufficient to cover expenses, to add new customers, to replace and improve infrastructure and to allow the utility a reasonable opportunity to earn a fair rate of return.

Q. HOW DOES THIS DISCUSSION OF TRADITIONAL RATEMAKING RELATE TO THE COMPANY'S DECOUPLING PROPOSAL?

A. The explanation that I just completed (1) describes why traditional ratemaking will not work when the Company ramps up its energy efficiency efforts, and (2) demonstrates that the Company's proposed decoupling mechanism is a simple approach that reproduces the conditions that exist in periods that revenues per customer are in line with the rate year levels from the utility's most recent rate case. Contrary to the statements that Mr. Farley and Mr. Oliver make, the Company's proposed decoupling proposal will not provide the Company with excess, unjust levels of revenue.

[24] This is true even though most LDCs, including the Company, only add customers that meet or exceed an ROI hurdle rate.

Q. DO YOU HAVE ANY FURTHER COMMENTS CONCERNING STATEMENTS MADE BY THE OPPOSING PARTIES ON THIS TOPIC?

A. I would like to discuss two separate claims that Mr. Oliver makes. First, he points to the fact that, "(i)nformation provided by the Company indicates that its Rate Year Distribution Revenue of $125,585,552 is actually above its $124,906,768 Target Revenue from its compliance filing in Docket No. 3401[25]" as evidence that a decoupling mechanism is not needed.

To the contrary, the information that Mr. Oliver refers to clearly demonstrates that traditional ratemaking did not work during this period. The increase in rate year distribution revenues over the eight-year period between rate years is a miniscule .5%, which cannot conceivably cover the effects of inflation, replacing infrastructure, or the costs of added customers over that period.

Second, Mr. Oliver points to Mr. Mongan's testimony to assert that the Company does not need proportionately greater increases in revenues as its customers increase, because the Company's marketing efforts are targeting customers located along existing mains, so that new customers "… can be connected to the system at no incremental cost for main extensions.[26]" Mr. Oliver's statement is only partially correct; the Company's marketing efforts, which target on the main customers, will avoid the extra costs of installing main extensions. However, Mr. Oliver ignores the substantial incremental costs of new services, risers and meters, which as I explained previously, means that the Company does require

incremental revenues per customer that are in line with rate year levels to cover the incremental costs of connecting new customers. New customers will not produce excess revenues or earnings for the Company.

Q. THE SECOND OF THE OPPOSING PARTIES' THEMES THAT YOU LISTED IN YOUR "ECONOMIC AND FINANCIAL CONSIDERATIONS" CATEGORY IS THAT DECOUPLING IS NOT NECESSARY. PLEASE PROVIDE DETAILS CONCERNING THE FIRST OF THE OPPOSING PARTIES' CLAIMS ALONG THIS THEME.

A. Mr. Oliver makes several assertions about decoupling to support his premise that the Company does not need decoupling. First, Mr. Oliver states that the Company's proposals to (a) increase customer and demand charges, and (2) to implement a decoupling mechanism are redundant, because,

> (i)f customer and demand charges are increased relative to the levels of the associated distribution charges, then the impacts of changes in usage per customer on the Company become smaller and the role of an RPC mechanism in ensuring the Company's recovery of target levels of distribution revenue by rate class is diminished.

Mr. Oliver's carefully worded statement avoids the reality that even if the Commission was to approve the Company's proposed rate design without change, the proposed RPC mechanism would still be essential to decouple the Company's sales from its revenues.

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[25] Testimony Of Bruce R. Oliver, page 11.
[26] Testimony Of Bruce R. Oliver, page 12.

To explain this, I have prepared two attachments that show customer charge revenues and demand charge revenues as a percent of total distribution revenues; Rebuttal Attachment NG-JDS-1 provides an analysis of rate year revenues by class at proposed rates, and Attachment NG-JDS-2 provides an analysis of rate year revenues by class at current rates. These attachments demonstrate that the Company's proposed rate design does recover a larger share of the total distribution revenues from customer charges; for the Company as a whole, current rates collect 24.3% of total revenues from customer charges, while proposed rates collect 36.7% of total revenues from customer charges. Residential Heating follows a similar pattern; current Residential Heating[27] rates collect 25.7% of total revenues from customer charges, while proposed Residential Heating rates collect 35.9% of total revenues from customer charges.

However, the Company's proposed rate design does not diminish the role of decoupling to the point that it is no longer necessary, as Mr. Oliver seems to imply. The Company's proposed rate design still leaves the Company's revenues substantially linked to the Company's sales. For example, if the Company's current rates had been designed to collect 35.9% of total revenues from customer charges (as the proposed rate design does) rather than 25.7% (as the current rate design does), the Residential Heating revenue shortfall of $7.6 million that is discussed in my testimony, page 26 lines 12 – 19 would have still been

[27] These figures do not include discounted residential heating.

approximately $6.2 million[28], which clearly does not adequately decouple the Company's sales from its revenues.

Q. PLEASE PROVIDE DETAILS CONCERNING THE SECOND OF THE OPPOSING PARTIES' CLAIMS THAT ARE BASED ON THE THEME THAT DECOUPLING IS NOT NEEDED.

A. Mr. Oliver reasons that there has been an observed long-term trend of declining average use per customer for more than two decades, yet, "distribution utilities have generally faired well financially and in many cases have been able to continue operations for comparatively long periods without seeking distribution rate increases."[29]

However, Mr. Oliver's reasoning does not take into account the number of LDCs that have implemented decoupling mechanisms in recent years; clearly there has been a significant change in circumstance in recent years. What is relevant is not the long run moderate declines in customer usage, but rather the short run dramatic decline in customer usage that has caused LDCs to implement decoupling as a response to the recently-experienced shortfall in traditional ratemaking and the expectation that this greater rate of declining usage will continue on into the future, in response to further price increases and expanded energy efficiency programs. The spikes in gas prices that occurred in 2005 and

[28] Revenue Shortfall at proposed rate design = [(% variable revenues at proposed rates) / (% variable revenues at current rates)] x Revenue shortfall at current rates; $6.2 million = [(1 - 35.9%) / (1 - 25.7%)] x $7.6 million.

[29] Testimony of Bruce R. Oliver, page 11.

2006 resulted in a combination of interdependent events that caused the recent focus on decoupling:

- In response to the 2005/06 price increases, customers conserved at a rate that was unexpected and unprecedented.
- In the months and quarters after prices started to moderate, customer demand did not "rebound;" LDCs and regulators began to consider that the reduction in demand would be largely permanent.
- Also in response to the 2005/06 price increases together with generally increased public awareness of environmental and energy-related issues, policy makers, regulators, environmentalists, and LDCs began to place renewed emphasis on energy efficiency programs as a way to (1) offer customers relief from the impacts of high energy prices; (2) wisely ration scarce non-renewable energy sources; and (3) reduce local, regional, and global impacts of pollution. These ramped-up energy efficiency programs will result in declining customer usage and revenues per customer that are more similar to recent experience than to the moderate long term trend that Mr. Oliver refers to.

The combined effect of all of these considerations is that energy use in general and gas use specifically in the recent past and the expected near term future are very different from the long run past; it is these changed circumstances that have resulted in so many LDCs implementing decoupling mechanisms in recent years.

Q. PLEASE PROVIDE DETAILS CONCERNING THE THIRD OF THE OPPOSING PARTIES' CLAIMS THAT ARE BASED ON THE THEME THAT DECOUPLING IS NOT NEEDED.

A. Mr. Oliver suggests that the Company's proposed decoupling mechanism is not necessary because the Company already has several forms of decoupling: (1) the weather normalization adjustment clause ("WNA"), (2) demand charges that were added to the Company's rates for the larger C&I classifications in the last rate case, and (3) the Small C&I and Residential Heating declining block rate structures.

Mr. Oliver's statements are generally misleading or incorrect. Although the Company's WNA clause does decouple the Company's revenues from weather-related sales fluctuations, the WNA plays no role in decoupling the company's revenues from sales due to conservation-related declining sales.

