STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation for Gas Service.	Case 07-G-0141

DIRECT TESTIMONY and EXHIBIT

OF

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Dated: June 7, 2007
Albany, New York

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1 Q. Please state your name and title.
2 A. My name is Douglas W. Elfner. I am the Director of Utility Intervention for the
3 New York State Consumer Protection Board ("CPB").
4
5 Q. Dr. Elfner, please summarize your education and employment experience.
6 A. I received a B.A. with honors and distinction in economics and mathematics
7 from the University of Delaware in 1976, and a Ph.D. in Economics from the
8 University of Michigan in 1982. From 1982 through 1984 I was an Assistant
9 Professor of Economics at the University of Vermont, where I taught courses
10 in econometrics and microeconomics. I was employed from December 1984
11 to January 1989 by AT&T in Bedminster, New Jersey, where I held positions
12 of increasing responsibility as an Economist in the Market Analysis and
13 Forecasting organization. My responsibilities included developing revenue
14 and quantity forecasts for existing services; analyzing opportunities for new
15 services and the effects of changing the price and rate structures of existing
16 services; and producing forecasts and market analyses for regulatory
17 purposes.
18 Since January 1989, I have been employed by the New York State
19 Consumer Protection Board. As Director of Utility Intervention, I am
20 responsible for all aspects of analysis, policy development, and advocacy on
21 behalf of New Yorkers regarding the regulation of utilities.
22

1 I am a member of Phi Beta Kappa, the American Economic
2 Association and the National Association of Business Economists. I have
3 presented original papers at conferences sponsored by the American
4 Economic Association and the Econometrics Society.
5
6 Q. Have you previously testified before the Commission?
7 A. Yes. I have testified in numerous cases before the New York State Public
8 Service Commission.
9
10 Q. Are there any Exhibits associated with your testimony?
11 A. Yes. Exhibit___(DWE) contains a copy of all responses to information
12 requests that I reference in this testimony. For convenience, I refer to
13 responses by National Fuel Gas Distribution Corporation ("Distribution" or the
14 "Company") with the designation used by the Company, such as "CPB-24" or
15 "DPS-12."
16
17 Q. What is the purpose of your testimony?
18 A. I address two issues affecting Distribution's revenue requirement:
19 depreciation expense and inflation of health care and prescription drug costs.
20 In addition, I respond to Company proposals regarding the "no harm, no foul"
21 imbalance rule and revenue sharing for off-system sales and capacity
22 release. I also address public policy issues of gas efficiency, revenue

decoupling and retail competition, as well as rate design proposals regarding winter-only recovery of purchased gas demand costs and increases in the minimum charge for residential customers.

Q. What is your overall reaction to Distribution's proposals on the three public policy issues you mentioned?

A. Distribution is the first major utility in New York State to incorporate in a rate filing, proposals for utility-administered energy efficiency programs, revenue decoupling and the discontinuation of ratepayer-subsidized programs for competitive retail suppliers. The CPB commends the Company for embracing these new policies, and for advancing constructive proposals to implement each of them. As explained herein, we have several recommendations to enhance the consumer benefits from those proposals.

Q. Please briefly summarize the recommendations in your testimony.

A. I have the following major recommendations:

Depreciation

- The Company's new depreciation study should not be used to establish rate levels in this proceeding, thereby reducing projected revenue requirement by $8.65 million.

Inflation of Health Insurance and Prescription Drug Costs

- To avoid double-counting the impact of inflation, projected health insurance and prescription drug expense should be calculated based on the overall annual inflation factor. This would reduce projected rate year health insurance and prescription drug expense by approximately $1.4 million.

"No Harm, No Foul" Imbalance Rule

- The "no harm, no foul" rule for determining whether imbalances in deliveries to customers taking service under service classification ("SC") 13D are to be "cashed out," should be eliminated as proposed by the Company, making marketers and direct shippers responsible for their individual imbalances.

Revenue Sharing for Off-System Sales and Capacity Release

- The current formula for sharing revenue from off-system sales and capacity release transactions should be changed to provide customers a credit to Distribution's Cost Mitigation Reserve of the first $2 million in net revenues, and a flow-back of 80% of any additional revenue.

