

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations

Case 06-M-0878

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York for Gas Service

Case 06-G-1185

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island for Gas Service

Case 06-G-1186

DIRECT TESTIMONY AND EXHIBITS OF

HUGH LARKIN, JR., CPA
and
DONNA DeRONNE, CPA

ON BEHALF OF THE
NYS CONSUMER PROTECTION BOARD

Dated: January 29, 2007
Albany, New York

MINDY BOCKSTEIN, ACTING EXECUTIVE DIRECTOR
NYS CONSUMER PROTECTION BOARD
5 EMPIRE STATE PLAZA
SUITE 2101
ALBANY, NEW YORK 12223-1556
<http://www.nysconsumer.gov>

TABLE OF CONTENTS

| | |
|---|----|
| WEATHER NORMALIZATION | 4 |
| OTHER GAS REVENUES..... | 6 |
| PAYROLL ADJUSTMENT | 7 |
| 1% Productivity Adjustment | 7 |
| INCENTIVE COMPENSATION AND GAIN SHARE PROGRAM | 9 |
| TAXES OTHER THAN INCOME | 13 |
| Request for Deferred Accounting for Special Franchise and Real Estate Tax..... | 14 |
| Real Estate Taxes - KEDNY | 14 |
| Municipal Gross Revenue Taxes - KEDNY..... | 16 |
| State Franchise Gross Income Tax-186a - KEDNY..... | 17 |
| MTA Surcharge-KEDNY | 18 |
| Real Estate and Special Franchise Taxes - KEDLI..... | 20 |
| Municipal Gross Revenue Tax - KEDLI | 21 |
| Franchise-Gross Income-186a-KEDLI..... | 22 |
| FICA Tax..... | 23 |
| AMORTIZATION | 24 |
| INCOME TAXES | 26 |
| PENSIONS & OPEBS | 28 |
| SERVICE COMPANY COST ALLOCATIONS..... | 43 |

1 **INTRODUCTION**

2 Q. What are your names, occupations and business address?

3 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed
4 in the States of Michigan and Florida and the senior partner in the firm
5 Larkin & Associates, PLLC (L&A), Certified Public Accountants, with
6 offices at 15728 Farmington Road, Livonia, Michigan 48154.

7 I am Donna DeRonne, a Certified Public Accountant licensed in the
8 State of Michigan. I am a senior regulatory consultant in the firm Larkin &
9 Associates, PLLC, whose address was identified above.

10

11 Q. Please describe the firm Larkin & Associates, PLLC.

12 A. Larkin & Associates, PLLC, is a Certified Public Accounting and
13 Regulatory Consulting Firm. The firm performs independent regulatory
14 consulting primarily for public service/utility commission staffs and
15 consumer interest groups (public counsels, public advocates, consumer
16 counsels, attorneys general, etc.). Larkin & Associates, PLLC has
17 extensive experience in the utility regulatory field as expert witnesses in
18 over 600 regulatory proceedings, including numerous electric, water and
19 wastewater, gas and telephone utility cases.

20

1 Q. Have you previously testified before the New York State Public Service
2 Commission?

3 A. Mr. Larkin recently filed testimony in Case Nos. 05-E-0934 and 05-G-
4 0935, regarding Central Hudson Gas & Electric Corporation; Case No. 05-
5 G-1494, regarding Orange and Rockland Utilities, Inc.; and also testified
6 before the Commission in Case 29484 involving the Long Island Lighting
7 Company. Both Mr. Larkin and Ms. DeRonne filed testimony in Case 05-
8 E-1222, regarding New York State Electric & Gas Corporation.

9

10 Q. Have you prepared attachments describing your qualifications and
11 experience?

12 A. Yes. We have included Attachments I and II, which are summaries of our
13 regulatory experience and qualifications.

14

15 Q. What is the subject of your testimony?

16 A. We are testifying concerning the October 3, 2006, rate filings of KeySpan
17 Corporation (“KeySpan”) utility subsidiaries KeySpan Energy Delivery New
18 York (“KEDNY”) and KeySpan Energy Delivery Long Island (“KEDLI”),
19 collectively referred to as the “Companies.”

20

1 Q. Earlier this month each of those entities filed updates to the October 3,
2 2006 rate filings. Have you reflected the impact of those updates in your
3 recommendations and do you agree the updates are appropriate?

4 A. The updates were filed on January 10, 2007, a few short weeks ago. This
5 timing did not allow for a full and complete analysis of the updates prior to
6 the filing of this testimony. For the most part, the Companies have not
7 provided the level of detail necessary to perform a complete analysis of
8 these late-filed updates. We have not addressed the updates in this
9 testimony with a few minor exceptions, such as for Pension and OPEB
10 costs, which we specifically identify.

11

12 Q. Do you use any conventions in referring to documents relied upon in your
13 testimony?

14 A. Yes. We refer to Company responses to information requests with just the
15 designation given them by KeySpan, such as "CPB-78" or "DPS-72."

16

17 Q. Do you have any exhibits supporting your testimony?

18 A. Yes. We have Exhibit__(LA-1), containing Schedules 1 through 11 and
19 Exhibit__(LA-2) which consists of copies of information requests to which
20 we refer in our testimony.

21

1 Q. On whose behalf are you appearing?

2 A. Larkin & Associates, PLLC was retained by the New York State Consumer
3 Protection Board.

4

5 **WEATHER NORMALIZATION**

6 Q. How is KeySpan proposing to change the definition of “normal weather”
7 for purposes of establishing base rates?

8 A. Company witness Feinstein has used a 20-year heating degree day
9 average in calculating normal weather for the test year 2005 and the rate
10 year ending March 31, 2008. Historically, rates have been based on a 30-
11 year average, which is consistent with the practices of other gas
12 distribution companies in New York and, to our knowledge, with those of
13 most gas distribution companies in the country.

14

15 Q. What is the basis for the Companies’ request to change from a 30-year
16 degree day average to a 20-year degree day average?

17 A. The Company states that there is a current trend towards warmer weather
18 and that this trend should be reflected in base rates rather than the Gas
19 Adjustment Clause (“GCA”).

20

21

1 Q. Do you agree with this change?

2 A. KeySpan's proposal would increase base rates on the theory that the
3 current trend is toward warmer weather, but averages are used in the
4 ratemaking process in order to eliminate the effect of short-term variations.
5 Thirty-year weather averages have been used by this and other regulatory
6 commissions to reflect changing weather patterns over a longer period of
7 time. If weather patterns are trending warmer, that will be reflected in the
8 30-year average as it is updated. Ratepayers in the past have paid base
9 rates and GCA rates based on a 30-year degree day average.
10 Consistency requires that the Commission not adopt a shorter period in
11 establishing base rates in this case merely because KeySpan speculates
12 that a 20-year average may be a better predictor of weather in the rate
13 year.

14

15 Q. Will KeySpan collect the same dollar amount whether the change is made
16 or not?

17 A. Yes. Revenues over- or under-collected through base gas delivery rates
18 due to weather will be collected or refunded through the GCA. Because
19 there is no shortfall in revenue to the Company, there is no reason to
20 change the 30-year average basis for normal weather.

21

1 Q. What adjustment are you recommending?

2 A. In CPB-78, the Company has calculated the 2005 effect of changing from
3 a 30-year degree day average to a 20-year degree day average. The
4 workpapers show that KEDNY's base rates would have increased by
5 \$2,321,409 and KEDLI's by \$1,958,066. We recommend that these
6 amounts be reflected as additional revenue in the test year, and that the
7 30-year degree day average be used in normalizing sales and revenue
8 projections for the rate year.

9

10 **OTHER GAS REVENUES**

11 Q. Are you recommending any adjustments to other gas revenues, Account
12 495?

13 A. Yes. KEDLI has been receiving an off-system management fee of \$3
14 million associated with the Brooklyn Navy Yard. The Company has
15 eliminated this \$3 million from Other Gas Revenues, Account 495, and
16 has credited the revenue to the Environmental Balancing account. There
17 is no legitimate reason why these dollars should not be reflected as Other
18 Revenues. Off-System Management Fees relate to costs being incurred
19 by the Company on a day-to-day basis to fully discharge its duties to
20 manage the Off-System requirements. The revenues generated from the
21 incurrence of costs to manage Off-System transactions clearly are a

1 current revenue source that is unrelated to the Environmental Balancing
2 account. We are recommending the KEDLI's Other Gas Revenues be
3 increased by \$3 million.

4

5 Q. Did the Company actually reflect the \$3 million in the Environmental
6 Balancing account during the rate year?

7 A. No. Company workpaper Exhibit No. __ (PJM-3), Schedule 1, page 4 of
8 14, shows these revenues only through March of 2007. They do not
9 reflect the \$3 million in the rate year ended March 31, 2008.

10

11 **PAYROLL ADJUSTMENT**

12 1% Productivity Adjustment

13 Q. In calculating its wage/payroll adjustments, Keyspan has not made the 1%
14 productivity adjustment normally applied by the New York Public Service
15 Commission in calculating labor increases. Do you agree with the
16 Company's reasoning for not making this adjustment?

17 A. No, we do not. Mr. Bodanza states that, "The Commission's practice is to
18 apply a 1% productivity adjustment that reduces recoverable labor
19 expense. Given KeySpan's cost control efforts in the past, there is no
20 justification for applying this adjustment in this proceeding." Essentially,
21 he is saying that the Company has done such a good job in the past in

1 controlling costs that there is no reason to apply a productivity adjustment
2 in establishing future rates. In other words, labor expenses have not
3 increased substantially in the past. Therefore, there is no need to apply a
4 1% productivity adjustment to future labor expenses.

5 This reasoning does not justify the policy change requested. In
6 fact, if the Company has experienced more productivity than the
7 Commission adjusted for in the last rate case, it would seem more
8 appropriate to raise the productivity adjustment to 2% or 3% rather than to
9 eliminate it entirely. If, however the Company's argument is that it should
10 be rewarded via the elimination of the 1% productivity adjustment in future
11 rates, because of something that occurred in the past, the result would be
12 retroactive ratemaking. In other words, the Company would be rewarded
13 in the future for something it claims to have accomplished in the past.
14 This is impermissible in most, if not all, jurisdictions.

15 It is also possible that the level of labor expense established in the
16 Company's last rate plan did not give effect to the proper level of
17 productivity since it is difficult to measure both the improvement in
18 individual productivity and changes in productivity occasioned by growth in
19 sales and/or the elimination of functions made possible by such things as
20 advances in information technology.

21

1 Q. What is your recommendation regarding the Company's request?

2 A. The Company's request to eliminate the longstanding productivity
3 adjustment should not be granted. If the Commission were to do so for
4 KeySpan, then the same argument could be made for other companies
5 that have had similar periods where they have not requested rate
6 increases. If the KeySpan argument justifies anything, it justifies
7 increasing the productivity adjustment, not eliminating it. We, therefore,
8 recommend that the Commission continue the 1% productivity adjustment
9 for KeySpan as it has for other companies that have recently filed for rate
10 increases.