Mr. Oliver's comments are also misleading to suggest that the demand charges that were implemented in the Company's last rate case serve to decouple the Company's revenues from conservation-related reductions in sales[30]. The Company updates each Medium, Large and Extra Large customer's measured demand annually, based on billing data from the most recent November through April period[31]. Therefore, when a customer installs conservation measures that reduce its measured demand, the customer's demand-related billings will be

[30] The Company's demand charges do decouple the Company's revenues from weather-related sales fluctuations.

correspondingly reduced starting with next November's bill, and the Company will collect less revenues as a result of customer conservation. The Company's demand charges that were implemented in the last rate case do not decouple the Company's revenues from conservation-related sales fluctuations.

Finally, Mr. Oliver's comments are also misleading to suggest that the Company's Residential Heating and Small C&I declining block rate structures serve to decouple the Company's revenues from conservation-related reductions in sales. In general, depending on the design of the declining block rate structures[32], a small degree of revenue decoupling may be created. However, the Company has not proposed material changes to the declining block structures for either Residential Heating or C&I Small classes in this proceeding, so the proposed declining block rates do not decouple sales from revenues any more than the current rates do; elsewhere in this rebuttal testimony and in my pre-filed direct testimony, I have provided ample evidence that the Company's current rate design does not adequately decouple the Company's sales from revenues.

Q. PLEASE PROVIDE DETAILS CONCERNING THE FOURTH OF THE OPPOSING PARTIES' CLAIMS THAT ARE BASED ON THE THEME THAT DECOUPLING IS NOT NEEDED.

A. Mr. Oliver also claims that decoupling is not necessary because,

[31] Demand-related charges to C&I customers are based on the Maximum Average Daily Quantity from the most recent November through April period.

> Despite concerns regarding declining use per customer, utility returns have been strong in recent years compared to other elements of the securities markets.[33]

Mr. Oliver's statement is misleading and incorrect. The comparison that he makes between utility returns and the rest of the securities market is (1) not supported, and (2) not relevant. The more appropriate comparison, which Mr. Oliver did not make, would have been to compare actual utility returns for the past several years to utility allowed returns for the same period; comparisons to other elements of the securities markets have no meaning in this discussion.

C. CONCLUSION

Q. IN YOUR OPINION, HAVE THE OPPOSING PARTIES MADE ANY STATEMENTS CONCERNING DECOUPLING THAT INDICATE THAT THEY MAY NOT FULLY UNDERSTAND DECOUPLING OR THE COMPANY'S PROPOSAL?

A. Yes, the following statements made by the Opposing Parties appear to be based on mis-understandings of the Company's proposal.

- One of the reasons that the Wiley Center provides for their opposition to the Company's decoupling proposal is because of the mistaken belief that "Under the proposed RDM, if a customer conserves greatly, s/he still pays the same amount until the end of the year, when the reduced usage is accounted for and

[32] Elements of the design of declining block structures that affect the sensitivity of revenues to conservation-related reductions in sales include (a) the size of the first block, and (b) the difference between the first and second block rates.

[33] Testimony of Bruce R. Oliver, page 9.

any overpayments reimbursed."[34] In fact, customers that conserve will immediately benefit from lower bills due to the lower usage that reflects that customer's conservation efforts[35].

- The Wiley Center also opposes the Company's decoupling proposal because, it believes, "(The Company) is double dipping. It is asking for two separate incentives to do the same work…."[36] In fact, decoupling is not an incentive mechanism or a bonus. As I have explained in this section of my rebuttal testimony, decoupling is a simple approach to reproduce the results that exist in periods that revenues per customer are in line with the rate year levels from the utility's most recent rate case.

- Mr. Oliver states that the Company's proposal to apply rate adjustments on a uniform dollars per therm basis is not reasonable, because he mistakenly believes that the RDM adjustment factor "… increases rather than decreases, the portion of the Company's overall revenue that is sensitive to gas use."[37] In fact, the RDM factor revenues and costs are reconciled according to the provisions on Section 4.0 of the Distribution Adjustment Clause, so that the RDM revenues are not sensitive to gas use.

Q. DO YOU HAVE ANY FURTHER STATEMENTS THAT YOU WOULD LIKE TO MAKE ABOUT CLAIMS THAT THE OPPOSING PARTIES HAVE MADE CONCERNING DECOUPLING?

A. I have no additional comments that I would like to make about specific statements that the Opposing Parties have made concerning decoupling. However, I would

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34 Pre-filed Comments of George Wiley Center, page 10.

35 As explained earlier, the entire savings to C&I customers in classes that include demand charges will occur after the customer's level of demand is re-set to reflect the effect of an installed conservation measure.

36 Pre-filed Comments of George Wiley Center, page 11.

like to explain that although I have tried to be complete and thorough in identifying and addressing all of the Opposing Parties' reasons that the Company's proposed decoupling mechanism should be rejected, if I did not address any specific claim that the Opposing Parties have offered, my silence must not be interpreted to mean that I agree with that claim.

D. SUMMARY

Q. PLEASE SUMMARIZE SECTION III, INTERVENOR STATEMENTS AND REPRESENTATIONS CONCERNING DECOUPLING, OF YOUR REBUTTAL TESTIMONY.

A. In this section, I have summarized the reasons that ENE and CLF provide in their testimony and comments for their support of the Company's decoupling proposal. I have also summarized the reasons that the Division, TEC-RI and the Wiley Center provide in their testimony and comments for their opposition to the Company's decoupling proposal, and I refuted the claims and statements concerning decoupling that they offer as their basis for opposing the Company's decoupling proposal. In this section I have explained decoupling as follows:

- Contrary to the Opposing Parties' claims, the Company's decoupling proposal will not provide the Company with any greater revenues than the Company would reasonably expect to collect under traditional ratemaking, were it not for the effects of conservation.

[37] Testimony of Bruce R. Oliver, page 15.

– There is growing acknowledgement – based on the number of regulators that have approved decoupling mechanisms - that decoupling is a reasonable, appropriate and necessary modification to address the shortcomings of traditional ratemaking that are caused by energy efficiency programs and overall conservation.

- Also contrary to the Opposing Parties' claims, the Company's decoupling proposal is not radical, risky, or untested.
  – As of June 30, 2008, twenty-one LDCs have implemented a decoupling mechanism and another eight LDCs are currently involved in rate case proceedings in which they have proposed to implement decoupling mechanisms.[38]

  – The number of LDCs that implement decoupling mechanisms will grow in the near future as LDCs in New York, Massachusetts and Minnesota, states that have recently approved decoupling on a generic basis, comply with the regulatory directives.

  – Fifteen of the twenty-one approved decoupling mechanisms have been in effect for more than one year[39], which provides a sufficient

[38] These totals do not include any LDCs that are negotiating decoupling mechanism details in compliance with regulatory orders approving decoupling, on a generic basis, as is the situation in New York.

[39] Nine of those fifteen have been in effect for more than two years.

body of experience to demonstrate that decoupling does not lead to bad or unintended consequences.

I. INTERVENORS' RECOMMENDED MODIFICATIONS TO THE COMPANY'S PROPOSED DECOUPLING MECHANISM DESIGN

Q. PLEASE SUMMARIZE THE RECOMMENDATIONS THAT INTERVENORS HAVE MADE CONCERNING MODIFICATIONS TO THE DESIGN OF THE COMPANY'S PROPOSED DECOUPLING MECHANISM.

A. The intervenors, specifically ENE, TEC-RI, and the Division have recommended several changes to the Company's proposed decoupling mechanism; the recommended changes fall into two general categories: (1) changes to the customers that the decoupling mechanism is applied to; and (2) changes in the decoupling mechanism calculations.

To fairly represent the modifications that TEC-RI and the Division have made, they clearly state their strong opposition to any decoupling mechanism; however, if the Commission determines that a decoupling mechanism is appropriate, they would both propose certain modifications.

Q. BEFORE YOU ADDRESS THE RECOMMENDATIONS IN DETAIL, PLEASE PROVIDE A GENERAL OVERVIEW OF THE INTERVENORS' RECOMMENDED MODIFICATIONS.

A. The Company's proposed decoupling mechanism was developed to be consistent with the Company's commitment to be a forceful advocate for all cost effective energy efficiency activities; the decoupling proposal balances this energy efficiency objective with considerations of customer equity and administrative practicality. In the following section of this rebuttal testimony, I will explain how these considerations influenced the final design of the Company's proposed decoupling mechanism, and how these same considerations were reflected in the recommended decoupling modification that ENE, TEC-RI, and the Division made.