Energy Efficiency

- The overall objectives and structure of Distribution's energy efficiency proposal should be adopted.
- A collaborative proceeding should be conducted during the rate year to incorporate the expertise of NYSERDA and other parties and recommend program improvements.
- No more than 10% of the program's budget should be spent on outreach and education without empirical evidence, supported by NYSERDA, that additional spending is necessary and would be cost-effective.
- The monitoring and program evaluation aspects of the program should be greatly enhanced to help ensure accountability and assure that ratepayer funds are being spent effectively.
- The cost of the energy efficiency program should be recovered from all customers through a surcharge, similar to the Systems Benefits Charge applicable to electricity customers.

Revenue Decoupling

- The overall structure of Distribution's proposed revenue decoupling mechanism should be adopted, with modifications to ensure that deferrals do not generate major rate fluctuations, volumetric benchmarks are accurate, the

methodology is transparent, the mechanism is applicable to all residential and small commercial customers, and consumer interests are protected through careful monitoring of customer bill impacts.

Retail Competition

- The Company's proposal to discontinue several programs to promote retail access should be approved, with modifications to discontinue the vast majority of ratepayer-funded outreach and education regarding retail competition and surveys of awareness of retail competition.

Winter Recovery of Purchased Gas Demand Costs

- The Company's proposal to recover 12 months of purchased gas demand costs over the November to March winter period is unnecessary, would be burdensome to residential customers, and should be rejected.

Minimum Charge for Residential Service

- The Company's proposal to increase the minimum charge for residential service classifications by approximately $6.50, should be rejected.

Depreciation

Q. What is the Company's proposal concerning depreciation expense?

A. The Company proposes to increase test year depreciation expense by $9.048 million, which has a net revenue requirement impact of approximately $8.9 million. (Exhibit ___(RLT-1); Company's January 29, 2007 filing letter, Attachment C) Of the latter amount, only about a quarter million is the result of an increase in depreciable utility plant. The balance of the added expense is attributable to methodological and procedural changes incorporated in a

1 new depreciation study proposed for adoption by Company Witness Mr. John
2 J. Spanos. (MI-125)
3
4 Q. What changes does Mr. Spanos recommend?
5 A. His study recommends three major changes: (a) adoption of Iowa curves in
6 place of the H-curves currently employed by Distribution for asset life
7 analyses; (b) use of the remaining life methodology to calculate depreciation
8 rates rather than the whole life methodology; and (c) reduction of the average
9 service life used for depreciation of plastic mains from 70 years to 55 years.
10
11 Q. Should those changes be approved by the Commission?
12 A. No, they should not. In this case, the Company is proposing an extremely
13 large increase in its delivery rates – over 19.4%. (MI-1) Nearly one-sixth of
14 that increase will be generated by the higher depreciation rates that result
15 from Mr. Spanos' methodological and procedural changes. An adverse rate
16 impact of that magnitude can only be justified by a finding that the annual
17 depreciation accruals generated by the Company's existing calculation
18 techniques are manifestly inadequate to provide for Distribution's recovery of
19 its capital costs. That is clearly not the case.
20
21
22

1 Q. Please explain.
2 A. First of all, Distribution proposed an entirely new depreciation study in its
3 most recent rate case, filed in 2004. By its own admission, the new service
4 lives and net salvage percentages presented in that study "were almost
5 entirely accepted." (DPS-115) As a result, the Company has in place a
6 framework for the accrual of its depreciation reserve that is almost exactly
7 what it wanted just three years ago. It is very unlikely that the mix of assets,
8 or their characteristics, has changed materially in the interim.
9 Furthermore, the Company's experience since its last rate case
10 suggests that, if anything, its overall depreciation rate should be reduced
11 rather than increased. As of March 31, 2004, Distribution's theoretical
12 reserve – the amount that should have been collected based on the forecast
13 underlying its depreciation rates – exceeded its book reserve – the amount of
14 actual expense accruals less retirements and cost of removal plus any
15 salvage received - by nearly $14 million. (DPS-113) However, that
16 relationship is projected to reverse by the end of 2007. (DPS-112) By the
17 end of the 2008 rate year, the Company projects, <u>using existing depreciation
18 parameters</u>, that its book reserve will exceed the theoretical reserve by over
19 $12 million. (DPS-207) Clearly, there is no capital recovery crisis that would
20 justify augmenting an already steep rate increase proposal.
21

1 Q. Is it your testimony that the methods and procedures for calculating
2 depreciation that are currently in place at Distribution are superior to those
3 proposed by Mr. Spanos?