11

12 Q. What dollar amount are you recommending be removed from the
13 KeySpan companies' revenue increase request?

14 A. The amounts are shown on Schedules 2 and 4 of our Exhibit. The
15 decrease in rate year labor expense for KEDNY is \$1,086,000 (Schedule
16 2), and for KEDLI it is \$554,000 (Schedule 4).

17

18 **INCENTIVE COMPENSATION AND GAIN SHARE PROGRAM**

19 Q. The Company has included amounts in payroll and wage expense for
20 incentive compensation and gain share. Would you explain what those
21 amounts are and what they represent?

1 A. Yes. On Exhibit No. ____ (LA-1), Schedules 6 and 7, we have included for
2 KEDNY and KEDLI, respectively, calculations of incentive compensation
3 and Gain Share in the Company's adjustments that would remain after
4 applying the Commission's normal 1% productivity adjustment, as
5 discussed above. These amounts are \$5,908,237 for KEDNY incentive
6 compensation, \$1,327,079 for KEDNY Gain Share, \$3,444,781 for KEDLI
7 incentive compensation, and \$419,506 for KEDLI Gain Share.

8

9 Q. What does the Company say the purposes of incentive compensation and
10 Gain Share payments are?

11 A. Incentive compensation payments are made to management employees
12 and Gain Share payments are made to union employees, but they are
13 paid under the same program and the purpose of the payments is
14 essentially the same. The introduction to the Company's incentive
15 compensation and gain share plan states:

16 In this regard, the Company has established an annual Incentive
17 Compensation and Gain Share Plan ("Plan") which provides employees
18 with incentives for achieving specific performance objectives and related
19 financial and operating goals.

20

1 The plan further states, "The Core Earnings Per Share (EPS) will
2 act as the primary earnings trigger for all goals and all employees." In
3 other words, these payments will not be made unless the Company
4 achieves a certain earnings per share.

5 The 2005 Plan provides the percentage weighting of each
6 component of goals on which incentive compensation or gain share
7 payments depend, and shows that earnings per share, free cash flow and
8 other financial components are the primary measurements. In the tables
9 attached to the 2005 plan, financial goals total more than 50% of the
10 performance scorecards for both KEDNY and KEDLI. Other goals relate
11 to diversity/placement, customer satisfaction, safety, and new customer
12 satisfaction.

13

14 Q. What relevance does the plan and its goals have to the rate setting
15 process?

16 A. Rates established by the Commission in these cases will be based on
17 projections of costs to be incurred during the rate year. The rates
18 established will not take into consideration the effect that incentive
19 compensation and gain share might have on future earnings per share,
20 operating income and expenses or free cash flow. If the Commission
21 incorporates all of the Companies' requests for incentive compensation

1 and gain share into rates, it will insure that all of the benefits that will be
2 derived from these programs will inure to the stockholders in the future
3 and will not be reflected in rates. The Company will not make these
4 payments unless certain financial goals are achieved, but it will collect the
5 funds to pay them under any circumstances. In effect, the amount paid in
6 rates by customers for these plans becomes the consolation prize for the
7 Company if its employees fail to achieve the goals that would require
8 incentives to be disbursed.

9 The rate setting process will establish rates based on the fair level
10 of earnings, operating income and expenses utilizing current projections
11 for the rate year, which do not incorporate the enhanced operating results
12 that the incentive programs aim to achieve. The incentive compensation
13 and gain share program objectives do not affect the rate-making
14 decisions. Only stockholders can benefit in the future from these
15 programs if better results occur. Ratepayers will only benefit from the
16 non-financial goals.

17

18 Q. Are you recommending any adjustment to these costs?

19 A. Yes. Since shareholders will benefit directly from these programs whether
20 they succeed or fail, we are recommending that at least 50% of incentive
21 compensation and gain share program costs be paid for by stockholders

1 by removing such costs from the Company's revenue requirement. These
2 adjustments, shown on Exhibit____(LA-1) Schedules 6 and 7 for KEDNY
3 and KEDLI, respectively, result in a \$2,954,119 reduction to expense for
4 incentive compensation and \$663,540 reduction for the gain share
5 program (total \$3,617,659) for KEDNY, and adjustments to incentive
6 compensation of \$1,722,391, and gain share of \$209,753 (total
7 \$1,932,144) for KEDLI.

8

9 **TAXES OTHER THAN INCOME**

10 Q. What increase in taxes other than income taxes has KeySpan projected?

11 A. For KEDNY, KeySpan has projected a very substantial \$71,378,000¹ – or
12 58.6% -- increase in taxes other than income from the test year ended
13 December 31, 2005 to the rate year ended March 31, 2008. This
14 constitutes almost 40% of the base rate increase of \$180.7 million that
15 KEDNY is requesting.

16 A similarly substantial increase is projected for KEDLI where taxes
17 other than income are projected to rise by \$49,351,000.² After excluding
18 \$32 million previously included as an amortization, the net increase for

¹ Excluding Service Company taxes of \$2,507,549.

² Excluding Service Company taxes of \$2,083,005.

1 KEDLI is \$17.4 million, or 29.5%. This accounts for approximately 12% of
2 the \$145 million increase in base rates requested for KEDLI.

3 We will address several of the components of these significant
4 projected increases for KEDNY and KEDLI below.

5

6 Request for Deferred Accounting for Special Franchise and Real Estate
7 Tax

8

9 Q. In Mr. Bodanza's testimony, the Company is requesting that it be allowed
10 to change the accounting for special franchise and real estate taxes. Do
11 you agree with that request?

12 A. No we do not. The purpose of these cases is to set rates for a specific
13 rate year, not an indefinite future period. If special franchise and real
14 estate taxes increase in years subsequent to the rate year, the Company
15 has the right to file for new rates. If they decrease, other parties can
16 petition for a reduction. Furthermore, Commission policy requires that a
17 request for deferral be considered in the context of a utility's overall
18 finances at the time the costs giving rise to the request are incurred.

19

20 Real Estate Taxes - KEDNY

21 Q. What is included in the increase in taxes other than income for KEDNY
22 real estate taxes?

1 A. Each of the tax categories shown on Exhibit PJM-6 for KEDNY reflects a
2 substantial increase, except for some minor taxes. For real estate taxes,
3 KEDNY shows an increase of \$3,678,000, or 29.6%, from the test year to
4 the rate year. The majority of this increase is due to the shift of service
5 company real estate taxes from the service company asset recovery
6 charge into real estate taxes. We recommend that the Commission not
7 adopt the Company's proposal to shift components of the service
8 company charges to various accounts on the books of either operating
9 company.

10 Service company charges should be separately distributed and
11 identifiable both in total and for all of the component costs of the services
12 provided so that they can be analyzed and adjusted to reflect the level of
13 service provided. Allocating components into various expense accounts
14 and rate base accounts of the books and rate filings of the companies
15 served, makes it very difficult for the Commission or anyone else to
16 determine what level of service charges is being recouped by the service
17 company and how that amount compares with the value of the services
18 provided. We are not aware of any other jurisdiction where charges from
19 a service or affiliated company are broken down by underlying component
20 and charged to rate base or individual operating expense accounts or tax
21 accounts. We, therefore, recommend that the increase in real estate

1 taxes associated with the service company's real estate taxes not be
2 reflected in KEDNY or KEDLI's accounts for taxes other than income. For
3 KEDNY, this would remove the Company's projection of \$2,507,549 in
4 local real estate taxes allocated from the service company.

5

6 Municipal Gross Revenue Taxes - KEDNY

7 Q. Does it appear that the Company has calculated the municipal gross
8 revenue tax correctly?

9 A. No. Even though we requested workpapers that would show how the tax
10 was calculated, the only documents provided appear to group taxes
11 together and then allocate portions of the tax between municipal gross
12 revenue tax and State franchise gross income tax. KEDNY's municipal
13 gross revenue tax is paid only to the City of New York. It is a tax on
14 revenues from sales or services excluding revenues from sales outside
15 New York City, sales for resale, and rent from gas property. The tax is
16 levied at a rate of 2.35%, and a credit is allowed for rebates and discounts
17 of charges for energy users. The Company reduces customer bills for the
18 credit.

19 On Schedule 9, we show the 2005 gross income used to compute
20 this tax from the Company's 2005 tax return. We also show the gross tax
21 before the credit. The total taxable gross income divided into the actual

1 tax paid results in an effective tax rate of 2.35% for 2005. On the same
2 schedule, we show the 2005 revenue in total and the percentage of 2005
3 revenue that was taxable. That percentage is 85.48%. On Schedule 8,
4 we have recalculated the rate year municipal gross revenue tax utilizing
5 the Company's updated rate year revenue of approximately \$1.952 billion.
6 Applying the percentage of taxable revenue from 2005 of 85.48% gives a
7 taxable revenue base of \$1,668,963,663. Applying the effective 2.35% tax
8 rate to this base results in a projected rate year municipal gross revenue
9 tax of \$39,220,646. The Company projected this amount to be
10 \$68,174,000 in the original filing. We are recommending a \$28,953,354
11 reduction.

12

13 Q. What amount of municipal gross revenue tax did KEDNY reflect in the
14 year 2006?

15 A. The Company showed \$42,158,550.66, a decrease of \$3,619,603.28 from
16 2005. Revenue for 2006 decreased approximately \$123 million.

17

18 State Franchise Gross Income Tax-186a - KEDNY

19 Q. How did the company calculate state franchise gross income tax-186a?

20 A. Even though the workpapers are not very useful in determining exactly
21 what the Companies did, it appears that they combined the rate for State

1 and Municipal gross revenue taxes and applied that rate to total revenue
2 in arriving at the State franchise gross income tax – 186a.

3

4 Q. What do you recommend?

5 A. The 2005 State gross income tax return shows a taxable base of
6 approximately \$495.5 million of the Company's total revenues of \$2.242
7 billion. This is 22.1% of total revenues to which the State franchise gross
8 income tax applies. We have applied the 22.1% factor for 2005 to the
9 updated projected revenues for the rate year ended March 31, 2008 to
10 arrive at a taxable base of \$431,493,881. (22.1% of \$1,952,461,000) We
11 then applied a 2% tax rate, resulting in a tax amount of \$10,420,645. This
12 is a more accurate estimate of the State franchise gross income tax –
13 186a than the Company's projected \$14,411,000. We are therefore,
14 reducing KEDNY's proposed tax expense by \$5,781,122.

15

16 MTA Surcharge-KEDNY

17 Q. What increase is KEDNY projecting for the MTA SURCHARGE?

18 A. Exhibit No.__(PJM-6), Schedule 1, shows an increase of \$1,259,000 in
19 this tax over the test year amount of \$745,000, an increase of 169%.