The Company commends ENE, TEC-RI and the Division for their recommendations that were thoughtful and constructive. For reasons that I will explain in the following sections, the Company continues to believe that Company's proposed decoupling mechanism represents the best balance of all decoupling design considerations. However, the Company believes that some of the intervenors' recommended modifications would also result in a workable decoupling mechanism that would allow the Company to meet its objective of being a forceful advocate for all cost effective energy efficiency activities. In the discussion that follows, I will specifically identify the recommended

modifications that are compatible with the Company's energy efficiency objectives.

D. DETAILS OF INTERVENORS' PROPOSED DECOUPLING MODIFICATIONS

Q. PLEASE DESCRIBE HOW YOU HAVE ORGANIZED YOUR DISCUSSION OF THE INTERVENORS' PROPOSED MODIFICATIONS.

A. I will first address proposed modifications to the decoupling mechanism made by ENE and TEC-RI that address the same concern, the potential volatility of the RDM adjustment factor on some classes[40]. Although ENE and TEC-RI share a common concern, their recommended solutions are very different. ENE recommends addressing this concern by changing the way that the RDM adjustment factor is calculated; TEC-RI recommends addressing the same concern by excluding the Large and Extra Large C&I customer classes from the decoupling mechanism.

I will then address all remaining recommendations concerning changes to (1) the applicability of the decoupling mechanism is applicable to; and (2) the decoupling mechanism calculations.

[40] Also, although Mr. Oliver does not make a specific recommendation, he does state that he, "question(s) the appropriateness of the application of the Company's proposed RPC mechanism to any class which has (1) a relatively small number of customers and (2) significant variation in levels of gas use among the customers in the class. Where the actions of either one customer or a comparatively small number of customers within a rate class can have a noticeable impact on the actual average use per customer for a rate class, applications of the proposed RPC mechanism are clearly inappropriate." Testimony of Bruce R. Oliver, page 17.

0. RECOMMENDED MODIFICATIONS TO ADDRESS PERCEIVED RDM FACTOR VOLATILITY

Q. PLEASE PROVIDE MORE DETAIL ON ENE'S CONCERN ABOUT RDM FACTOR VOLATILITY, AND DESCRIBE THEIR RECOMMENDED SOLUTION.

A. ENE's position is expressed in the following excerpt:

> To avoid disproportionate impacts to customers within certain rate classes, reconciliations should occur on a company-wide revenue basis and not be limited to each rate class. Reconciling actual revenues with allowed revenues across all rate classes avoids small, heterogeneous classes from bearing a large burden resulting from changes in customer count. Moreover, this approach carries an administrative simplicity that would make the implementation of a decoupling mechanism expeditious and efficient.[41]

Q. PLEASE PROVIDE MORE DETAIL ON TEC-RI'S CONCERN ABOUT RDM FACTOR VOLATILITY, AND DESCRIBE THEIR RECOMMENDED SOLUTION.

A. Mr. Farley states that,

> (T)he Company's own filing documents show that customers switching from non-firm to firm service over a short period of time (4 months) changed the usage per customer averages for these two classes by 31 % and 11% respectively. This fact alone should give pause to any ideas of applying use per customer or revenue per customer targets to the Large or Extra Large rate classes.[42]

He goes on to state that

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41 Comments of Environment Northeast, page 12.
42 Direct Testimony of John Farley, page 30.

> The Large and Extra Large rate classes have a relatively small number of customers in each, and those customers are relatively heterogeneous, meaning that their loads and revenues are highly diverse.
> Under the Company's revenue per customer decoupling proposal, customers in such a small count, heterogeneous rate class can be unduly impacted by events such as customer migration or significant reductions in load due to aggressive implementation of demand resources by other customers in the same rate class. For example, revenues could drop dramatically when an extremely large commercial customer migrates from firm to non-firm service, and this would result in the remaining customers in that rate class seeing a disproportionate increase in rates as a result of the decoupling true-up.[43]

Q. DOES THE COMPANY HAVE ANY RESERVATIONS WITH ENE'S PROPOSED MODIFICATION?

A. Yes, the Company has one minor concern: Reconciling actual revenues with allowed revenues across all rate classes, and developing one RDM adjustment factor to be credited to or billed to all customers will cause cross subsidization between customer classes, which the Company's proposed decoupling mechanism avoids.

As I explained in my pre-filed direct testimony, the proposed decoupling mechanism accounts for the revenue impacts associated with weather and non-weather related factors[44]. ENE's proposal would assign the revenue impacts of non-normal weather to all customers in all classes. Thus, customers that did not

[43] Direct Testimony of John Farley, pages 32, 33.
[44] James D. Simpson Pre-filed Direct Testimony, page 12.

have temperature-sensitive loads[45] would receive a credit for excess revenues that were produced by temperature sensitive customers classes during periods of colder-than-normal weather, and would be charged for revenue shortfalls that were related to warmer-than-normal weather.

Q. DOES THE COMPANY HAVE ANY RESERVATIONS WITH TEC-RI'S PROPOSED MODIFICATION?

A. Yes, TEC-RI's proposed modification to exclude Large and Extra Large customers from the decoupling mechanism does not eliminate the Company's disincentive to aggressively offering energy efficiency programs to these classes.

Q. PLEASE SUMMARIZE THE THREE OPTIONS AND THE COMPANY'S FINAL RECOMMENDATION ON THIS ISSUE.

A. The three decoupling design alternatives are: (1) the Company's proposal, which would apply to all customers in all classes, with different RDM adjustment factors being calculated for each class; (2) ENE's proposal, which would apply to all customers in all classes, with a single RDM adjustment factor being calculated for all classes; and (3) TEC-RI's proposal which would apply to all except the C&I Large and Extra Large classes.

The Company believes that its proposal represents the best balance of the decoupling design considerations of avoiding cross-subsidization between

[45] Typically, customers in the Residential Non-Heating, Large High Load Factor, and Extra Large High Load Factor classes do not have gas usage that is predominately temperature sensitive.

customer classes and eliminating disincentives to aggressively offering energy efficiency programs to all customers.

However, the Company believes that ENE's and TEC-RI's alternative recommendations could also result in a workable decoupling mechanism that would allow the Company to mostly meet its objective of being a forceful advocate for all cost effective energy efficiency activities.

0. OTHER RECOMMENDED MODIFICATIONS TO THE APPLICABILITY OF THE DECOUPLING MECHANISM

Q. PLEASE DESCRIBE AND EXPLAIN OTHER MODIFICATIONS THAT INTERVENORS HAVE RECOMMENDED CONCERNING THE APPLICABILITY OF THE DECOUPLING MECHANISM.

A. The Company's proposed decoupling mechanism would exclude new customers that would require the Company to make additional investments to serve that load from the RPC calculations until the Company's next rate case. ENE has proposed that the decoupling mechanism should be applied to new Large and Extra Large customers as quickly as practicable, but in no event more than twelve months.

Q. DOES THE COMPANY HAVE ANY RESERVATIONS WITH ENE'S PROPOSAL TO INCLUDE THESE NEW CUSTOMERS IN THE DECOUPLING CALCULATIONS WITHIN TWELVE MONTHS?

A. Yes, the Company is concerned that without further modification, ENE's proposal would discourage certain new customers from locating in the Company's service

territory, or would encourage potential customers to use another – more environmentally harmful – fuel, for the reasons that I have explained in detail in my testimony. ENE's proposal to include these new customers within twelve months would only slightly moderate the impact on a potential new customer's fuel choice and location decisions[46], compared to the worst case, in which these new customers were immediately included in the RPC calculations.

Q. DOES THE COMPANY HAVE A PROPOSED MODIFICATION TO ENE'S RECOMMENDATION THAT WOULD ADDRESS THE CONCERNS OF BOTH ENE AND THE COMPANY ON THIS ISSUE?

A. Yes, the Company's concern about the impact of decoupling on CIAC calculations would be addressed if Large and Extra Large Target RPCs were adjusted to account for new customers that required additional Company investments to serve that load. Specifically, at the end of the first twelve months of full service to a new customers, the company would re-calculate the RPC targets for the rate class based on the addition of the new customer and the base revenues collected from that customer in the first twelve months of full service.