4 A. No. I am not expressing an opinion as to whether any particular methodology
5 is theoretically preferable to any other. I would note, however, that utility
6 proposals to switch from the whole life method to the remaining life method,
7 as recommended by Mr. Spanos, have been consistently rejected by the
8 Commission. Distribution itself, acknowledges that it:

9 is not aware of any cases in which the NY Commission
10 approved the use of an 'average remaining life' technique for
11 depreciation accruals for ratemaking purposes for major gas
12 utilities. (DPS-109)
13

14 The question I have addressed is whether the Company's need for the
15 depreciation-related changes proposed in this case is sufficient to justify the
16 resulting rate increase for consumers. In my judgment, the answer is no.
17 Accordingly, I recommend that the Company's proposed new depreciation
18 study not be used to establish Distribution's delivery rates in this proceeding,
19 thereby reducing revenue requirement by $8.65 million.
20

21 **Inflation of Health Insurance and Prescription Drug Costs**

22 Q. How has the impact of inflation been accounted for in the Company's forecast
23 of rate year Operations and Maintenance ("O&M") expenses?

24 A. For most of the O&M categories included within the Company's "inflation
25 pool," Distribution Witness Ms. Regina L. Truitt has escalated test year

1 expense by a Gross Domestic Product ("GDP") deflator of 2.55% per year.
2 For health insurance and drug costs, however, she has used a rate of 12%.
3 (Testimony of Ms. Truitt, p. 12)
4
5 Q. What is the basis for the different rates?
6 A. Ms. Truitt argues that health care related costs are increasing much more
7 rapidly than the general rate of inflation, and that 12% is within the range of
8 projected increases provided by the Company's health care consultant. She
9 concludes that the higher rate is, therefore, required.
10
11 Q. Do you agree?
12 A. I disagree with the Company's proposal to use a separate, higher rate of
13 inflation for health care costs in addition to the overall GDP inflator. The GDP
14 deflator represents a weighted average of price escalation factors for the full
15 range of expenses incurred by companies such as Distribution, including
16 health care and drug expenses. The composite rates captures expense
17 categories that are projected to rise much more rapidly than others. For a
18 company with a cost structure that approximates that of the index,
19 undercollection for one expense category will be offset by overcollection for
20 others.
21 Distribution acknowledges that it has not removed the effect of health
22 care expenses from the GDP deflator it applies to its inflation pool. (MI-116)

1 Consequently, by using a different, higher rate for such expenses separately,
2 it would overcollect for health care related inflation. I also note that the PSC
3 has used the overall price inflator in forecasting health insurance and drug
4 costs in other proceedings. Accordingly, I recommend that the Company's
5 revenue requirement reflect health insurance and prescription drug expense
6 based on the overall annual inflation factor of 2.55% proposed by the
7 Company. (Ms. Truitt, p. 29) This would reduce projected rate year health
8 insurance and prescription drug expense by approximately $1,381,000.
9

10 **"No Harm, No Foul" Imbalance Rule**

11 Q. What change is Distribution proposing for the cashing out of imbalances
12 under its Service Classification 13D ("SC 13D") tariff?
13 A. Under the current tariff, customers receiving service under SC 13D are
14 subject to being "cashed out" for imbalances exceeding the 10% tolerance
15 level only when the net imbalance for all SC 13D customers is outside the
16 limit. Distribution is proposing to eliminate this "no harm, no foul" rule, making
17 each customer responsible for its individual imbalance. (Testimony of Mr.
18 Thomas J. Clark, pp. 41-42)
19
20 Q. Do you agree with this proposal?
21 A. Yes, I do. As the Company points out, the marketer or marketers having the
22 largest loads know that if they are out of balance, the entire class will almost