20

1 Q. Has the Company provided any explanation for the substantial increase in
2 this tax?

3 A. No. The Company attributes every increase in revenue tax to the increase
4 in revenues between the test year and the rate year, but most revenue
5 taxes do not tax total revenues. There is no justification provided by the
6 Company for the 169% increase in this tax.

7

8 Q. How have you adjusted the MTA surcharge tax?

9 A. The MTA surcharge is based on revenue and the approved surcharge
10 rate. Not all revenues collected by the Company are subject to the MTA
11 surcharge. In response to CPB-124, the Company has provided the
12 calculation of the surcharge for the nine-months ended September 30,
13 2006 for KEDNY. Total revenues for the nine-months ended September
14 30, 2006 were approximately \$1.545 billion. Taxable revenues were
15 \$1.402 billion, meaning approximately 90.78% of revenues were subject to
16 the MTA surcharge. Applying that factor of 90.78% to the revised rate
17 year revenues of \$1.952 billion results in a taxable base of slightly over
18 \$1.772 billion, which generates a tax of \$3,208,124 at the surcharge rate
19 of .00181 in effect for September 2006. Allocating the tax to gross income
20 using the 38.97% ratio shown on the Company's response to CPB-124

1 results in an MTA surcharge for the rate year of \$1,250,206. This is less
2 than the Company's estimate by \$753,794.

3

4 Real Estate and Special Franchise Taxes - KEDLI

5 Q. What real estate/special franchise tax expense has KEDLI reflected in the
6 income statement for the test year?

7 A. The total real estate/special franchise tax for the year was \$86,844,000,
8 comprising \$54,821,000 included in "Taxes Other Than Income Tax" and
9 \$32,023,000 in Amortization Expense. KEDLI is now reclassifying the
10 latter amount from amortization to real estate/special franchise tax in an
11 adjustment that accounts for the majority of the \$44,645,000 increase from
12 the test year to the rate year.

13

14 Q. Are you recommending any adjustments to the real estate tax/special
15 franchise tax amount which KEDLI is requesting?

16 A. As we previously discussed, we recommend eliminating the \$2,087,998
17 allocation of real estate taxes from the service company. We also
18 recommend that the escalation of this expense be adjusted.

19

20 Q. How has the Company escalated KEDLI's real estate/special franchise tax
21 from the test year to the rate year?

1 A. The Company's workpaper says, "Estimated property taxes based on
2 January 2006 tax level inflated by 5%." However, the workpapers do not
3 disclose what the beginning January 2006 tax level was or how it was
4 calculated. The rate year's real estate/special franchise taxes are
5 estimated by the Company to be \$97,382,924 excluding the service
6 company allocation. This compares with the 2005 property taxes of
7 \$86,844,000 including the reclassification of amortized real estate taxes.
8 This amounts to an approximate 12% increase in real estate/special
9 franchise tax between the test year ended December 31, 2005 and the
10 rate year ending March 31, 2008. We have adjusted the real estate tax to
11 reflect an annual 2% increase in property taxes from the test year ended
12 2005 to the rate year ending March 31, 2008. This results in a reduction
13 in the real estate/special franchise tax requested by the Company of
14 \$6,578,665. The 2006 property tax expense shows a decrease from 2005
15 of \$314,109.69. The Company had projected the 2006 tax to increase by
16 5% or \$4,342,200.

17

18 Municipal Gross Revenue Tax - KEDLI

19 Q. The Company is projecting a 67% increase in municipal gross income tax
20 for KEDLI. Have you examined that increase?

1 A. Yes, but the municipal gross income tax for KEDLI is paid to a number of
2 municipalities, including the City of New York. It is not possible to
3 examine all of these returns and make a definitive calculation of what
4 revenue dollars are taxable and at what rate. Our approach to analyzing
5 this tax was to compare the 2006 tax expense to the tax expense for
6 2005. This shows a decrease of \$112,779.94 or -2.788%. We reduced
7 the 2006 municipal gross revenue tax of \$3,932,060 by 2.788% for 2007
8 and 2008 and then calculated the rate year tax by taking 9/12 of the 2007
9 dollar amount of \$3,822,434 and 3/12 of the 2008 dollar amount of
10 \$3,715,864 to arrive at the rate year tax of \$3,795,791. This results in a
11 reduction of the Company's allowance for this tax of \$3,789,029.

12

13 Franchise-Gross Income-186a-KEDLI

14 Q. How did you calculate the state franchise-gross income-186a tax?

15 A. We calculated the tax for KEDLI as we did for KEDNY. The tax rate of 2%
16 is applied to a taxable revenue base, which is substantially less than the
17 revenues collected by the Company. The taxable base for 2005 was
18 \$279,189,870.30, 19.48% of KEDLI's total 2005 revenue. We applied this
19 percentage to the rate year revised revenue of \$1,216,222,000 to arrive at
20 a taxable base of \$236,920,046. Applying the 2% tax rate to this tax base
21 results in a rate year tax of \$4,738,400. This is \$4,702,600 less than the

1 proposed tax that the Company has calculated, primarily due to the fact
2 that the Company appears to have applied the tax rate to total revenue
3 resulting in a substantial overstatement of this tax.

4

5 Q. What was the actual 2006 Franchise-Gross Income-186a for KEDLI?

6 A. The actual tax was \$3,932,059.47, a decrease of \$112,779.94 from 2005.

7

8 FICA Tax

9 Q. How did KeySpan calculate FICA tax increases for both delivery
10 companies?

11 A. The Company merely applied an average percentage increase in wages
12 to the expense for the test year.

13

14 Q. Will that result in an accurate estimate of the increase in FICA tax due to
15 wage increases?

16 A. No, it has two deficiencies. First, some of the wage increase will go to
17 employees who already exceed the FICA cap. Then, since we are
18 recommending that the Commission apply the 1% productivity adjustment,
19 it should also be applied to wage-related taxes.

20

21

1 Q. How have you adjusted the FICA tax for these two items?

2 A. First, we reduced the Company's percentage increase by 1% -- the
3 productivity factor. Then, we applied an 80% factor to this adjusted level
4 of FICA increase to account for employees who will not be subject to
5 additional FICA. This results in a reduction of the FICA tax for KEDNY of
6 \$88,000. Applying the same methodology to KEDLI produces a reduction
7 of \$31,000.

8

9 **AMORTIZATION**

10 Q. Are you recommending any adjustments to the Companies' request for
11 amortizations?

12 A. Yes. KeySpan has requested an amortization of the merger cost for both
13 KEDNY and KEDLI. The merger cost amortization requested in the rate
14 year is \$9,569,018 for KEDNY and \$1,971,000 for KEDLI. We are
15 recommending that the KEDNY amortization be reduced and the KEDLI
16 amortization be removed from rates.

17

18 Q. What is the basis for that recommendation?

19 A. The total merger cost remaining to be amortized at the beginning of the
20 rate year for KEDNY will only be \$9,569,018, which is the same amount
21 the Company has asked for in rates. Thus, after the rate year the

1 Company will continue to collect nearly \$10 million annually even though it
2 has no additional cost to recover from ratepayers.

3 For KEDLI at the beginning of the rate year, the Company will have
4 a balance to be recovered of only \$2,821,297 which will be fully amortized
5 by September of 2008. Again, if these amounts are included in rates, the
6 Company will continue to recover the amortization from ratepayers even
7 though no additional recoverable costs will exist five months after the end
8 of the rate year.

9

10 Q. Do you have an alternative recommendation?

11 A. Rather than include these amortizations in revenue requirements and
12 cause ratepayers to continue to pay the amortization, even after the costs
13 have been fully recovered, it would be more appropriate to offset the
14 remaining balances against deferred net credits that have not been
15 amortized by the Company in this case. For KEDNY, the available net
16 credits are approximately \$9 million in the balancing account. Offsetting
17 this credit balance against the remaining merger cost for KEDNY would
18 leave an unrecovered balance of \$558,975.90. This amount should be
19 amortized over a five-year period so that KEDNY will not continue to
20 recover the full amount of \$558,975.90 for years after the rate year. The
21 amortization of merger cost for KEDNY should be reduced by \$9,457,223.

1 For KEDLI, the deferred net credits are sufficient to permit a full
2 offset of the remaining amortization of merger cost.

3

4 Q. Are there any other amortizations which can be eliminated or reduced by
5 offsetting all or part of the amortization against the deferred net credits?

6 A. Yes. KEDLI has deferred net credits of approximately \$68.3 million. Of
7 this amount, the Company claims \$37.7 million is not available to be
8 amortized into income because the funds have been used to offset
9 environmental costs. This leaves approximately \$30.6 million of net
10 credits due to ratepayers that can be utilized to offset deferred debits due
11 to the Company. After offsetting the remaining amortization of merger
12 costs against KEDLI's available deferred net credits, a balance of
13 \$27,791,928 will remain. This balance should be amortized on a seven-
14 year period to offset environmental amortization. The amortization credit
15 would be \$3,970,275.

16

17 **INCOME TAXES**

18 Q. In the Company's calculation of federal income taxes for KEDNY, an
19 adjustment was made to increase taxable income by \$6,288,000 with an
20 explanation of "book depreciation in excess of tax (not deferred)." Should
21 that adjustment be made?

1 A. No. KEDNY has not provided a full and clear explanation of this
2 adjustment even though it was asked to do so. It is our understanding that
3 what KEDNY is attempting to do is to correct for the fact that prior to 1971
4 KEDNY did not defer Federal income taxes associated with the difference
5 between book and tax depreciation. In other words, ratepayers, prior to
6 1971, received the full benefit of the higher tax depreciation in rates rather
7 than book depreciation. This reduced Federal income taxes and, thus,
8 reduced rates. After 1971, KEDNY apparently went to full normalization.
9 In other words, it deferred the tax benefit received through accelerated
10 depreciation for tax purposes. Ratepayers paid more in rates for income
11 taxes than the Company actually paid to the Internal Revenue Service.
12 Those excess payments were placed in a deferred income tax account
13 and used to reduce the rate base in future years. They flowed back to
14 ratepayers as a reduction in income tax when book depreciation exceeded
15 tax depreciation, offsetting the higher current income tax with the deferral
16 from prior years.

17 When a company flowed through some of the benefits of
18 accelerated depreciation in years before full normalization of depreciation
19 differences was adopted, that difference was eventually self-correcting. In
20 the early years when tax depreciation exceeded book, the company
21 collected more in rates than it paid in taxes. When tax depreciation

1 declined below book depreciation, it paid more than it collected. The
2 adjustment proposed by KEDNY appears to be an attempt to avoid the
3 second half of this process or, to put it another way, to collect for a second
4 time tax expense that ratepayers have already paid.

5

6 Q. What are you recommending?

7 A. The entire \$6,288,000 added to taxable income should be removed from
8 the Company's tax calculation. This has the affect of reducing income tax
9 expense for KEDNY by \$2,201,000, which will reduce the revenue
10 requirement by \$3,779,189.