[46] As explained in more detail in James D. Simpson Pre-filed Direct testimony, pages 4 – 7, including new customers in the RDM factor calculations would distort the calculations of the required contribution in aid of construction ("CIAC").

Q. PLEASE DISCUSS THE NEXT RECOMMENDATION RELATED TO THE CUSTOMERS THAT THE DECOUPLING MECHANISM SHOULD BE APPLIED TO.

A. ENE also suggests that the decoupling mechanism could be applied to non-firm customers[47]. TEC-RI makes a similar recommendation concerning interruptible margins.[48]

Q. DOES THE COMPANY AGREE WITH THESE PROPOSED TREATMENTS OF NON-FIRM MARGINS?

A. No, the Company does not. Revenues from non-firm customers are treated very differently from firm revenues. Except for a Company incentive of 25% of non-firm margins over $1,600,000, all non-firm margins are returned to firm customers though a credit in the Distribution Adjustment factor. Therefore, the Company does not have a disincentive to promoting energy efficiency to these customers. Also, since non-firm revenues are already returned to firm customers, including non-firm revenues in the RPC calculations would result in these revenues being returned to customers twice – the ENE and TEC-RI proposals would "double count" the benefit of non-firm revenues to firm customers.

0. RECOMMENDED MODIFICATIONS TO THE CALCULATION OF THE DECOUPLING MECHANISM

47 Comments of Environment Northeast, pages 13 – 14.
48 Direct Testimony of John Farley, page 35.

Q. PLEASE DESCRIBE AND EXPLAIN OTHER MODIFICATIONS THAT INTERVENORS HAVE RECOMMENDED CONCERNING THE CALCULATION OF THE DECOUPLING MECHANISM.

A. TEC-RI recommends that the Large and Extra Large rate class RPC targets should be adjusted to remove the impact of customers that switched from non-firm to firm service after the test year.

Q. DOES THE COMPANY AGREE WITH THIS PROPOSED ADJUSTMENT TO TARGET RPCS?

A. No, the Company does not agree with this recommendation. Although TEC-RI does not offer any details on this proposal, it does not appear that they are proposing to remove the impact of these customers from rate year billing determinants. As a result, TEC-RI's proposal would produce a significant mis-match between the RPC targets and the base rates that would be the basis for determining actual revenues. Also, TEC-RI's proposal would cause an immediate and automatic discrepancy between rate year revenues and actual revenues. Simply put, customers would receive the benefit through reduced base rates, of the impact of the billing determinants associated with the non-firm customers that switched, and would also receive the benefit through RDM adjustment factor

credits, of the difference between the target RPCs with and without these non-firm customers[49].

Q. ARE THERE ANY OTHER MODIFICATIONS THAT INTERVENORS HAVE RECOMMENDED CONCERNING THE CALCULATION OF THE DECOUPLING MECHANISM?

A. Yes, Mr. Oliver suggests that a limit should be placed on the rate adjustments; he suggests a limit of five percent of the rate class target RPC.[50]

Q. DOES THE COMPANY AGREE WITH MR. OLIVER'S PROPOSAL TO PLACE A LIMIT ON DECOUPLING-RELATED RATE ADJUSTMENTS?

A. No, the Company does not agree with Mr. Oliver's recommendation. The Company does agree with the basis for Mr. Oliver's recommendation, which is that neither the Company nor its customers would be well served by large changes in customers' rates due to changes in RPC adjustment factors. However, the Company does not agree with (1) the need to establish a set limit, or with (2) the way that Mr. Oliver would determine that limit.

With respect to the Company's disagreement with Mr. Oliver on the need to establish a set limit, the Company believes that the Commission should have the regulatory flexibility to determine the need for a limit on decoupling-related rate changes at any particular time; the Commission can identify and assess the

[49] Mr. Farley quantifies the two sets of RPCs for the Extra Large C&I classes in his testimony, pages 28 – 29.

relative merits of any number of factors that may be relevant to the subject. However, any limitation imposed by the Commission must be assessed with recognition of the need for ultimate recovery or credit of the deferred amount in a reasonably timely manner. With respect to the Company's disagreement with Mr. Oliver on the way that the limit should be calculated, if a limit is to be established, the calculation of the limit should reflect customer impacts, which are based on customers' total bills, not the distribution portion of their bills. Setting a limit based on a percent of the class Target RPC is meaningless to customers. Further, if a limit on decoupling-related changes is set, the Company believes that the limit should be stated as a limit on the change from one year to the next, and not as a limit on the cumulative change in rates since the most recent rate case.

Finally, the Company believes that if a limit is placed on decoupling-related changes, the limit should apply equally to increases and decreases. One of the primary purposes of a limit on decoupling-related rate changes would be to control rate volatility; by definition, rate volatility is caused by rate decreases as well as rate increases.

[50] Testimony of Bruce R. Oliver, page 18.

Q. DOES MR. OLIVER HAVE ANY OTHER RECOMMENDED MODIFICATIONS TO THE CALCULATION OF THE DECOUPLING MECHANISM THAT YOU WOULD LIKE TO DISCUSS?

A. Mr. Oliver also recommends establishing a "deadband" so that no RPC adjustment factor would be billed to customers if the calculated factor was within the deadband. Mr. Oliver suggests that this recommendation is consistent with the Company's WNA clause.

Q. DOES THE COMPANY AGREE WITH MR. OLIVER'S PROPOSAL TO SET A DEADBAND FOR DECOUPLING-RELATED ADJUSTMENTS?

A. No, the Company does not agree with Mr. Oliver's proposal. As I have explained throughout my pre-filed direct testimony and my rebuttal testimony, the intended purpose of the Company's decoupling mechanism is to remove the utility disincentive to support reductions in natural gas consumption. The long run effect – with the effect of weather removed – of the Company's ramp-up in energy efficiency programs, will be to reduce usage, and reduce actual RPC. Mr. Oliver's comparison to the Company's WNA is not valid, because actual weather can be warmer or colder than normal with equal probability. However, it is not equally probable that actual RPC will be greater or less than target RPC for any class. Mr. Oliver's deadband proposal serves no reasonable ratemaking purpose.

I. SUMMARY

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. In this rebuttal testimony I have addressed numerous objections to decoupling that the Division, TEC-RI and the Wiley Center raised. I have demonstrated that utility-provided energy efficiency programs are necessary and good public policy; I have described decoupling and explained why decoupling is an appropriate, and increasingly-accepted modification to traditional ratemaking that addresses shortcomings with traditional ratemaking during periods that the Company will be ramping up its energy efficiency programs.

In addition, I have provided the Company's responses to recommended modifications to the Company's proposed decoupling mechanism that ENE, the Division, and TEC-RI have provided. Although the Company continues that its proposal represents the best balance of several decoupling design considerations, certain of the recommended modifications could also result in a workable decoupling mechanism that would allow the Company to mostly meet its objective of being a forceful advocate for all cost effective energy efficiency activities.

Q. PLEASE SUMMARIZE THE KEY DIFFERENCES IN THE RECOMMENDATIONS THAT ENE AND TEC-RI HAVE MADE CONCERNING MODIFICATIONS TO THE DESIGN OF THE COMPANY'S PROPOSED DECOUPLING MECHANISM.