1 certainly be out of balance as well, making cashouts likely. They, therefore,
2 have a strong incentive to manage their deliveries to stay within the tolerance
3 band. Since the converse is also true, that is, when the larger marketers are
4 in balance the class will also be in balance, marketers with smaller loads are
5 afforded what is, at best, a free ride, and at worst, an opportunity for gaming.
6 Cashout prices are intentionally punitive, because they are aimed at
7 persuading suppliers to keep their deliveries in balance with the usage of their
8 customers. Companies that do a better job of balancing incur fewer penalties
9 and reduce their overall costs. Ultimately, consumers benefit from the
10 competition among marketers to lower their operating costs and reduce their
11 prices. Under the "no harm, no foul" rule, that competition is stifled because
12 the best performers cannot gain any advantage over the free riders, and the
13 free riders have no incentive to improve. The "no harm, no foul" rule impedes
14 competition, to the detriment of consumers, and should be eliminated.
15

16 **<u>Revenue Sharing – Off-System Sales and Capacity Release</u>**

17 Q. How is revenue from off-system sales and capacity release transactions
18 currently accounted for by Distribution?
19 A. The first $1.0 million in capacity release credits and net revenue from off-
20 system sales generated by the Company is credited to a Cost Mitigation
21 Reserve ("CMR"), for the benefit of consumers. Above the $1.0 million level,

1 85% of earnings from these sources is flowed back to ratepayers through the
2 monthly gas supply charge; 15% is retained by Distribution.
3
4 Q. What is the CMR?
5 A. It is a fund which the Company can draw upon to defray costs incurred in
6 excess of rate allowances for certain categories of expense that tend to be
7 difficult to predict and are frequently permitted by the Commission to be
8 deferred. To the extent such deferrals would eventually be recovered from
9 ratepayers, the CMR serves as a rate mitigator and directly benefits
10 consumers.
11
12 Q. Does Distribution propose to continue the CMR?
13 A. Yes. It proposes to make the fund permanent. (Testimony of Mr. Clark, p.
14 40)
15
16 Q. Do you support this proposal?
17 A. Yes, in general, but if the CMR is to become permanent, the management of
18 the reserve, including accounting and reporting procedures and a definition of
19 the purposes for which reserve funds may be utilized, should be explicitly
20 defined. The Commission should ensure that the utilization of CMR funds
21 always directly offsets costs that would otherwise be borne by ratepayers.
22

1 Q. What is Distribution's proposal in this case for sharing off-system sales and
2 capacity release revenues?
3 A. The Company proposes to continue the current sharing mechanism. (Id.)
4
5 Q. Do you support this proposal?
6 A. I agree with the structure of the sharing mechanism, but the specific
7 parameters should be changed. The first $2.0 million in capacity release
8 credits and net revenues from off-system sales should be credited to the
9 CMR. Ratepayers should be provided the benefit of 80% of earnings above
10 that amount.
11
12 Q Why do you propose these changes?
13 A. The notion that utilities need to be paid an incentive from "dollar one" to
14 manage their gas supply assets for the benefit of ratepayers is anachronistic.
15 When this type of sharing mechanism was first introduced by the Commission
16 in the early 1990's, FERC Order 636, which completed the unbundling of
17 interstate pipeline services, was a recent event. Utilities were just beginning
18 to be comfortable with their new obligation to separately contract for and
19 maintain portfolios of gas supply to match their inherited pipeline capacity.
20 Under the circumstances, giving them an incentive to investigate the market
21 to find ways to get the most out of their capacity holdings was quite
22 reasonable.

1 Today, the procedures and markets for releasing capacity and trading
2 supplies are well-established. Gas supply portfolio management and
3 optimization is a normal business practice for any company holding a
4 significant inventory of pipeline capacity and gas supply contracts. Some
5 base level of cost recovery through the proper management of these assets
6 should be considered an obligation of all utilities. That is why I propose that
7 the first $2.0 million in capacity release and off-system sales earnings be
8 used to defray costs that would be borne by ratepayers.
9 This is clearly not a requirement that should be a burden for
10 Distribution. From 2001 through 2005, it averaged just under $5.0 million in
11 net revenues from these sources. In 2006, it brought in nearly $7.5 million
12 from capacity release alone. (CPB-33)
13 On the other hand, it is perfectly appropriate to give utilities an
14 incentive for superior performance. When they increase the revenues
15 generated by their gas supply assets, ratepayers see a net decrease in gas
16 costs. Consequently, I propose that the utility share of net revenues above
17 the $2.0 million level be increased from 15% to 20%.
18
19 Q. Would this change be consistent with current Commission policy?
20 A. Yes, it would. When the Commission originally settled on 85%/15% sharing
21 of capacity release and off-system sales revenues as the “general rule,” it
22 called that arrangement “a reasonable ‘placeholder’ ... unless and until a