11

12 **PENSIONS & OPEBS**

13 Q. Are you recommending any revisions to the pension and OPEB costs
14 included by KEDLI and KEDNY in their filings?

15 A. Yes. We are recommending several revisions to the pension and OPEB
16 amounts contained in the filings for both rate base and operating income:

- 17 • Adjustment to pension expense for both KEDLI and KEDNY
18 to reflect the impact of each of the Company's updates made
19 on January 10, 2007, based on the results of the most recent
20 actuarial report, which was completed in August 2006.
21
- 22 • Reduction to pension expense for both KEDLI and KEDNY
23 to remove the impact of the amortization of actuarial losses
24 for which the amortization periods expire prior to the
25 beginning of the rate year.

- 1 • Reduction of pension expense for both KEDLI and KEDNY
2 to remove the Company’s proposed escalations.
3
4 • Removal of the deferred pension and OPEB costs from rate
5 base for KEDLI, along with the removal of the proposed
6 amortization of the deferral from rate year amortization
7 expense.
8
9 • Removal of prepaid pension and OPEB costs from the
10 working capital included in rate base for both KEDLI and
11 KEDNY.
12
13 • Adjustment to OPEB expense for both KEDLI and KEDNY to
14 reflect the impact of each Company’s January 10, 2007
15 updates.
16
17 • Reduction of OPEB expense for both KEDLI and KEDNY to
18 remove the Company’s proposed escalations.
19
- 20 Q. Please discuss the level of support and detail provided by KEDLI and
21 KEDNY to substantiate their pension and OPEB cost requests.
- 22 A. In general, we were surprised by the lack of detail and support provided by
23 the Companies in the area of pension and OPEB costs, particularly
24 considering the magnitude of the cost increases they propose. Very little
25 detail was provided in the filing and associated workpapers to support the
26 positions the Companies have taken on these costs. Numerous data
27 requests were issued by both the CPB and DPS Staff seeking additional
28 details for both the costs deferred from prior periods for which the
29 Companies are seeking recovery and for the projected future costs, yet
30 very little detail and support was provided in response.

1 Pension and OPEB expenses included in the projected net
2 operating income are not only costs specific to KEDLI and KEDNY, but
3 also substantial amounts allocated to the utilities from the service
4 company or "Servco". In fact, the amounts allocated to KEDLI and
5 KEDNY exceed their direct expense for pensions and OPEBS. While
6 amounts for the direct portion of the pension and OPEB costs could be
7 tied to the actuarial reports, the allocated costs could not. Several data
8 requests, such as CPB-194 and CPB-199, requested that the Company
9 provide references to the actuarial reports on which the OPEB and
10 pension expense was based. The responses provided a citation to the
11 pages for the direct charges, but did not show how the allocated amounts,
12 which exceeded the direct amounts, were derived.

13 The level of allocated costs for which no support was provided is an
14 issue not only for the projected on-going pension and OPEB expense
15 included in the filing, but also for the deferred pension and OPEB costs
16 KEDLI is proposing to amortize in this case. Beginning in 2001, a
17 substantial portion of the amount of pension and OPEB costs that were
18 deferred by KEDLI pertained to allocated costs. In response to CPB-118,
19 the Company provided citations to pages in past actuarial reports in
20 support of the direct pension and OPEB costs but did not provide support

1 or information to tie the very substantial allocated costs to the actuarial
2 reports, nor was any other support provided for those amounts.

3

4 Q. How did KEDLI and KEDNY project the rate year amount for pension and
5 OPEB expense in their filings?

6 A. In general, each of the Companies started with the direct pension and
7 OPEB costs derived from the 2005 actuarial reports and removed the
8 portion that was capitalized to arrive at direct O&M expense. The
9 Companies then added the corporate allocated O&M costs, utility
10 allocated O&M costs and engineering allocated O&M costs, resulting in
11 total Servco allocated O&M that was added to the direct O&M cost. As
12 previously indicated, the allocated O&M pension and OPEB costs
13 exceeded the direct costs. The resulting amounts were then increased by
14 a composite labor escalator of 3.8% annually to derive a projected rate
15 year amount.

16

17 Q. Did the companies update the amounts based on the 2006 actuarial
18 reports?

19 A. Yes. On January 10, 2007, the Companies updated their projected
20 pension and OPEB expense to reflect the results of the 2006 actuarial
21 reports which became available in August 2006. Based on that update,

1 KEDLI and KEDNY reduced their projected rate year pension expenses by
2 \$2,041,000 and \$4,131,000 respectively, and their projected rate year
3 OPEB expense by \$1,399,000 and \$4,748,000. We have reflected these
4 updates on Summary Schedule 1.

5

6 Q. Since you have reflected the update on your summary schedule, does this
7 mean you are in agreement with the updated pension and OPEB expense
8 amounts?

9 A. No, additional adjustments to the updated amounts are needed.
10 Specifically, the amount included for the amortization of past actuarial
11 losses that will expire prior to the rate year should be removed, as should
12 the escalations based on the composite labor increases. Additional
13 adjustments are needed as well, but we do not have the level of detail and
14 information necessary to quantify them precisely. We can only identify
15 them.

16 Under FAS 87, the amortization of past actuarial gains and losses
17 is included in pension and OPEB expense calculations. New York PSC
18 policy requires that this amortization be taken over a ten year period. Test
19 year pension and OPEB expense for KEDLI includes past losses that will
20 be fully amortized prior to the beginning of the rate year. These amounts
21 should be removed from rates. KEDLI and KEDNY will also have realized

1 an actuarial gain or loss on the pension and OPEB plan results during
2 2006 that will be amortized in the rate year and subsequent years, but
3 information regarding the amount of this amortization has not been
4 provided by the Company.

5 KEDLI falls under the Long Island retirement income plan in the
6 actuarial reports. On Schedule 10, we removed the portion of the net
7 unrecognized loss amortization included in direct pension calculations that
8 will expire prior to the start of the rate year. This is 19.2 % of the net loss
9 amortization. Unfortunately the Company has not provided the level of
10 detail needed to determine the reduction that is necessary to the allocated
11 pension costs as such employees would fall under several different
12 pension plans instead of just the Long Island retirement income plan.
13 Consequently, on Schedule 10, we applied the 12.6% overall percentage
14 reduction we are recommending for KEDLI direct pension costs to costs
15 allocated to KEDLI in the updated filing. As shown on Schedule 10, these
16 adjustments result in a revised KEDLI rate year pension expense of
17 \$8,445,000. This is \$1,639,000 less than the Company's updated KEDLI
18 pension expense. In deriving our adjustment, we excluded the Company's
19 escalation factor.

20

1 Q. Why did you exclude the escalation factor in determining the projected
2 rate year pension costs?

3 A. Pension and OPEB costs are affected by numerous factors and are based
4 on complex actuarial calculations that take those factors into
5 consideration. While an assumption for general wage increases is
6 considered in the pension actuarial calculations, it is but one of many
7 components and assumptions used. Pension and OPEB expense do not
8 increase in direct relation to labor cost escalations. The Company has
9 presented absolutely no evidence or persuasive information showing that
10 its application of a general labor escalation rate to pension and OPEB
11 costs will be predictive of rate year pension and OPEB levels. In fact, the
12 Company's update to pension and OPEB costs has resulted in fairly
13 substantial reductions, not increases, based on more recent actuarial
14 reports. If anything, the actuarial reports show that some of the
15 amortization of past actuarial losses will be dropping off, resulting in
16 decreases in the amortization component of the pension and OPEB
17 expense calculations.

18

19 Q. Have you also adjusted the KEDNY pension expense?

20 A. Yes. Our recommended adjustment to the updated KEDNY pension
21 expense is reflected on Schedule 11. The 2006 pension actuarial report

1 reflects no amortization of actuarial gains and losses for the KeySpan
2 Retirement Plan (New York plan) from periods prior to 1999; thus, there
3 are no amortizations that will be complete prior to the rate year for that
4 plan. However, the Company did not provide the detail needed to
5 determine the amount of amortization of actuarial gains and losses that
6 will expire prior to the beginning of the rate year that are included in
7 pension expense allocated to KEDNY from other entities. For estimation
8 purposes, we reduced the pension costs allocated to KEDNY by the same
9 percentage that we reduced the pension costs that were allocated to
10 KEDLI. As shown on Schedule 11, we recommend that the updated
11 KEDNY pension expense for the rate year be reduced by \$1,827,000. As
12 previously discussed, this also includes the exclusion of the Company's
13 proposed application of the composite labor escalation factor.

14

15 Q. Did you adjust OPEB expense for KEDLI and KEDNY to remove the
16 impact of the amortizations of the unrecognized gains/losses that will be
17 fully amortized prior to the start of the rate year?

18 A. No, we did not have the level of detail needed to do this. According to the
19 OPEB actuarial report provided by the Companies, the total Long Island
20 prefunded union OPEB plan expense includes \$31,429,664 of
21 amortization of net unrecognized losses, of which \$2,297,825 or 7.3% will

1 expire prior to the start of the rate year. The total Long Island prefunded
2 management plan includes \$16,056,543 of amortization of net
3 unrecognized losses, of which \$1,398,699 or 8.7% will expire prior to the
4 start of the rate year. These amounts are for the total Long Island plans,
5 of which KEDLI would only receive a portion. The New York prefunded
6 plans did not include amortization of amounts for years prior to 1999, thus
7 none of those amortizations will be expiring. Unfortunately, the OPEB
8 actuarial reports, while providing the total direct OPEB expense for KEDLI
9 and KEDNY, did not include a breakdown of the expense identifying the
10 amount included associated with the amortization of net unrecognized
11 losses. Thus, we are unable to estimate the impact of the expiration of
12 some of the amortizations on the OPEB expense included in the filing.
13 Additionally, as previously mentioned, no information was provided to
14 show how the allocated OPEB costs included in the filing were determined
15 or to tie those amounts to the actuarial report.

16

17 Q. Consistent with your adjustment to pension expense, have you made an
18 adjustment to remove the escalation of the OPEB costs included in the
19 update?

20 A. Yes. Based on updated Exhibits__ (PJM-5), Schedule 20 for both KEDLI
21 and KEDNY, the Company included \$514,000 for the escalation of KEDLI

1 OPEB expense and \$784,000 for the escalation of KEDNY OPEB
2 expense. We have removed these amounts in our summary schedule for
3 the same reasons addressed above in our pension expense discussion.

4

5 Q. Are KEDLI and KEDNY on the pension and OPEB policy statement?

6 A. KEDLI has been operating under the pension and OPEB policy statement;
7 but KEDNY elected not to do so. KEDNY is now requesting to move to
8 the policy statement on a going forward basis.

9

10 Q. What amount has KEDLI included in its filing associated with its deferral of
11 past pension and OPEB costs under the commission's pension and OPEB
12 policy?