- The decoupling design alternatives offered by the Company, ENE and TEC-RI have several implications that I have summarized in the following table:

	Company	ENE	TEC-RI
Avoids disproportionate impacts to customers in the Large and Extra Large classes	No	Yes	Yes
Avoids cross-subsidization between classes	Yes	No	Yes
Allows for the fullest expansion of energy efficiency programs to all classes	Yes	Yes	Yes
Distorts decisions concerning locating in the Company's service territory and concerning fuel choice (Large and Extra Large classes)	No	Yes	Yes

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Attachments

1. Updated Attachment NG-JDS-3
2. Attachment Rebuttal-JDS-1
3. Attachment Rebuttal-JDS-2
4. Attachment Rebuttal-JDS-3

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
1	AR	Arkansas Oklahoma Gas Corp.	D-07-026-U	11/20/2007	Annual weather normalized actual class revenues compared to target (rate case) revenues[51]	Residential and Small Business	Annual true up; Nov 1 – Oct 31	WNA[52] CGA[53] Municipal Tax Clause
2	AR	Arkansas Western Gas	D-06-124-U	7/13/2007	Annual actual revenues compared to rate case revenues[54] No class true up if (1) customers and volumes or (2) revenues are ≥ TY levels Separate WNA	Residential (RS-l), Business 1- Sales and Transport (B-l), and Business 2-Sales and Transport (B-2) rate classes.	Annual true up, August – July; adjustment rate in effect following January through December	WNA Tax and fee
3	AR	CenterPoint Arkansas	06- 16 1 -U	10/25/07	Annual actual revenues compared to rate case revenues[18] No class true up if (1) customers and volumes or (2) revenues are ≥ TY levels WNA currently in effect[1]	Residential Firm Sales Service, RS-1, Small Commercial Firm Sales Service, SC-1, Small Commercial Firm Sales Service - Off Peak, SCS-2	Annual true up, January – December adjustment rate in effect following July through June	WNA

51 This atypical decoupling feature was designed to address the atypical condition of declining customers, declining Mcf
52 WNA: Weather Normalization adjustment clause.; WN: weather normalized
53 CGA: Cost of Gas Adjustment clause.
54 This atypical decoupling feature was designed to address the atypical condition of declining customers, declining Mcf

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
4	CA	PG&E	AP-9712020De-0002046	5/27/2004	Rate Plan Revenue Requirement	All	Annual	23 Balancing accounts, Adjustments • Core, non-core fixed cost; pension contribution 7 memo accounts • Catastrophic Event, Advanced Metering Infrastructure, Financial Hedging
5	CA	SOCal Gas		1998	PBR[55] price cap rate plan	All	Annual	18 Balancing Accounts • Pension, PBOP[56], Core, non-core fixed cost 26 memo accounts • Catastrophic Event, Intervenor Award ESM[57]
6	CA	Southwest Gas		3/16/2004	Rate plan revenue requirement Attrition year increases could be adjusted down if pipe replacement targets missed Actual margin revenues compared to authorized levels	All	Annual	Catastrophic Event, Public Purpose Program, Low Income Energy Efficiency

[55] PBR: Performance Based Ratemaking
[56] PBOP: Post-retirement other than Pension expense
[57] ESM: Earnings Sharing Mechanism

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
7	CO	Public Service Co. of CO	D-06S-656G	6/18/2007	NUPC true up mechanism Difference between WN actual use per customer and TY UPC, times margin rate times actual customers	Residential RG	Annual	
8	IL	Central Illinois Light Co.	D-07-0588	Pending filed 11/2/2007	Billing month adjustment: the difference between actual class revenues per actual customer vs. TY revenues per TY customer, multiplied by TY customers, plus prior year reconciliation	Residential (GDS-1), Small General (GDS-2)	Monthly with 2 month lag between calculation and billing of adjustment	Uncollectibles CGA Environmental Remediation costs Franchise cost adjustment Government Compliance cost adjustment
9	IL	Central Illinois Public Service Co.	D-07-0589	Pending filed 11/2/2007	Billing month adjustment: the difference between actual class revenues per actual customer vs. TY revenues per TY customer, multiplied by TY customers, plus prior year reconciliation	Residential (GDS-1), Small General (GDS-2)	Monthly with 2 month lag between calculation and billing of adjustment	Uncollectibles CGA Environmental Remediation costs Franchise cost adjustment Government Compliance cost adjustment

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
10	IL	Illinois Power Co.	D-07-0590	Pending filed 11/2/2007	Billing month adjustment: the difference between actual class revenues per actual customer vs. TY revenues per TY customer, multiplied by TY customers, plus prior year reconciliation	Residential (GDS-1), Small General (GDS-2)	Monthly with 2 month lag between calculation and billing of adjustment	Uncollectibles CGA Environmental Remediation costs Franchise cost adjustment Government Compliance cost adjustment
11	IL	Peoples Gas Light and Coke Co. and North Shore Gas Co.	D-07-0241, 0242	Pending	Monthly difference between actual and TY[58] ("Test Year") margin per customer, times TY customers, divided by estimated volumes, 2 months later. Actual and target revenues is deferred	Service classes 1N, 1H, and 2	Monthly	CGA Municipal taxes Environmental costs
12	IN	Southern Indiana Gas and Electric	C- 43046 C-43112	12/1/2006 8/1/2007	85% of difference between actual class margins and TY margins by class, adj for growth in customers	Residential, General Service sales; School transportation	Annual recovery of accumulated deferred balance; with reconciliation	Bad debt gas , pipeline safety, incremental O&M from Pipeline Safety Improvement Act of 2002. (PSA), normal temperature adjustment
13	KS	Atmos Energy Corp	D-08-ATMG-280-RTS	Pending filed 9/14/2007	Difference between test-year average margin per customer and actual average margin per customer (including margins from the WN adjustment) times the monthly average number of billing units for the accounting/recovery period	All Residential, Commercial, Public Authority Bills	Annual	WNA separate

[58] TY: Test year

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
14	LA	Atmos - LA	Order U-28814	7/20/06	Rates adjusted annually to recover projected revenue requirement from projected billing determinants; projected and actual revenues are reconciled	All	Annual	WNA
15	MD	Washington Gas Light Company	Case No. 8990	8/6/2005	Calculate billing month adjustment based on actual class revenues vs. TY revenues, adjusted for customer growth Reconciliation of actual and target revenues	Rate Schedule Nos. 1, 1A, 2, 2A, 3 and 3A	Monthly with 2 month lag	
16	MS	Atmos - MS	Docket 92-UN-0230	10/1/1993	Rates adjusted annually to recover projected revenue requirement from projected billing determinants; projected and actual revenues are reconciled	All classes except Flex Rate; Spot sales / transportation; Municipal	Annual	WNA
17	NC	Piedmont Natural Gas	D-G-9,SUB499	11/3/2005	Rev Adj by class by month = Target revenues – Actual revenues.: Target: actual customers x (TY base load/cust + TY TS factor x Normal HDD) Interest on deferred	Rate schedules 101, 121, 102, 132, 152, 162	Adj Factor changes Apr, Nov, based on deferred bal at Jan, Aug	Pipeline integrity, PBOP regulatory assets Bad debt (gas)

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
18	NJ	South Jersey Gas /New Jersey Natural Gas	Docket GR 05121020	11/9/2006	Monthly difference between current actual and TY NUPC, times predetermined weighted margin per therm times actual monthly customers Capped to limit ROE to 10.5%	Resid, Resid Transport, Gen Svc High LF, Comprehensive Transportation and Balancing, Gen Svc Low LF, Small Commercial Rebundled Trans, ED	Annual	WNA
19	NY	Con Ed	06-G-1332	9/25/2007	Difference between rate case rate year revenue per customer and actual rate year revenue per customer, times actual rate year customers.	SC No. 2 - Rate I; SC No. 2 - Rate II; SC No. 3 customers with 1-4 dwelling units; and SC No. 3 customers with more than 4 dwelling units, SC No. 9; excluding customers taking service under special rates ED, Low Income, Manuf, Econ by pass	Annual	WNA ESM Trackers for: property taxes, non-Company labor interference expenses, Cap Ex, PBOP, Gas transmission main maintenance, R&D, environmental remediation, pipeline integrity programs, distribution integrity and/or gas inspections
20	NY	National Fuel	C-07-G-0141	12/21/2007	Difference between annual TY UPC and current year WN UPC, times tail block rate times customers	SC 1, SC 2, SC 2A (Res) and SC 3. (GS)	Annually; 12 months ended December data. Effective March 1	WNA
21	OH	Dominion East Ohio	C-07-829-GA-AIR	Pending filed 8/30/2007	Difference between order-granted revenues and actual WN revenues with order-granted revenues adjusted to reflect growth in number of customers	GSS, LVGSS, ECTS, LVECTS	New rate effective November 1 annually	Low income subsidy adjustment Uncollectible adjustment