1 different sharing arrangement is justified on a case-by-case basis." (Opinion
2 94-26, Case 93-G-0932, p. 43) I doubt that the Commission expected its
3 "placeholder" to still be the general rule twelve and a half years after that
4 decision. In any event, it explicitly authorized re-examination of the sharing
5 arrangement in individual utility cases.
6

7 **Gas Efficiency Program**

8 Q. Please summarize the energy efficiency program proposed by Distribution.
9 A. The Company proposes to implement an energy efficiency program costing
10 $12 million per year. The program would be administered by Distribution to
11 take advantage of its unique knowledge of its customers.
12 There are three main components of the Company's program.
13 Distribution proposes to spend $2.6 million on a low income usage reduction
14 program ("LIURP") modeled after a successful initiative in its Pennsylvania
15 service territory; $4.8 million on a residential and small commercial appliance
16 rebate program; and $4.6 million on a multi-media communication initiative to
17 provide customers information designed to encourage them to conserve and
18 educate them on specific energy efficiency programs offered by the
19 Company. (Testimony of Mr. Eric H. Meinl, pp. 27-29)
20
21
22

1 Q. What is the CPB's position on this matter?
2 A. The CPB strongly supports Distribution's overall objective of implementing a
3 cost-effective energy conservation program. If properly designed and
4 implemented, such a program can provide substantial financial and
5 environmental benefits to consumers. The CPB also agrees that the
6 Company is generally in the best position to administer and implement energy
7 efficiency programs because of its extensive knowledge of its customers, their
8 energy usage, and programs that may best serve their needs. I also
9 generally support the proposed size of the program, which is comparable to
10 the size of the System Benefits Charge program for the State's electric
11 utilities.
12 I have several recommendations to enhance the Company's proposal
13 for the benefit of consumers.
14
15 Q. Please summarize your first recommended change to the Company's
16 proposal.
17 A. The two main components of the Company's proposal, the LIURP and
18 appliance rebate program, represent a good starting point for Distribution's
19 energy efficiency program and should be implemented by the beginning of the
20 rate year. However, the Company should work with the New York State
21 Energy Research and Development Authority ("NYSERDA") and other
22 interested parties during the rate year as part of a collaborative proceeding to

1 consider additional or alternative cost effective energy efficiency programs,
2 such as those involving improved insulation, doors and windows for
3 Distribution's customers. This collaborative would also address ways in
4 which the Company and NYSERDA can share information to enhance the
5 cost effective delivery of energy efficiency programs, the appropriateness of
6 additional funding, the potential reallocation of funding among programs and
7 the expansion of energy efficiency programs to other service classifications.
8 We recommend that the collaborative commence approximately three months
9 into the rate year, and conclude within 2 months. This would provide an
10 opportunity to propose changes to the rate year energy efficiency program, if
11 necessary, and to design a new program that would be effective at the end of
12 the rate year.
13
14 Q. What is the CPB's second recommended change to the Company's proposed
15 energy efficiency program?
16 A. The CPB is concerned about the large portion of program funding that would
17 be dedicated to outreach and education. We agree that consumers should be
18 provided information to increase awareness of the benefits of conservation
19 and enable them to make informed decisions regarding actions they can take
20 to reduce their energy consumption, including Distribution's proposed
21 programs. However, a budget of $4.6 million, more than 38% of total
22 program spending, is excessive. It does not appropriately consider that these

1 objectives could likely be achieved in other, more cost effective ways. For
2 example, the budget was apparently developed without consultation with
3 NYSERDA to determine whether the authority's existing, planned or potential
4 advertising and other initiatives, would be more cost effective.
5 The Company and NYSERDA should immediately work together to
6 share information regarding the most cost effective way to provide energy
7 efficiency-related information to consumers. The Commission's decision on
8 the level of funding for outreach and education efforts should be based on this
9 input. Absent documentation from this cooperative venture, the CPB
10 recommends that no more than 10% of funding for the energy efficiency
11 program be dedicated to outreach and education.
12
13 Q. Please explain the CPB's next recommendation regarding the Company's
14 proposal.
15 A. Distribution proposes to measure the performance of the rebate program
16 through a short postcard survey mailed to all participants and a longer
17 telephone survey given to a sample of participants. These surveys are
18 intended to "determine the degree to which the rebate was instrumental in the
19 customer's decision to purchase high efficiency equipment instead of
20 standard efficiency equipment." (DPS 158)
21 This proposal is inadequate. Monitoring, accountability and program
22 evaluation are critical project components, particularly due to the limited