13 A. In its initial filing, KEDLI included \$61,309,000 in rate base for deferred
14 pension and OPEB costs. This amount was reduced to \$57,459,000 in its
15 January 10, 2007 update. Also included in the initial filing was a
16 \$9,640,000 expense for amortization of the deferral over a seven year
17 period.

18

19 Q. Has KEDLI provided a reasonable level of support for the amounts it has
20 deferred?

1 A. No, it has not. In addition to failing to provide a reasonable level of
2 support for the substantial amounts it has deferred and for which it is
3 requesting recovery, it does not appear from the limited information
4 provided that the Company is in compliance with the Commission's
5 Pension and OPEB policy statement or the Settlement in Case 97-M-
6 0567. Data request CPB-118(c) asked KEDLI to show the calculation of
7 each deferral of pension and OPEBs by year since the Company adopted
8 the Commission's OPEB and pension methodology. In response, the
9 Company provided limited information for the years 2000 through 2005,
10 but no information for prior years. The deferral requested by KEDLI
11 includes amounts that were accumulated prior to 2000.

12 For KEDLI, the Company provided citations to the various annual
13 actuarial reports of direct pension and OPEB expense included in the
14 calculations of the deferrals for 2000 through 2005, but included in the
15 deferrals are substantial amounts for allocated expenses that begin in
16 2001. No information has been provided showing how the allocated
17 amounts were derived. Additionally, according to a workpaper provided
18 for Exhibit__(PJM-3) in support of the pension and OPEB deferral, there
19 were prior period adjustments and reversals of true-ups made in 2002 for
20 which no support or information was provided.

21

1 Q. Beyond the lack of support, are there any additional concerns with the
2 minimal calculations provided in support of the deferrals?

3 A. Yes. The limited calculations provided in response to CPB-118 show
4 amounts identified as "Rate Allowance" used in calculating the deferrals.
5 However, the amounts identified as rate allowance for pensions and
6 OPEBs differ from the amounts included in KEDLI's base rates as a result
7 of the Settlement in Case 97-M-0567. That settlement specifically
8 required that for the year ended November 30, 2000 and subsequent
9 years, the pension and OPEB expense allocable to LILCO's gas
10 operations (now KEDLI) included in base rates would be \$5.441 million.
11 The settlement agreement also indicated that if in any rate year the actual
12 level of pension and OPEB expense differs from the forecast expense
13 level by more than "...an amount that equals three percent (3%) of
14 LILCO's pretax net income from its gas operations for such year, LILCO
15 will defer the amount equal to the entire difference." The amounts in the
16 calculations presented by KEDLI in this case as included in base rates
17 differ from the amounts identified in the settlement and there is no
18 indication whether or not a calculation was performed to ensure that
19 amounts were only deferred when the amount above the settlement
20 agreement exceeded three percent of the Company's pretax net income.

21

1 Q. What is your recommendation with regards to the deferred pension and
2 OPEB costs and related amortization requested by the KEDLI?

3 A. We recommend that deferral be excluded from rate base and the
4 amortization of the deferral be denied. The Company has not met a
5 reasonable burden of proof in regard to the costs it has deferred and has
6 not demonstrated that the deferrals were calculated in compliance with the
7 Commission's policy statement and the Settlement Agreement in Case 97-
8 M-0567. Based on the rate of return included in KEDLI's updated filing,
9 the removal of the \$61,309,000 deferral balance from projected rate year
10 rate base results in a \$9.640 million reduction to revenue requirement.
11 Removal of the amortization from expense reduces operating expenses by
12 \$6,829,000.

13

14 Q. Should KEDNY be permitted to move to the pension and OPEB policy
15 statement at this time?

16 A. No, it should not. During the years 1999 through 2002, KEDNY had
17 pension income on its books. In other words, pension expense for the
18 period was negative. During that same period, KEDNY recorded positive
19 OPEB expense; but the net impact for pensions and OPEBs was negative.
20 In response to DPS-72, KEDNY provided a schedule comparing pension
21 and OPEB expense incurred versus the amount included in rates. Based

1 on the response, for the period 1999 through 2005, the net result was that
2 KEDNY collected \$38,830,850 more in rates than the actuarially
3 determined expense. After 2006 expense is considered, the result will
4 remain an over-recovery compared to what KEDNY would have
5 recognized had it been operating under the policy statement during the
6 period. Clearly, KEDNY benefited from its decision not to be on the
7 pension and OPEB policy statement.

8 Now that pension and OPEB costs have been increasing for
9 KEDNY, and it has net unrealized losses incurred while it was not on the
10 policy statement that will be amortized into pension and OPEB expense
11 over a number of years, it is seeking to lock in its previous gains by
12 moving to the policy statement.

13

14 Q. Do you recommend the prepaid pension and OPEB costs be removed
15 from rate base?

16 A. Yes. KEDLI included \$16,061,000 of prepaid pension costs in rate base
17 and KEDNY included \$88,974,000. On Summary Schedule 1, we
18 removed the revenue requirement impact of these rate base items based
19 on the rate of return reflected in the update filings. As shown on the
20 schedule, removal of these items from rate base results in a \$12,756,000

1 reduction to KEDNY revenue requirement and a \$2,525,000 reduction for
2 KEDLI.

3 The Companies contend in direct testimony filed by Joseph
4 Bodanza that the prepaid pension balances exist because the Companies
5 have made cash contributions to its pension funds in excess of the
6 pension expense level. He says this pre-funding or prepayment is cash
7 that has been provided from Company funds through borrowings from
8 financial institutions and/or advances from the Company's shareholders.
9 This is incorrect. A prepaid pension asset arises in a period when net
10 pension cost is less than plan contributions. During the period 1999
11 through 2002, KEDNY had a negative pension expense on its books. In
12 other words, in each of those periods pension income was realized. Even
13 if nothing were contributed by the Company, a prepaid pension asset
14 would still have arisen. The response to DPS-34 shows that, in fact,
15 nothing was contributed to the KeySpan New York pension plan from
16 1997 through 2003, or in 2005, but a prepaid pension asset was created
17 on the books.

18 KEDLI also had a negative pension expense, or pension income, in
19 2000 and 2001. The prepaid pension asset should not be reflected as an
20 increase in rate base for purposes of determining revenue requirement.

21

1 **SERVICE COMPANY COST ALLOCATIONS**

2 Q. Have you been able to fully evaluate the costs being directly charged and
3 allocated to KEDNY and KEDLI from the KeySpan service companies?

4 A. No, we have not. A large portion of the costs on KEDNY and KEDLI's
5 books that are included in the filing are charged and allocated from
6 various KeySpan Service Companies. For the most part, when we asked
7 for detail as to how various adjustments contained in the filing were
8 derived, the Company provided little or nothing for adjustments associated
9 with charges from the Service Companies. These charges make up a
10 significant portion of KEDNY and KEDLI's costs that are included in rates,
11 yet very little information and support was provided in the filings.

12

13 Q. Do you recommend that a review of the service company costs be
14 conducted?

15 A. Yes. In order for the costs and allocation methodologies to be adequately
16 evaluated and addressed, a full audit or detailed review should be
17 undertaken. This is, however, a very time consuming task for which
18 adequate time and resources are normally not available in the context of a
19 general rate proceeding. Consequently, we recommend that the
20 Commission order in its decision in these cases a detailed review of the
21 various KeySpan Service Company costs and allocation methodologies.

1 The goal of the detailed reviews would be to ensure that inappropriate
2 costs are not being allocated down to the operating companies and
3 passed on to ratepayers and to ensure that the allocation methods and
4 procedures being used are reasonable and reflective of cost causation
5 principles. This issue is discussed further in the testimony of CPB witness
6 Douglas W. Elfner.

7

8 Q. Does this complete your prefiled testimony?

9 A. Yes, it does.

ATTACHMENTS

ATTACHMENT I
QUALIFICATIONS OF HUGH LARKIN, JR., CPA

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army. In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

| | |
|-------------------------|---|
| U-3749 | Consumers Power Company - Electric Michigan Public Service Commission |
| U-391 | Detroit Edison Company Michigan Public Service Commission |
| U-4331 | Consumers Power Company - Gas Michigan Public Service Commission |
| U-4332 | Consumers Power Company - Electric Michigan Public Service Commission |
| U-4293 | Michigan Bell Telephone Company Michigan Public Service Commission |
| U-4498 | Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission |
| U-4576 | Consumers Power Company - Electric Michigan Public Service Commission |
| U-4575 | Michigan Bell Telephone Company Michigan Public Service Commission |
| U-4331R | Consumers Power Company - Gas - Rehearing Michigan Public Service Commission |
| 6813 | Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland |
| Formal Case No. 2090 | New England Telephone and Telegraph Co. State of Maine Public Utilities Commission |
| Dockets 574, 575, 576 | Sierra Pacific Power Company, |

| | |
|-------------------------------------|--|
| | Public Service Commission, State of Nevada |
| U-5131 | Michigan Power Company Michigan Public Service Commission |
| U-5125 | Michigan Bell Telephone Company Michigan Public Service Commission |
| R-4840 & U-4621 | Consumers Power Company Michigan Public Service Commission |
| U-4835 | Hickory Telephone Company Michigan Public Service Commission |
| 36626 | Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada |
| American Arbitration Association | City of Wyoming v. General Electric Cable TV |
| 760842-TP | Southern Bell Telephone and Telegraph Company, Florida Public Service Commission |
| U-5331 | Consumers Power Company Michigan Public Service Commission |
| U-5125R | Michigan Bell Telephone Company Michigan Public Service Commission |
| 770491-TP | Winter Park Telephone Company, Florida Public Service Commission |
| 77-554-EL-AIR | Ohio Edison Co., Public Utility Commission of Ohio |
| 78-284-EL-AEM | Dayton Power and Light Co., Public Utility Commission of Ohio |
| 0R78-1 | Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC) |
| 78-622-EL-FAC | Ohio Edison Co., Public Utility Commission of Ohio |

| | |
|--------------------------|---|
| U-5732 | Consumers Power Company - Gas, Michigan Public Service Commission |
| 77-1249-EL-AIR, et al | Ohio Edison Co., Public Utility Commission of Ohio |
| 78-677-EL-AIR | Cleveland Electric Illuminating Co., Public Utility Commission of Ohio |
| U-5979 | Consumers Power Company, Michigan Public Service Commission |
| 790084-TP | General Telephone Company of Florida, Florida Public Service Commission |
| 79-11-EL-AIR | Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio |
| 790316-WS | Jacksonville Suburban Utilities Corp., Florida Public Service Commission |
| 790317-WS | Southern Utility Company, Florida Public Service Commission |
| U-1345 | Arizona Public Service Company, Arizona Corporation Commission |
| 79-537-EL-AIR | Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio |
| 800011-EU | Tampa Electric Company, Florida Public Service Commission |
| 800001-EU | Gulf Power Company, Florida Public Service Commission |
| U-5979-R | Consumers Power Company, Michigan Public Service Commission |
| 800119-EU | Florida Power Corporation, Florida Public Service Commission |
| 810035-TP | Southern Bell Telephone and Telegraph Company, Florida Public Service Commission |