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
22	OH	Duke Energy Ohio, Inc.	C-07-589-GA-AIR	Pending filed 7/17/2007	Difference between order-granted revenues and actual WN revenues with order-granted revenues adjusted to reflect growth in number of customers	All sales & transportation customers except Rate IT	Annual	Main replacement rider Low income subsidy adjustment Uncollectible adjustment
23	OH	Vectren	05-1444-GA-UNC	9/13/2006	Difference in actual WN revenues, rate case revenues, adjusted for growth in customers. Actual and target revenues are reconciled	Residential sales/ trans: general sales / trans	New rate effective November 1 annually,	
24	OR	Northwest	Renew: UG 163	8/22/2003 Initial: 9/12/02; renew 8/25/05	Partial decoupling: Base line rate case per customer adjusted for price elasticity compared to actual WN UPC	Res 1, 2 Commercial 1, 3, 31	Annual, eff Oct 1 each year; adj based on deferred balance as of June 30.	Separate WNA
25	RI	National Grid RI	Docket No. 3943	Pending filed 4/1/2008	Difference between rate case margin per customer, and actual revenue, times actual monthly customers, Reconciling	All classes; new large and extra large requiring customer connect investment excluded	New rate effective November 1 annually,	WNA currently effective
26	SC	Piedmont - SC	Docket 2005-125-G	9/27/2007	Projected ROE compared to PSC SC allowed ROE; adjustments to rates allowed	All		
27	UT	Questar Gas	Docket No. 05-057-T01	5/26/2006	Difference between rate case margin per customer, and actual revenue, times actual monthly customers, Reconciling	GS-1, GSS	Semiannually, adjustment to base rates made to amortize current balance over 12 months	WNA: separate

	State	Company	Docket number	Date of Decision	Basis for Rate Adjustments	Classes	Period	Additional Information; Additional Clauses
28	WA	Avista	UG 060518	12/21/2005	Actual WN sales, with new customers removed, compared to TY monthly sales. revenues calculated by multiplying sales diff by approved rate; 90% of diff is deferred Deferral subject to ESM and DSM performance Impact capped at 2%; difference remains in deferred.	RS 101 (residential and small commercial)	Annual, July – June; new adjustment effective Sept 1 Nov 07 – Oct 2010	Tax Adjustment
29	WA	Cascade Natural Gas Corp	UG-060256	1/12/2007	Difference between rate case margin per customer and actual WN margin per customer times actual customers Actual and target revenues reconciled	RS 503, 504 (Residential, Commercial)	Annual	

Analysis of Proposed Rate Design – Rate Year Revenues

	Residential				Commercial and Industrial						
	Non-Heat	Non-Heat Discount	Heat	Heat Discount	Small	Medium	Large LLF	Large HLF	Extra Large LLF	Extra Large HLF	Total
Customer Charge Revenues	$3,658,424	$294,030	$34,550,336	$2,764,800	$6,692,070	$4,065,525	$714,420	$264,060	$136,800	$266,400	$53,406,865
Demand Charge Revenues						$5,280,283	$2,922,217	$1,023,165	$920,109	$2,994,113	$13,139,887
Total Distribution Revenues	$5,776,494	$464,046	$87,880,969	$7,005,583	$12,640,066	$16,474,559	$7,574,960	$2,095,091	$1,368,226	$4,314,433	$145,594,429
Customer Charge Revenues as % of Total Distribution Revenues	63.3%	63.4%	39.3%	39.5%	52.9%	24.7%	9.4%	12.6%	10.0%	6.2%	36.7%
Customer and Demand Charge Revenues as % of Total Distribution Revenues	63.3%	63.4%	39.3%	39.5%	52.9%	56.7%	48.0%	61.4%	77.2%	75.6%	45.7%

Source: Attachment NG-DAH-4

Analysis of Current Rate Design – Rate Year Revenues

	Residential				Commercial and Industrial						
	Non-Heat	Non-Heat Discount	Heat	Heat Discount	Small	Medium	Large LLF	Large HLF	Extra Large LLF	Extra Large HLF	Total
Customer Charge Revenues	$2,494,382	$222,756	$19,434,564	$1,728,000	$3,122,966	$2,439,315	$476,280	$176,040	$136,800	$266,400	$30,497,503
Demand Charge Revenues						$3,168,167	$1,753,333	$639,481	$552,067	$1,871,318	$7,984,366
Total Distribution Revenues	$4,712,714	$420,579	$75,484,529	$6,680,256	$10,491,164	$14,650,241	$6,730,933	$1,812,681	$1,108,782	$3,473,673	$125,565,552
Customer Charge Revenues as % of Total Distribution Revenues	52.9%	53.0%	25.7%	25.9%	29.8%	16.7%	7.1%	9.7%	12.3%	7.7%	24.3%
Customer and Demand Charge Revenues as % of Total Distribution Revenues	52.9%	53.0%	25.7%	25.9%	29.8%	38.3%	33.1%	45.0%	62.1%	61.5%	30.6%

Source: Attachment NG-PCC-3

Line			Col A	Col B	Col C	Col D	Col E
1	**Residential Heating**						
2				Bill Details			
3			Use	Base Rate	GCR	Other	Total
4		Before Conservation	922	$502.88	$1,002.31	$6.64	$1,511.82
5		Heating Load Conservation	856	$484.23	$930.87	$6.17	$1,421.27
6		First Year Conservation Savings	-66	-$18.65	-$71.43	-$0.47	-$90.55
7		Percent First Year Conservation Savings	-7.1%	-3.7%	-7.1%	-7.1%	-6.0%
8	**Scenario Analyses - After 1st Year**						
9	**Scenario A**	**No Other Residential Heating Customers Conserve**					
10		Annual Bills		$484.23	$930.87	$6.17	$1,421.27
11		Annual Bill Savings		-$18.65	-$71.43	-$0.47	-$90.55
12		Savings as a Percent of Total Bill Savings		-1.2%	-4.7%	0.0%	-6.0%
13	**Scenario B**	**25% Residential Heating Customers Conserve**					
14		Annual Bills		$484.23	$930.87	$10.95	$1,426.05
15		Annual Bill Savings		-$18.65	-$71.43	$4.31	-$85.77
16		Savings as a Percent of Total Bill Savings		-1.2%	-4.7%	0.3%	-5.7%
17	**Scenario C**	**50% Residential Heating Customers Conserve**					
18		Annual Bills		$484.23	$930.87	$15.73	$1,430.83
19		Annual Bill Savings		-$18.65	-$71.43	$9.09	-$80.99
20		Savings as a Percent of Total Bill Savings		-1.2%	-4.7%	0.6%	-5.4%
21	**Scenario D**	**75% Residential Heating Customers Conserve**					
22		Annual Bills		$484.23	$930.87	$20.51	$1,435.61
23		Annual Bill Savings		-$18.65	-$71.43	$13.87	-$76.21
24		Savings as a Percent of Total Bill Savings		-1.2%	-4.7%	0.9%	-5.0%
25	**Scenario E**	**100% Residential Heating Customers Conserve**					
26		Annual Bills		$484.23	$930.87	$25.29	$1,440.39
27		Annual Bill Savings		-$18.65	-$71.43	$18.65	-$71.43
28		Savings as a Percent of Total Bill Savings		-1.2%	-4.7%	1.2%	-4.7%