1 experience of Distribution in conducting gas efficiency programs in New York.
2 It is imperative that any ratepayer funded energy efficiency program be
3 accompanied by reports, which for the first year should be at least quarterly,
4 on the expenditures, deliverables and resulting benefits in terms of therms
5 saved. This data will enable parties, and the Commission, to evaluate the
6 need for any changes to ensure that funding is used effectively and that the
7 program is leading to reductions in energy usage, as intended.
8
9 Q. Should the cost of the Company's proposed energy efficiency programs be
10 recovered from all customers?
11 A. Yes. Reductions in gas usage will exert downward pressure on natural gas
12 commodity prices, including on the basis differential between the wellhed
13 price and the delivered price of gas to Distribution's customers, thereby
14 benefiting all customers. It will also result in environmental benefits that are
15 favorable to all customers.
16 Further, as explained in the testimony of Company witness Mr. Robert
17 D. Eck, Distribution currently conducts, and proposes to continue, energy
18 efficiency initiatives for its large volume customers. For example, the
19 Company has a staff of account representatives assigned to large volume
20 accounts, and provides the services of its engineering staff to provide free
21 assessments of various gas technologies that would make large customers
22 more energy efficient. (Testimony of Mr. Robert D. Eck, pp. 15 – 20) The

1 general body of ratepayers has funded energy efficiency activities for large
2 customers for years. Accordingly, it is equitable that all customers should
3 fund the expanded energy efficiency programs adopted in this proceeding.
4 Moreover, as explained above, the collaborative we recommend will consider
5 whether, and how, to expand the energy efficiency services offered by
6 Distribution to other service classifications, a change that could be
7 implemented in the rate year.
8
9 Q. How should the costs of the energy efficiency program be recovered?
10 A. The CPB recommends that funding for the energy efficiency program be
11 obtained through a surcharge on customer bills, similar to the System
12 Benefits Charge on bills rendered by electric utilities for funding energy
13 efficiency programs administered by NYSERDA. The amount of this
14 surcharge would vary monthly, to match actual expenditures on the energy
15 efficiency program, thereby addressing the Company's objective to match
16 expenditures and recovery as closely as possible. A surcharge mechanism
17 would also readily accommodate changes in the size of the program, if so
18 ordered by the Commission, as well as the revenue decoupling proposal
19 discussed below.
20

1 **Revenue Decoupling**
2 Q. Please summarize Distribution's proposal to address existing disincentives for
3 utilities to encourage conservation.
4 A. The Company has correctly recognized that utilities have an economic
5 disincentive to implement energy efficiency programs, such as the gas
6 efficiency program discussed above. It proposes to eliminate the disincentive
7 currently in small volume customer rates by implementing a revenue
8 decoupling mechanism ("RDM"). As explained in the testimony of Mr. Meinl
9 (pp. 29 – 34), this proposal is intended to permit the Company to recover the
10 lost margin associated with reduced consumption by small volume customers.
11 This would occur by reconciling any difference between actual and forecast
12 weather-normalized usage per account, through an annual charge or credit
13 on customer bills.
14
15 Q. What is the CPB's position regarding revenue decoupling in general, and the
16 Company's proposed RDM in particular?
17 A. The CPB continues to recommend that the Commission approve an
18 appropriate revenue decoupling mechanism for energy utilities, designed to
19 serve the best interests of consumers. That measure, however, should not
20 shift from utilities to consumers, the risk of profit losses from factors such as
21 general economic downturns and/or a decline in the number of customers.
22 Conceptually, the Company's proposal would achieve this objective.
23 However, several modifications to Distribution's recommended RDM are