| | |
|-----------------|---|
| 800367-WS | General Development Utilities, Inc., Port Malabar, Florida Public Service Commission |
| TR-81-208** | Southwestern Bell Telephone Company, Missouri Public Service Commission |
| 810095-TP | General Telephone Company of Florida, Florida Public Service Commission |
| U-6794 | Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission |
| U-6798 | Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission |
| 0136-EU | Gulf Power Company, Florida Public Service Commission |
| E-002/GR-81-342 | Northern State Power Company Minnesota Public Utilities Commission |
| 820001-EU | General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission |
| 810210-TP | Florida Telephone Corporation, Florida Public Service Commission |
| 810211-TP | United Telephone Co. of Florida, Florida Public Service Commission |
| 810251-TP | Quincy Telephone Company, Florida Public Service Commission |
| 810252-TP | Orange City Telephone Company, Florida Public Service Commission |
| 8400 | East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission |
| U-6949 | Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission |
| 18328 | Alabama Gas Corporation, Alabama Public Service Commission |

| | |
|--------------|---|
| U-6949 | Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission |
| 820007-EU | Tampa Electric Company, Florida Public Service Commission |
| 820097-EU | Florida Power & Light Company, Florida Public Service Commission |
| 820150-EU | Gulf Power Company, Florida Public Service Commission |
| 18416 | Alabama Power Company, Public Service Commission of Alabama |
| 820100-EU | Florida Power Corporation, Florida Public Service Commission |
| U-7236 | Detroit Edison-Burlington Northern Refund Michigan Public Service Commission |
| U-6633-R | Detroit Edison - MRCS Program, Michigan Public Service Commission |
| U-6797-R | Consumers Power Company - MRCS Program, Michigan Public Service Commission |
| 82-267-EFC | Dayton Power & Light Company, Public Utility Commission of Ohio |
| U-5510-R | Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission |
| 82-240-E | South Carolina Electric & Gas Company, South Carolina Public Service Commission |
| 8624 8625 | Kentucky Utilities, Kentucky Public Service Commission |
| 8648 | East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission |
| U-7065 | The Detroit Edison Company (Fermi II) Michigan Public Service Commission |

| | |
|---------------|--|
| U-7350 | Generic Working Capital Requirements, Michigan Public Service Commission |
| 820294-TP | Southern Bell Telephone Company, Florida Public Service Commission |
| Order RH-1-83 | Westcoast Gas Transmission Company,Ltd., Canadian National Energy Board |
| 8738 | Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission |
| 82-168-EL-EFC | Cleveland Electric Illuminating Company, Public Utility Commission of Ohio |
| 6714 | Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission |
| 82-165-EL-EFC | Toledo Edison Company, Public Utility Commission of Ohio |
| 830012-EU | Tampa Electric Company, Florida Public Service Commission |
| ER-83-206** | Arkansas Power & Light Company, Missouri Public Service Commission |
| U-4758 | The Detroit Edison Company (Refunds), Michigan Public Service Commission |
| 8836 | Kentucky American Water Company, Kentucky Public Service Commission |
| 8839 | Western Kentucky Gas Company, Kentucky Public Service Commission |
| 83-07-15 | Connecticut Light & Power Company, Department of Utility Control State of Connecticut |
| 81-0485-WS | Palm Coast Utility Corporation, Florida Public Service Commission |
| U-7650 | Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission |

| | |
|------------------|--|
| 83-662** | Continental Telephone Company, Nevada Public Service Commission |
| U-7650 | Consumers Power Company – Final Michigan Public Service Commission |
| U-6488-R | Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission |
| Docket No. 15684 | Louisiana Power & Light Company, Public Service Commission of the State of Louisiana |
| U-7650 | Consumers Power Company (Reopened Reopened Hearings) Michigan Public Service Commission |
| 38-1039** | CP National Telephone Corporation Nevada Public Service Commission |
| 83-1226 | Sierra Pacific Power Company (Re application to form holding company) Nevada Public Service Commission |
| U-7395 & U-7397 | Campaign Ballot Proposals Michigan Public Service Commission |
| 820013-WS | Seacoast Utilities Florida Public Service Commission |
| U-7660 | Detroit Edison Company Michigan Public Service Commission |
| U-7802 | Michigan Gas Utilities Company Michigan Public Service Commission |
| 830465-EI | Florida Power & Light Company Florida Public Service Commission |
| U-7777 | Michigan Consolidated Gas Company Michigan Public Service Commission |
| U-7779 | Consumers Power Company Michigan Public Service Commission |

| | |
|----------|---|
| U-7480-R | Michigan Consolidated Gas Company Michigan Public Service Commission |
| U-7488-R | Consumers Power Company – Gas Michigan Public Service Commission |
| U-7484-R | Michigan Gas Utilities Company Michigan Public Service Commission |
| U-7550-R | Detroit Edison Company Michigan Public Service Commission |
| U-7477-R | Indiana & Michigan Electric Company Michigan Public Service Commission |
| U-7512-R | Consumers Power Company – Electric Michigan Public Service Commission |
| 18978 | Continental Telephone Company of the South - Alabama, Alabama Public Service Commission |
| 9003 | Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission |
| R-842583 | Duquesne Light Company Pennsylvania Public Utility Commission |
| 9006* | Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing |
| U-7830 | Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission |
| 7675 | Consumers Power Company - Customer Refunds Michigan Public Service Commission |
| 5779 | Houston Lighting & Power Company Texas Public Utility Commission |
| U-7830 | Consumers Power Company - Electric – "Financial Stabilization" Michigan Public Service Commission |

| | |
|-----------------------------|---|
| U-4620 | Mississippi Power & Light Company (Interim) Mississippi Public Service Commission |
| U-16091 | Louisiana Power & Light Company Louisiana Public Service Commission |
| 9163 | Big Rivers Electric Corporation Kentucky Public Service Commission |
| U-7830 | Consumers Power Company - Electric - (Final) Michigan Public Service Commission |
| U-4620 | Mississippi Power & Light Company - (Final) Mississippi Public Service Commission |
| 76-18788AA & 76-18788AA | Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission |
| U-6633-R | Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission |
| 19297 | Continental Telephone Company of the South - Alabama, Alabama Public Service Commission |
| 9283 | Kentucky American Water Company Kentucky Public Service Commission |
| 850050-EI | Tampa Electric Company Florida Public Service Commission |
| R-850021 | Duquesne Light Company Pennsylvania Public Service Commission |
| TR-85-179** | United Telephone Company of Missouri Missouri Public Service Commission |
| 6350 | El Paso Electric Company The Public Utility Board of the City of El Paso |
| 6350 | El Paso Electric Company Public Utility Commission of Texas |
| 85-53476AA & 85-534855AA | Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court |

| | |
|---------------------------------|--|
| | Michigan Public Service Commission |
| U-8091/ U-8239 | Consumers Power Company-Gas Michigan Public Service Commission |
| 9230 | Leslie County Telephone Company, Inc. Kentucky Public Service Commission |
| 85-212 | Central Maine Power Company Maine Public Service Commission |
| 850782-EI & 850783-EI | Florida Power & Light Company Florida Public Service Commission |
| ER-85646001 & ER-85647001 | New England Power Company Federal Energy Regulatory Commission |
| Civil Action * No. 2:85-0652 | Allegheny & Western Energy Corporation, Plaintiff, - against – The Columbia Gas System, Inc. Defendant |
| Docket No. 850031-WS | Orange Osceola Utilities, Inc. Before the Florida Public Service Commission |
| Docket No. 840419-SU | Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission |
| R-860378 | Duquesne Light Company Pennsylvania Public Service Commission |
| R-850267 | Pennsylvania Power Company Pennsylvania Public Service Commission |
| R-860378 | Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission |
| Docket No. 850151 | Marco Island Utility Company Before the Florida Public Service Commission |
| Docket No. 7195 (Interim) | Gulf States Utilities Company Public Utility Commission of Texas |
| R-850267 Reopened | Pennsylvania Power Company Pennsylvania Public Service Commission |

| | |
|---------------------------|--|
| Docket No. 87-01-03 | Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control |
| Docket No. 5740 | Hawaiian Electric Company Hawaii Public Utilities Commission |
| 1345-85-367 | Arizona Public Service Company Arizona Corporation Commission |
| Docket 011 | Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission |
| Case No. 29484 | Long Island Lighting Company New York Department of Public Service |
| Docket No. 7460 | El Paso Electric Company Public Utility Commission of Texas |
| Docket No. 870092-WS* | Citrus Springs Utilities Before the Florida Public Service Commission |
| Case No. 9892 | Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative – Defendants Before the Kentucky Public Service Commission |
| Docket No. 3673-U | Georgia Power Company Before the Georgia Public Service Commission |
| Docket No. U-8747 | Anchorage Water and Wastewater Utility Report on Management Audit |
| Docket No. 861564-WS | Century Utilities Before the Florida Public Service Commission |
| Docket No. FA86-19-001 | Systems Energy Resources, Inc. Federal Energy Regulatory Commission |
| Docket No. | AT&T Communications of the Southern States, 870347-TI Inc. Florida Public Service Commission |
| Docket No. 870980-WS | St. Augustine Shores Utilities Inc. Florida Public Service Commission |

| | |
|---|--|
| Docket No. 870654-WS* | North Naples Utilities, Inc. Florida Public Service Commission |
| Docket No. 870853 | Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission |
| Civil Action* No. 87-0446-R | Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia - Richmond Division |
| Docket No. E-2, Sub 537 | Carolina Power & Light Company North Carolina Utilities Commission |
| Case No. U-7830 | Consumers Power Company - Step 2 Reopened Michigan Public Service Commission |
| Docket No. 880069-TL | Southern Bell Telephone & Telegraph Florida Public Service Commission |
| Case No. U-7830 | Consumers Power Company - Step 3B Michigan Public Service Commission |
| Docket No. 880355-EI | Florida Power & Light Company Florida Public Service Commission |
| Docket No. 880360-EI | Gulf Power Company Florida Public Service Commission |
| Docket No. FA86-19-002 | System Energy Resources, Inc. Federal Energy Regulatory Commission |
| Docket Nos. 83-0537-Remand & 84-0555-Remand | Commonwealth Edison Company Illinois Commerce Commission |
| Docket Nos. 83-0537 Remand & 84-0555 Remand | Commonwealth Edison Company Surrebuttal Illinois Commerce Commission |
| Docket No. 880537-SU | Key Haven Utility Corporation Florida Public Service Commission |