Line		Col F	Col G	Col H	Col I	Col J
1	**Residential Non Heating**					
2			Bill Details			
3		Use	Base Rate	GCR	Other	Total
4	Before Conservation	189	$208.26	$205.46	$1.36	$415.08
5	Baseload Conservation	176	$203.04	$191.38	$1.27	$395.69
6	First Year Conservation Savings	-13	-$5.23	-$14.08	-$0.09	-$19.40
7	Percent First Year Conservation Savings	-6.9%	-2.5%	-6.9%	-6.9%	-4.7%
8	**Scenario Analyses - After 1st Year**					
9	**Scenario A No Other Residential Non Heating Customers Conserve**					
10	Annual Bills		$203.04	$191.38	$1.27	$395.69
11	Annual Bill Savings		-$5.23	-$14.08	-$0.09	-$19.40
12	Savings as a Percent of Total Bill Savings		-1.3%	-3.4%	0.0%	-4.7%
13	**Scenario B 25% Residential Non Heating Customers Conserve**					
14	Annual Bills		$203.04	$191.38	$2.60	$397.02
15	Annual Bill Savings		-$5.23	-$14.08	$1.24	-$18.07
16	Savings as a Percent of Total Bill Savings		-1.3%	-3.4%	0.3%	-4.4%
17	**Scenario C 50% Residential Non Heating Customers Conserve**					
18	Annual Bills		$203.04	$191.38	$3.93	$398.34
19	Annual Bill Savings		-$5.23	-$14.08	$2.57	-$16.74
20	Savings as a Percent of Total Bill Savings		-1.3%	-3.4%	0.6%	-4.0%
21	**Scenario D 75% Residential Non Heating Customers Conserve**					
22	Annual Bills		$203.04	$191.38	$5.26	$399.67
23	Annual Bill Savings		-$5.23	-$14.08	$3.90	-$15.41
24	Savings as a Percent of Total Bill Savings		-1.3%	-3.4%	0.9%	-3.7%
25	**Scenario E 100% Residential Non Heating Customers Conserve**					
26	Annual Bills		$203.04	$191.38	$6.59	$401.00
27	Annual Bill Savings		-$5.23	-$14.08	$5.23	-$14.08
28	Savings as a Percent of Total Bill Savings		-1.3%	-3.4%	1.3%	-3.4%

Line			Col A	Col B	Col C	Col D	Col E
30	**Small C&I**						
31				Bill Details			
32			Use	Base Rate	GCR	Other	Total
33		Before Conservation	1,269	$711.02	$1,379.53	$9.14	$2,099.68
34		Heating Load Conservation	1,174	$691.47	$1,276.14	$8.45	$1,976.06
35		First Year Conservation Savings	-95	-$19.55	-$103.39	-$0.68	-$123.63
36		Percent First Year Conservation Savings	-7.5%	-2.7%	-7.5%	-7.5%	-5.9%
37	**Scenario Analyses - After 1st Year**						
38	**Scenario A**	**No Other Small C&I Customers Conserve**					
39		Annual Bills		$691.47	$1,276.14	$8.45	$1,976.06
40		Annual Bill Savings		-$19.55	-$103.39	-$0.68	-$123.63
41		Savings as a Percent of Total Bill Savings		-0.9%	-4.9%	0.0%	-5.9%
42	**Scenario B**	**25% Small C&I Customers Conserve**					
43		Annual Bills		$691.47	$1,276.14	$13.51	$1,981.12
44		Annual Bill Savings		-$19.55	-$103.39	$4.37	-$118.57
45		Savings as a Percent of Total Bill Savings		-0.9%	-4.9%	0.2%	-5.6%
46	**Scenario C**	**50% Small C&I Customers Conserve**					
47		Annual Bills		$691.47	$1,276.14	$18.57	$1,986.17
48		Annual Bill Savings		-$19.55	-$103.39	$9.43	-$113.51
49		Savings as a Percent of Total Bill Savings		-0.9%	-4.9%	0.4%	-5.4%
50	**Scenario D**	**75% Small C&I Customers Conserve**					
51		Annual Bills		$691.47	$1,276.14	$23.63	$1,991.23
52		Annual Bill Savings		-$19.55	-$103.39	$14.49	-$108.45
53		Savings as a Percent of Total Bill Savings		-0.9%	-4.9%	0.7%	-5.2%
54	**Scenario E**	**100% Small C&I Customers Conserve**					
55		Annual Bills		$691.47	$1,276.14	$28.68	$1,996.29
56		Annual Bill Savings		-$19.55	-$103.39	$19.55	-$103.39
57		Savings as a Percent of Total Bill Savings		-0.9%	-4.9%	0.9%	-4.9%

Line		Col F	Col G	Col H	Col I	Col J
30	**Medium C&I**					
31			Bill Details			
32		Use	Base Rate	GCR	Other	Total
33	Before Conservation	10,950	$3,513.80	$11,903.75	$78.82	$15,496.37
34	Heating Load Conservation	10,239	$3,344.04	$11,130.64	$73.72	$14,548.40
35	Conservation Savings	-711	-$169.76	-$773.11	-$5.10	-$947.97
36	Percent Conservation Savings	-6.5%	-4.8%	-6.5%	-6.5%	-6.1%
37	**Scenario Analyses - After 1st Year**					
38	**Scenario A No Other Medium C&I Customers Conserve**					
39	Annual Bills		$3,344.04	$11,130.64	$73.72	$14,548.40
40	Annual Bill Savings		-$169.76	-$773.11	-$5.10	-$947.97
41	Savings as a Percent of Total Bill Savings		-1.1%	-5.0%	0.0%	-6.1%
42	**Scenario B 25% Medium C&I Customers Conserve**					
43	Annual Bills		$3,344.04	$11,130.64	$117.43	$14,592.12
44	Annual Bill Savings		-$169.76	-$773.11	$38.61	-$904.25
45	Savings as a Percent of Total Bill Savings		-1.1%	-5.0%	0.2%	-5.8%
46	**Scenario C 50% Medium C&I Customers Conserve**					
47	Annual Bills		$3,344.04	$11,130.64	$161.15	$14,635.83
48	Annual Bill Savings		-$169.76	-$773.11	$82.33	-$860.54
49	Savings as a Percent of Total Bill Savings		-1.1%	-5.0%	0.5%	-5.6%
50	**Scenario D 75% Medium C&I Customers Conserve**					
51	Annual Bills		$3,344.04	$11,130.64	$204.86	$14,679.54
52	Annual Bill Savings		-$169.76	-$773.11	$126.04	-$816.82
53	Savings as a Percent of Total Bill Savings		-1.1%	-5.0%	0.8%	-5.3%
54	**Scenario E 100% Medium C&I Customers Conserve**					
55	Annual Bills		$3,344.04	$11,130.64	$248.58	$14,723.26
56	Annual Bill Savings		-$169.76	-$773.11	$169.76	-$773.11
57	Savings as a Percent of Total Bill Savings		-1.1%	-5.0%	1.1%	-5.0%

Line			Col A	Col B	Col C	Col D	Col E
59	**Large Low Load Factor C&I**						
60				Bill Details			
61			Use	Base Rate	GCR	Other	Total
62		Before Conservation	57,742	$16,831.57	$62,771.34	$415.75	$80,018.66
63		Heating Load Conservation	53,102	$15,609.11	$57,726.81	$382.33	$73,718.25
64		First Year Conservation Savings	-4,640	-$1,222.45	-$5,044.53	-$33.42	-$6,300.40
65		Percent First Year Conservation Savings	-8.0%	-7.3%	-8.0%	-8.0%	-7.9%
66	**Scenario Analyses - After 1st Year**						
67	**Scenario A**	**No Other Large Low Load Factor C&I Customers Conserve**					
68		Annual Bills		$15,609.11	$57,726.81	$382.33	$73,718.25
69		Annual Bill Savings		-$1,222.45	-$5,044.53	-$33.42	-$6,300.40
70		Savings as a Percent of Total Bill Savings		-1.5%	-6.3%	0.0%	-7.9%
71	**Scenario B**	**25% Large Low Load Factor C&I Customers Conserve**					
72		Annual Bills		$15,609.11	$57,726.81	$696.30	$74,032.22
73		Annual Bill Savings		-$1,222.45	-$5,044.53	$280.55	-$5,986.43
74		Savings as a Percent of Total Bill Savings		-1.5%	-6.3%	0.4%	-7.5%
75	**Scenario C**	**50% Large Low Load Factor C&I Customers Conserve**					
76		Annual Bills		$15,609.11	$57,726.81	$1,010.27	$74,346.19
77		Annual Bill Savings		-$1,222.45	-$5,044.53	$594.52	-$5,672.47
78		Savings as a Percent of Total Bill Savings		-1.5%	-6.3%	0.7%	-7.1%
79	**Scenario D**	**75% Large Low Load Factor C&I Customers Conserve**					
80		Annual Bills		$15,609.11	$57,726.81	$1,324.24	$74,660.16
81		Annual Bill Savings		-$1,222.45	-$5,044.53	$908.49	-$5,358.50
82		Savings as a Percent of Total Bill Savings		-1.5%	-6.3%	1.1%	-6.7%
83	**Scenario E**	**100% Large Low Load Factor C&I Customers Conserve**					
84		Annual Bills		$15,609.11	$57,726.81	$1,638.20	$74,974.13
85		Annual Bill Savings		-$1,222.45	-$5,044.53	$1,222.45	-$5,044.53
86		Savings as a Percent of Total Bill Savings		-1.5%	-6.3%	1.5%	-6.3%