1 required to help ensure that it is in the consumers' interest. First, the
2 proposal to recover or refund changes in normalized usage per account on an
3 annual basis may result in large accruals that would have a substantial impact
4 on customer bills. To help minimize the size of such accruals, thereby
5 avoiding customer confusion and the potential loss of support for energy
6 efficiency programs, the CPB recommends that accruals be calculated
7 monthly. In addition, every six months, the deferred balance should be
8 quantified, and if it exceeds 1% of actual delivery revenues in that six month
9 period, it should begin to be collected from, or refunded to, customers as part
10 of the surcharge for energy efficiency identified above.
11 In addition, the volumetric benchmarks to be used in the RDM
12 calculation should be based on forecasts of usage and customers that
13 underlie the PSC's revenue requirement determination in this proceeding,
14 instead of on the Company's proposal. This would help ensure that the RDM
15 targets are appropriate.
16 Further, the data and methodology used to calculate any changes in
17 usage per customer must be readily verifiable. The data should be directly
18 observable and not unduly impacted by anomalous events such as billing
19 adjustments. A transparent and straight-forward methodology would enhance
20 verification and acceptance of the RDM.
21 The CPB also recommends that the RDM apply to all residential and
22 small commercial customers, including those in Service Classifications SC2,

1 SC2A and SC2B. Some of these Service Classifications were apparently
2 excluded from the Company's RDM proposal. (DPS-78, 79)
3 Overall, substantial care must be taken in the design of the RDM, to
4 ensure that it protects consumer interests. The RDM adopted in this
5 proceeding should also be carefully monitored so that any implementation
6 concerns can be readily identified and addressed. We recommend that the
7 RDM be evaluated during the rate year as part of the energy efficiency
8 collaborative proposed above, and that any recommended changes be
9 presented to the Commission.
10

11 **<u>Retail Competition</u>**
12 Q. Please summarize the Company's proposals regarding retail competition.
13 A. Pursuant to its current rate plan and PSC policies, Distribution conducts
14 several programs and initiatives to promote retail energy competition. The
15 Company has proposed to discontinue many of those efforts, such as its
16 "Market Match," which includes a tool on its web site for customers interested
17 in obtaining competitive price offers from energy services companies
18 ("ESCOs"); "Market Expos," at which ESCOs, large non-residential customers
19 and Distribution join together to exchange information; a residential energy
20 fair; and a pilot program to promote hedged service options by ESCOs.
21 Distribution would also substantially curtail other retail competition-related

1 programs including its customer education efforts and customer awareness
2 surveys.
3
4 Q. What is the CPB's position on these proposals?
5 A. With limited exceptions, the CPB supports these recommendations. It is
6 neither reasonable nor appropriate for ratepayers to continue to subsidize the
7 operation of competitive ESCOs. The CPB has supported these types of
8 programs in the past in certain circumstances and with appropriate limitations,
9 as transitional measures aimed at eliminating barriers to competitive retail
10 marketing activities in service territories where ESCOs were absent or
11 inactive. That is clearly not the situation in Distribution's service territory.
12 According to the Commission's website, as of May 18, 2007, there were 14
13 ESCOs actively selling natural gas service to Distribution's residential
14 customers and many of these companies were offering multiple products.
15 As I have testified in other proceedings including Case 06-G-1332
16 (Consolidated Edison's gas operations) and Cases 06-G-1185 and 06-G-
17 1186 (KeySpan Energy Delivery New York and KeySpan Energy Delivery
18 Long Island), the role of the Commission in fostering competitive retail energy
19 markets should be restricted to eliminating impediments inherent in, or
20 resulting from, the historic system of monopoly franchises and regulation. It is
21 not the job of regulators to develop - and ratepayers should not be required to
22 pay for – long-term programs aimed at reducing costs or risks to businesses