| | |
|----------------------------|--|
| Docket No. 881167-EI*** | Gulf Power Company Florida Public Service Commission |
| Docket No. 881503-WS | Poinciana Utilities, Inc. Florida Public Service Commission |
| Cause No. U-89-2688-T | Puget Sound Power & Light Company Washington Utilities & Transportation Committee |
| Docket No. 89-68 | Central Maine Power Company Maine Public Utilities Commission |
| Docket No. 861190-PU | Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission |
| Docket No. 89-08-11 | The United Illuminating Company State of Connecticut, Department of Public Utility Control |
| Docket No. R-891364 | The Philadelphia Electric Company Pennsylvania Public Utility Commission |
| Formal Case No. 889 | Potomac Electric Power Company Public Service Company of the District of Columbia |
| Case No. 88/546* | Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York) |
| Case No. 87-11628* | Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division) |
| Case No. 89-640-G-42T* | Mountaineer Gas Company West Virginia Public Service Commission |
| Docket No. 890319-EI | Florida Power & Light Company Florida Public Service Commission |
| Docket No. EM-89110888 | Jersey Central Power & Light Company Board of Public Utilities Commissioners |
| Docket No. 891345-EI | Gulf Power Company Florida Public Service Commission |

| | |
|---|---|
| BPU Docket No. ER 8811 0912J | Jersey Central Power & Light Company Board of Public Utilities Commissioners |
| Docket No. 6531 | Hawaiian Electric Company Hawaii Public Utilities Commissioners |
| Docket No. 890509-WU | Florida Cities Water Company, Golden Gate Division Florida Public Service Commission |
| Docket No. 880069-TL | Southern Bell Telephone Company Florida Public Service Commission |
| Docket Nos. F-3848, F-3849, and F-3850 | Northwestern Bell Telephone Company South Dakota Public Utilities Commission |
| Docket Nos. ER89-* 678-000 & EL90-16-000 | System Energy Resources, Inc. Federal Energy Regulatory Commission |
| Docket No. 5428 | Green Mountain Power Corporation Vermont Department of Public Service |
| Docket No. 90-10 | Artesian Water Company, Inc. Delaware Public Service Commission |
| Case No. 90-243-E-42T* | Wheeling Power Company West Virginia Public Service Commission |
| Docket No. 900329-WS | Southern States Utilities, Inc. Florida Public Service Commission |
| Docket Nos. ER89-* 678-000 & EL90-16-000 | System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission |
| Application No. 90-12-018 | Southern California Edison Company California Public Utilities Commission |
| Docket No. 90-0127 | Central Illinois Lighting Company Illinois Commerce Commission |
| Docket No. FA-89-28-000 | System Energy Resources, Inc. Federal Energy Regulatory Commission |
| Docket No. U-1551-90-322 | Southwest Gas Corporation Before the Arizona Corporation Commission |

| | |
|--------------------------------------|---|
| Docket No. R-911966 | Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission |
| Docket No. 176-717-U | United Cities Gas Company Kansas Corporation Commission |
| Docket No. 860001-EI-G | Florida Power Corporation Florida Public Service Commission |
| Docket No. 6720-TI-102 | Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board |
| (No Docket No.) | Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso |
| Docket No. 6998 | Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii |
| Docket No. TC91-040A | In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota |
| Docket Nos. 911030-WS & 911067-WS | General Development Utilities, Inc. Before the Florida Public Service Commission |
| Docket No. 910890-EI | Florida Power Corporation Before the Florida Public Service Commission |
| Docket No. 910890-EI | Florida Power Corporation, Supplemental Before the Florida Public Service Commission |
| Case No. 3L-74159 | Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division |
| Cause No. 39353* | Indiana Gas Company Before the Indiana Utility Regulatory Commission |
| Docket No. 90-0169 (Remand) | Commonwealth Edison Company Before the Illinois Commerce Commission |

| | |
|---|--|
| Docket No. 92-06-05 | The United Illuminating Company State of Connecticut, Department of Public Utility Control |
| Cause No. 39498 | PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission |
| Cause No. 39498 | PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission |
| Docket No. 7287 | Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii |
| Docket No. 92-227-TC | US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico |
| Docket No. 92-47 | Diamond State Telephone Company Before the Public Service Commission of the State of Delaware |
| Docket Nos. 920733-WS & 920734-WS | General Development Utilities, Inc. Before the Florida Public Service Commission |
| Docket No. 92-11-11 | Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control |
| Docket Nos. EC92-21-000 & ER92-806-000 | Entergy Corporation Before the Federal Energy Regulatory Commission |
| Docket No. 930405-EI | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. UE-92-1262 | Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission |
| Docket No. 93-02-04 | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |

| | |
|--|--|
| Docket No. 93-02-04 | Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control |
| Docket No. 93-057-01 | Mountain Fuel Supply Company Before the Utah Public Service Commission |
| Cause No. 39353 (Phase II) | Indiana Gas Company Before the Indiana Utility Regulatory Commission |
| PU-314-92-1060 | US West Communications, Inc. Before the North Dakota Public Service Commission |
| Cause No. 39713 | Indianapolis Water Company Before the Indiana Utility Regulatory Commission |
| 93-UA-0301* | Mississippi Power & Light Company Before the Mississippi Public Service Commission |
| Docket No. 93-08-06 | SNET America, Inc. State of Connecticut, Department of Public Utility Control |
| Docket No. 93-057-01 | Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission |
| Case No. 78-T119-0013-94 | Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association |
| Application No. 93-12-025 - Phase I | Southern California Edison Company Before the California Public Utilities Commission |
| Case No. 94-0027-E-42T | Potomac Edison Company Before the Public Service Commission of West Virginia |
| Case No. 94-0035-E-42T | Monongahela Power Company Before the Public Service Commission of West Virginia |
| Docket No. 930204-WS** | Jacksonville Suburban Utilities Corporation Before the Florida Public Service Commission |
| Docket No. 5258-U | Southern Bell Telephone and Telegraph Company Before the Georgia Public Service Commission |

| | |
|---|--|
| Case No. 95-0011-G-42T* | Mountaineer Gas Company Before the West Virginia Public Service Commission |
| Case No. 95-0003-G-42T* | Hope Gas, Inc. Before the West Virginia Public Service Commission |
| Docket No. 95-02-07 | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |
| Docket No. 95-057-02* | Mountain Fuel Supply Before the Utah Public Service Commission |
| Docket No. 95-03-01 | Southern New England Telephone Company State of Connecticut, Department of Public Utility Control |
| BRC Docket No. EX93060255 OAL Docket PUC96734-94 | Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities |
| Docket No. U-1933-95-317 | Tucson Electric Power Before the Arizona Corporation Commission |
| Docket No. 950495-WS | Southern States Utilities Before the Florida Public Service Commission |
| Docket No. 960409-EI | Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1 |
| Docket No. 960451-WS | United Water Florida Before the Florida Public Service Commission |
| Docket No. 94-10-05 | Southern New England Telephone Company State of Connecticut Department of Public Utility Control |
| Docket No. 96-UA-389 | Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi |

| | |
|---------------------------------|--|
| Docket No. 970171-EU | Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Power Agency and City of Lakeland by Tampa Electric Company Before the Florida Public Service Commission |
| Case No. PUE960296 * | Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission |
| Docket No. 97-035-01 | PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah |
| Docket No. G-03493A-98-0705* | Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission |
| Docket No. 98-10-07 | United Illuminating Company State of Connecticut Department of Public Utility Control |
| Docket No. 98-10-07 | Connecticut Light & Power Company State of Connecticut Department of Public Utility Control |
| Docket NO. 99-02-05 | Connecticut Light & Power Company State of Connecticut Department of Public Utility Control |
| Docket No. 99-03-36 | Connecticut Light & Power Company State of Connecticut Department of Public Utility Control |
| Docket No. 99-03-35 | United Illuminating Company State of Connecticut Department of Public Utility Control |
| Docket No. 99-03-04 | United Illuminating Company State of Connecticut Department of Public Utility Control |
| Docket No. 99-08-02 | Yankee Energy System, Inc. State of Connecticut Department of Public Utility Control |

| | |
|----------------------------------|---|
| Docket No. 99-08-09 | CTG Resources, Inc. State of Connecticut Department of Public Utility Control |
| Docket No. 99-07-20 | Connecticut Energy Corporation / Energy East State of Connecticut Department of Public Utility Control |
| Docket No. 99-09-03 Phase II | Connecticut Natural Gas State of Connecticut Department of Public Utility Control |
| Docket No. 99-09-03 Phase III | Connecticut Natural Gas State of Connecticut Department of Public Utility Control |
| Docket No. 99-04-18 Phase II | Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control |
| Docket No. 99-057-20* | Questar Gas Company Public Service Commission of Utah |
| Docket No. 99-035-10 | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. T-1051B-99-105 | U.S. West Communications, Inc. Arizona Corporation Commission |
| Docket No. 01-035-10* | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. 991437-WU | Wedgfield Utilities, Inc. Before the Florida Public Service Commission |
| Docket No. 991643-SU | Seven Springs Before the Florida Public Service Commission |
| Docket No. 98P55045 | General Telephone and Electronics of California California Public Utilities Commission |
| Docket No. 00-01-11 | Consolidated Edison, Inc. and Northeast Utilities Merger State of Connecticut Before the Department of Public Utility Control |

| | |
|---|--|
| Docket No. 00-12-01 | Connecticut Light & Power Company State of Connecticut Before the Department of Public Utility Control |
| Docket No. 000737-WS | Aloha Utilities/Seven Springs Utilities Before the Florida Public Service Commission |
| Consolidated Docket Nos. EL00-66-000 ER00-2854-000 EL95-33-000 | Entergy Services, Inc. Before the Federal Energy Regulatory Commission |
| Docket No. 950379-EI | Tampa Electric Company Before the Florida Public Service Commission |
| Docket No. 010503-WU | Aloha Utilities, Inc. – Seven Springs Water Division Before the Florida Public Service Commission |
| Docket No. 01-07-06* | The Towns of Durham and Middlefield State of Connecticut Before the Department of Public Utility Control |
| Docket No. 99-09-12-RE-02 | Connecticut Light & Power/Millstone State of Connecticut Before the Department of Public Utility Control |
| Civil Action No. C2-99-1181 | The United States et al v. Ohio Edison et al U.S. District Court, S.D. Ohio |
| Docket No . 001148-ET**** | Florida Power & Light Company Before the Florida Public Service Commission |
| Civil Action No. 99-833-Per * | The United States et al v. Illinois Power Company U.S. District Court, S.D. Illinois |
| Civil Action No . IP99-1692-C-M/s * | The United States et al v. Southern Indiana Gas and Electric Company U.S. District Court, S.D. Indiana |
| Docket No. 02-057-02* | Questar Gas Company Public Service Commission of Utah |
| Docket No. EL01-88-000 | Entergy Services, Inc. et. al. Mississippi Public Service Commission |