Line		Col F	Col G	Col H	Col I	Col J
59	**Large High Load Factor C&I**					
60			Bill Details			
61		Use	Base Rate	GCR	Other	Total
62	Before Conservation	58,418	$11,367.22	$61,210.39	$420.59	$72,998.20
63	Heating Load Conservation	54,643	$10,737.28	$57,254.52	$393.43	$68,385.23
64	Conservation Savings	-3,775	-$629.94	-$3,955.87	-$27.16	-$4,612.97
65	Percent Conservation Savings	-6.5%	-5.5%	-6.5%	-6.5%	-6.3%
66	**Scenario Analyses - After 1st Year**					
67	**Scenario A No Other Large High Load Factor C&I Customers Conserve**					
68	Annual Bills		$10,737.28	$57,254.52	$393.43	$68,385.23
69	Annual Bill Savings		-$629.94	-$3,955.87	-$27.16	-$4,612.97
70	Savings as a Percent of Total Bill Savings		-0.9%	-5.4%	0.0%	-6.3%
71	**Scenario B 25% Large High Load Factor C&I Customers Conserve**					
72	Annual Bills		$10,737.28	$57,254.52	$557.70	$68,549.51
73	Annual Bill Savings		-$629.94	-$3,955.87	$137.11	-$4,448.69
74	Savings as a Percent of Total Bill Savings		-0.9%	-5.4%	0.2%	-6.1%
75	**Scenario C 50% Large High Load Factor C&I Customers Conserve**					
76	Annual Bills		$10,737.28	$57,254.52	$721.98	$68,713.78
77	Annual Bill Savings		-$629.94	-$3,955.87	$301.39	-$4,284.42
78	Savings as a Percent of Total Bill Savings		-0.9%	-5.4%	0.4%	-5.9%
79	**Scenario D 75% Large High Load Factor C&I Customers Conserve**					
80	Annual Bills		$10,737.28	$57,254.52	$886.25	$68,878.06
81	Annual Bill Savings		-$629.94	-$3,955.87	$465.66	-$4,120.14
82	Savings as a Percent of Total Bill Savings		-0.9%	-5.4%	0.6%	-5.6%
83	**Scenario E 100% Large High Load Factor C&I Customers Conserve**					
84	Annual Bills		$10,737.28	$57,254.52	$1,050.53	$69,042.33
85	Annual Bill Savings		-$629.94	-$3,955.87	$629.94	-$3,955.87
86	Savings as a Percent of Total Bill Savings		-0.9%	-5.4%	0.9%	-5.4%

Line			Col A	Col B	Col C	Col D	Col E
88	**Extra Large Low Load Factor C&I**						
89				Bill Details			
90			Use	Base Rate	GCR	Other	Total
91		Before Conservation	291,462	$40,662.95	$316,848.34	$2,098.53	$359,609.82
92		Heating Load Conservation	272,707	$38,277.96	$296,459.26	$1,963.49	$336,700.71
93		First Year Conservation Savings	-18,755	-$2,384.99	-$20,389.08	-$135.04	-$22,909.11
94		Percent First Year Conservation Savings	-6.4%	-5.9%	-6.4%	-6.4%	-6.4%
95	**Scenario Analyses - After 1st Year**						
96	**Scenario A**	**No Other Extra Large Low Load Factor C&I Customers Conserve**					
97		Annual Bills		$38,277.96	$296,459.26	$1,963.49	$336,700.71
98		Annual Bill Savings		-$2,384.99	-$20,389.08	-$135.04	-$22,909.11
99		Savings as a Percent of Total Bill Savings		-0.7%	-5.7%	0.0%	-6.4%
100	**Scenario B**	**25% Extra Large Low Load Factor C&I Customers Conserve**					
101		Annual Bills		$38,277.96	$296,459.26	$2,593.49	$337,330.72
102		Annual Bill Savings		-$2,384.99	-$20,389.08	$494.96	-$22,279.10
103		Savings as a Percent of Total Bill Savings		-0.7%	-5.7%	0.1%	-6.2%
104	**Scenario C**	**50% Extra Large Low Load Factor C&I Customers Conserve**					
105		Annual Bills		$38,277.96	$296,459.26	$3,223.50	$337,960.72
106		Annual Bill Savings		-$2,384.99	-$20,389.08	$1,124.97	-$21,649.09
107		Savings as a Percent of Total Bill Savings		-0.7%	-5.7%	0.3%	-6.0%
108	**Scenario D**	**75% Extra Large Low Load Factor C&I Customers Conserve**					
109		Annual Bills		$38,277.96	$296,459.26	$3,853.51	$338,590.73
110		Annual Bill Savings		-$2,384.99	-$20,389.08	$1,754.98	-$21,019.08
111		Savings as a Percent of Total Bill Savings		-0.7%	-5.7%	0.5%	-5.8%
112	**Scenario E**	**100% Extra Large Low Load Factor C&I Customers Conserve**					
113		Annual Bills		$38,277.96	$296,459.26	$4,483.52	$339,220.74
114		Annual Bill Savings		-$2,384.99	-$20,389.08	$2,384.99	-$20,389.08
115		Savings as a Percent of Total Bill Savings		-0.7%	-5.7%	0.7%	-5.7%

Line		Col F	Col G	Col H	Col I	Col J
88	**Extra Large High Load Factor C&I**					
89			Bill Details			
90		Use	Base Rate	GCR	Other	Total
91	Before Conservation	568,188	$80,894.98	$595,347.39	$4,090.96	$680,333.33
92	Heating Load Conservation	524,545	$74,957.83	$549,617.83	$3,776.72	$628,352.38
93	Conservation Savings	-43,643	-$5,937.15	-$45,729.56	-$314.24	-$51,980.95
94	Percent Conservation Savings	-7.7%	-7.3%	-7.7%	-7.7%	-7.6%
95	**Scenario Analyses - After 1st Year**					
96	**Scenario A No Other Extra Large High Load Factor C&I Customers Conserve**					
97	Annual Bills		$74,957.83	$549,617.83	$3,776.72	$628,352.38
98	Annual Bill Savings		-$5,937.15	-$45,729.56	-$314.24	-$51,980.95
99	Savings as a Percent of Total Bill Savings		-0.9%	-6.7%	0.0%	-7.6%
100	**Scenario B 25% Extra Large High Load Factor C&I Customers Conserve**					
101	Annual Bills		$74,957.83	$549,617.83	$5,339.57	$629,915.22
102	Annual Bill Savings		-$5,937.15	-$45,729.56	$1,248.61	-$50,418.10
103	Savings as a Percent of Total Bill Savings		-0.9%	-6.7%	0.2%	-7.4%
104	**Scenario C 50% Extra Large High Load Factor C&I Customers Conserve**					
105	Annual Bills		$74,957.83	$549,617.83	$6,902.41	$631,478.07
106	Annual Bill Savings		-$5,937.15	-$45,729.56	$2,811.45	-$48,855.25
107	Savings as a Percent of Total Bill Savings		-0.9%	-6.7%	0.4%	-7.2%
108	**Scenario D 75% Extra Large High Load Factor C&I Customers Conserve**					
109	Annual Bills		$74,957.83	$549,617.83	$8,465.26	$633,040.92
110	Annual Bill Savings		-$5,937.15	-$45,729.56	$4,374.30	-$47,292.41
111	Savings as a Percent of Total Bill Savings		-0.9%	-6.7%	0.6%	-7.0%
112	**Scenario E 100% Extra Large High Load Factor C&I Customers Conserve**					
113	Annual Bills		$74,957.83	$549,617.83	$10,028.11	$634,603.76
114	Annual Bill Savings		-$5,937.15	-$45,729.56	$5,937.15	-$45,729.56
115	Savings as a Percent of Total Bill Savings		-0.9%	-6.7%	0.9%	-6.7%