1 that would be present in any competitive environment, whether regulation
2 ever existed or not.
3 Moreover, subsidy programs can be harmful to individual ESCOs who
4 choose to take risks, pay their stand-alone costs and develop innovative
5 approaches to meet customer needs. These programs create an “unlevel
6 playing field” that disadvantages ESCOs that conduct, and fund, their own
7 advertising, marketing and customer acquisition activities. They impede
8 competition and innovation, to the detriment of consumers.
9 For these reasons, we fully support the Company’s proposals to
10 discontinue the programs identified above. The CPB has no objection to
11 Distribution’s proposal to continue the purchase of receivables program, as
12 long as the Company recovers all incremental costs from ESCOs, without
13 subsidization or guarantee of recovery by ratepayers.
14
15 Q. Please summarize the Company’s proposals regarding outreach and
16 education, and customer awareness surveys regarding retail energy
17 competition, and the CPB’s position on those issues.
18 A. The Company proposes to continue its customer education efforts “but in a
19 less intensive manner.” (Testimony of Mr. Meinl, p. 47) Similarly, it states
20 that it will continue conducting customer awareness surveys, “however, on a
21 less regular basis.” (Id.) No further detail regarding the scope, or projected
22 cost, of continuing these initiatives is provided in the Company’s filing.

1 Although a step in the right direction, these proposals should be
2 strengthened. The CPB recommends that the Company discontinue its
3 ratepayer-funded outreach and education regarding retail competition, except
4 to provide basic information as part of its routine outreach and education
5 efforts. For example, Distribution should include information regarding the
6 availability of natural gas from ESCOs as well as how consumers may obtain
7 more information regarding retail competition, in the materials it provides its
8 customers regarding their rights and responsibilities, tips on saving energy,
9 etc. However, the Company should not conduct outreach and education
10 programs that focus on retail competition, including mailings and advertising.
11 Similarly, the Company should discontinue its ratepayer-funded customer
12 surveys of awareness of retail competition. Such surveys have long outlived
13 their usefulness.
14

15 **Winter Demand Charge Collection**
16
17 Q. What change has Distribution proposed concerning the collection of
18 purchased gas demand charges?
19 A. The Company is proposing to collect all such costs during the months of
20 December through March, rather than year-round as is currently the case.
21
22 Q. What is the basis for this proposal?

1 A. The Company contends that these costs, primarily pipeline demand charges,
2 are largely incurred to provide service during the winter when demand is
3 highest. Collecting the costs in the winter, they say, will enable customers
4 who achieve greater efficiency to realize greater savings. (Testimony of Mr.
5 Meinl, p. 36)
6
7 Q. Do you agree with the proposed change?
8 A. No. The proposal is unnecessary and is burdensome to residential and most
9 small commercial consumers. It is unnecessary because it does not match
10 cost recovery with cost incurrence. For the most part, Distribution pays
11 supplier and pipeline demand charges in equal monthly installments
12 throughout the year, not just in the winter. It is unduly burdensome because it
13 takes those levelized monthly costs and piles them on the residential
14 customer's bill at the very time when that bill is highest. Given the usage
15 required for winter heating, and the normally high commodity costs of the
16 season, any incremental incentive to conserve generated by loading on
17 demand charges would be inconsequential.
18

19 **<u>Minimum Charge for Residential Service</u>**
20 Q. Please summarize Distribution's proposal to increase the minimum charge for
21 residential customers.

1 A. The Company's minimum charge for SC1 is currently $13.54. It proposes to
2 increase that rate to $20.13 in the winter and $20.01 in non-winter periods
3 (Exhibit___(TJC-12), Schedule 1), representing an increase of approximately
4 49%. The Company asserts that this rate design is necessary to ensure that
5 fixed costs are recovered through fixed charges and will help provide revenue
6 and earnings stability to the Company. (Testimony of Mr. Clark, pp. 18 – 20)
7
8 Q. What is the CPB's position on this proposal?
9 A. The Company's proposed minimum charge for residential natural gas
10 customers is more than 33% higher than the highest such charge currently in
11 effect for any utility in the State. That increase is unnecessary, would reduce
12 customer incentives to conserve, and would be burdensome to low volume
13 users of natural gas. The RDM, as discussed above, will ensure that the
14 Company receives projected weather normalized, revenue per residential
15 customer and will therefore address Distribution's concern about revenue
16 stability. The risk of undercollecting fixed costs when they are recovered in
17 volumetric rates is essentially eliminated by the RDM, making an increase in
18 the minimum charge superfluous. The proposal would also be very
19 burdensome to low-volume customers because it would result in higher
20 charges that cannot be avoided, regardless of the customers' actions to
21 conserve energy. Such a disincentive to conservation is also contrary to

1 State and PSC goals. For these reasons, the Company's proposal should be
2 rejected.
3
4 Q. Does this conclude your testimony?
5 A. Yes.