| | |
|--|---|
| Docket No. 9355-U | Georgia Power Company Before the Georgia Public Service Commission |
| Case No. 1016 | Washington Gas Light Company Before the Public Service Commission of the District of Columbia |
| Civil Action Nos. C2 99-1182 C2 99-1250 (Consolidated) | The United States et al v. American Electric Power Company, ET, AL |
| Docket No. 030438-EI * | Florida Public Utilities Company Before the Florida Public Service Commission |
| Docket No. EL01-88-000 | Entergy Services, Inc., et al Before the Federal Energy Regulatory Commission |
| Civil Action No. 1:00 CV1262 | The United States et al v. Duke Energy Company |
| Docket No. 050045-EI * | Florida Power & Light Corporation Before the Florida Public Service Commission |
| Docket No. 050078-EI * | Progress Energy Florida, Inc. Before the Florida Public Service Commission |
| Civil Action No. 1P99-1693 C-M/S | The United States et al. v. Cinergy Corporation, ET AL. |
| Civil Action No. 04-34-KSF | The United States et al. v. East Kentucky Power Cooperative, Inc. ET AL. |
| Case No. 05-0304-G-42T * | Hope Gas, Inc. d/b/a Dominion Hope Consumer Advocate Division of the Public Service Commission of West Virginia |
| Case No. 05-E-1222 | New York State Electric & Gas Corporation Before the New York Public Service Commission |
| Case Nos. 05-E-0934 05-G-0935 | Central Hudson Gas & Electric Corporation Before the New York Public Service Commission |
| Case No. 05-G-1494 | Orange and Rockland Utilities, Inc. Before the New York Public Service Commission |

| | |
|----------------------------------|---|
| Docket No. 060038-EI | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. 060154-EI* | Gulf Power Company Before the Florida Public Service Commission |
| Docket No. 060300-TL | GTC, Inc. d/b/a GT Com Before the Florida Public Service Commission |
| Docket No. U-29203 (Phase II) | Gulf States, Inc. and Entergy Louisiana, Inc. Before the Florida Public Service Commission |

*Case Settled

**Issues Stipulated

***Testimony Withdrawn

****Case Settled, Testimony Not Filed

ATTACHMENT II
QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates, PLLC, since 1991. As a certified public accountant and regulatory consultant with Larkin & Associates, PLLC, my duties have included the analysis of utility rate cases and regulatory issues, researching accounting and regulatory developments, preparation of computer models and spreadsheets, the preparation of testimony and schedules and testifying in regulatory proceedings. I have also developed and conducted five training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Navy assets and one training program on calculating the revenue requirement for municipal owned water and wastewater utilities. A partial listing of cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

| | |
|--------------------------------|--|
| Docket No. 92-06-05 | The United Illuminating Company State of Connecticut, Department of Public Utility Control |
| Docket No. R-00922428 | The Pennsylvania American Water Company Pennsylvania Public Utility Commission |
| Cause No. 39498 | PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission |
| Docket No. 6720-TI-102 | Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board |
| Docket No. 90-1069 (Remand) | Commonwealth Edison, Inc. Before the Illinois Commerce Commission |

| | |
|---|--|
| Docket Nos. 920733-WS & 920734-WS | General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission |
| Case No. PUE910047 | Virginia Electric and Power Company (State Corporation Commission) |
| Docket No. U-1565-91-134 | Sun City Water Company Residential Utility Consumer Office |
| Docket No. 930405-EI | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. UE-92-1262 | Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission |
| Docket No. R-932667 | Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission |
| Docket No. 7700 | Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii |
| Docket No. R-00932670 Case No. 78-T119-0013-94 | Pennsylvania American Water Company Pennsylvania Public Utility Commission Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. |
| Case No. 90-256 | South Central Bell Telephone Company Before the Kentucky Public Service Commission |
| Case No. 94-355 | Cincinnati Bell Telephone Company Before the Kentucky Public Service Commission |
| Docket No. 7766 | Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii |
| Docket No. 2216 | Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission |

| | |
|--|--|
| Docket No. 94-0097 | Citizens Utilities Company, Kauai Electric Division Before the Public Utilities Commission of the State of Hawaii |
| Docket No. 5863* | Central Vermont Public Service Corporation Before the Vermont Public Service Board |
| Docket No. E-1032-95-433 | Citizens Utilities Company - Arizona Electric Division Before the Arizona Corporation Commission |
| Docket No. R-00973947 | United Water Pennsylvania Before the Pennsylvania Public Utilities Commission |
| Docket No. 95-0051 | Hawaiian Storm Damage Reserve Case Before the Public Utilities Commission of the State of Hawaii |
| Application Nos. 96-08-070, 96-08-071, 96-08-072 | Pacific Gas & Electric Company, Southern California Edison Company & San Diego Gas & Electric Co.; Phases I & II; Before the California Public Utilities Commission |
| Docket No. E-1072-97-067 | Southwestern Telephone Company Before the Arizona Corporation Commission |
| Docket No. 920260-TL | BellSouth Telecommunications Inc. - Florida On Behalf of the Florida Office of Public Counsel |
| Docket No. R-00973953 | PECO Energy Company Before the Pennsylvania Public Utilities Commission |
| Docket No. 5983 | Green Mountain Power Corporation Before the Vermont Public Service Board |
| Case No. PUE-9602096 | Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission |
| Docket No. 97-035-01 | PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah |
| Docket No. G-34930705 | Black Mountain Gas Division - Northern States Power Before the Arizona Corporation Commission |
| Docket No. T-01051B-99-105* | US West/Qwest Corporation Before the Arizona Corporation Commission |

| | |
|------------------------------------|---|
| Docket No. 98-10-019 | Verizon Audit Report on Behalf of California Office of Ratepayers Advocates |
| Docket No. 991437-WU* | Wedgfield Utilities, Inc. Before the Florida Public Service Commission |
| Docket No. 99-057-20* | Questar Gas Company Before the Utah Public Service Commission |
| Docket No. 6596 | Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board |
| Docket No. ER02080614 | Rockland Electric Company Before the New Jersey Board of Public Service |
| Docket No. 5841/5859 | Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board |
| Formal Case No. 1016 | Washington Gas Light Company Before the Public Service Commission of the District of Columbia |
| Application No. 02-12-028 | San Diego Gas & Electric Company Before the California Public Utilities Commission |
| Docket No. 03-2035-02** | PacifiCorp - Utah Operations Before the Public Service Commission of Utah |
| Docket No. 2004-0007- 0011-0001 | Intercoastal Utilities, Inc. Before the St. Johns County Water & Sewer Authority |

Submitted Testimony in the Following Cases

| | |
|---------------------|--|
| Docket No. 92-11-11 | Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control |
| Docket No. 93-02-04 | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |

| | |
|---------------------------------|--|
| Docket No. 95-02-07 | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |
| Case No. 94-0035-E-42T | Monongahela Power Company Before the Public Service Commission of West Virginia |
| Case No. 94-0027-E-42T | Potomac Edison Company Before the Public Service Commission of West Virginia |
| Case No. 95-0003-G-42T* | Hope Gas, Inc. Before the West Virginia Public Service Commission |
| Case No. 95-0011-G-42T* | Mountaineer Gas Company Before the West Virginia Public Service Commission |
| Docket No. 950495-WS | Southern States Utilities Before the Florida Public Service Commission |
| Docket No. 960451-WS | United Water Florida Before the Florida Public Service Commission |
| Docket No. 5859 | Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board |
| Docket No. 97-12-21 | Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control |
| Docket No. 98-01-02 | Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control |
| Docket No. 98-07-006 | San Diego Gas and Electric Company Public Utilities Commission of the State of California |
| Docket No. 99-04-18 Phase I | Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control |
| Docket No. 99-04-18 Phase II | Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control |

| | |
|--|--|
| Docket No. 99-09-03 Phase I | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |
| Docket No. 99-09-03 Phase II | Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control |
| Docket No. 99-035-10 | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. 00-12-01 | Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control |
| Docket No. 6460* | Central Vermont Public Service Corporation Before the Vermont Public Service Board |
| Docket No. 01-035-01* | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. G-01551A-00-0309 | Southwest Gas Corporation Arizona Corporation Commission |
| Docket No. 01-05-19 | Yankee Gas Services Company State of Connecticut Department of Public Utility Control |
| Docket No. 01-035-23 Interim (Oral testimony) | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. 01-035-23** | PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah |
| Docket No. 010503-WU | Aloha Utilities, Inc. - Seven Springs Water Division Before the Florida Public Service Commission |
| Docket No. 000824-EI* | Florida Power Corporation Before the Florida Public Service Commission |
| Docket No. 001148-EI** | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. 01-10-10 | United Illuminating Company Connecticut Department of Public Utility Control |

| | |
|---------------------------|---|
| Docket No. 02-057-02* | Questar Gas Company Public Service Commission of Utah |
| Docket No. 020384-GU* | Tampa Electric Company d/b/a Peoples Gas System Before the Florida Public Service Commission |
| Docket No. 020010-WS | The Woodlands of Lake Placid, L.P. Before the Florida Public Service Commission |
| Docket No. 020071-WS | Utilities, Inc. of Florida Before the Florida Public Service Commission |
| Docket No. 03-07-02 | Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control |
| Docket No. 030438-EI* | Florida Public Utilities Company Before the Florida Public Service Commission |
| Docket No. 03-11-20 | Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control |
| Docket No. 030102-WS | The Woodlands of Lake Placid, L.P. Before the Florida Public Service Commission |
| Docket No. 04-06-01* | Yankee Gas Services Company State of Connecticut, Department of Public Utility Control |
| Docket No. 6946 & 6988 | Central Vermont Public Service Corporation Before the Vermont Public Service Board |
| Docket No. 04-035-42* | PacifiCorp Before the Public Service Commission of Utah |
| Docket No. 050045-EI* | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. 05-03-17PH01 | The Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control |

| | |
|---------------------------------|---|
| Docket No. 050078-EI* | Progress Energy Florida, Inc. Before the Florida Public Service Commission |
| Docket No. 05-06-04 | The United Illuminating Company State of Connecticut, Department of Public Utility Control |
| Docket No. A.05-08-021 | San Gabriel Valley Water Company, Fontana Water Division Before the California Public Utilities Commission |
| Case No. 05-E-1222 | New York State Electric & Gas Corporation Before the New York Public Service Commission |
| Docket No. 060038-EI | Florida Power & Light Company Before the Florida Public Service Commission |
| Docket No. 05-11-008* | Southern California Edison Company and San Diego Gas & Electric Company Before the California Public Utilities Commission |
| Docket No. 06-035-21* | PacifiCorp Before the Public Service Commission of Utah |
| Docket No. 06-03-04* Phase I | Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control |
| Application 06-05-025 | Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California-American Water Company Before the California Public Utilities Commission |
| Docket No. U-27703 | Atmos Energy Corporation d/b/a Trans Louisiana Gas Company Before the Louisiana Public Service Commission |

* Case Settled

** Testimony not filed/submitted due to settlement

EXHIBITS