



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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

October 19, 2005

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

Re: New England Gas Company GCR Filing, Docket 3696.

Dear Luly:

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

Sincerely,

Stephen Scialabba
Chief Accountant

Cc: Service list

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

IN THE MATTER OF

**The Application of New England)
Gas Company for an Increase)
In its Gas Cost Recovery Charge)**

Docket No. 3696

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

On Behalf of

The Division of Public Utilities and Carriers

October 19, 2005

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER

Docket No. 3696

October 19, 2005

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

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

4

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

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

9

10 **Q. ARE YOU THE SAME BRUCE OLIVER WHO HAS FILED DIRECT TESTIMONY**
11 **IN THIS PROCEEDING ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES**
12 **AND CARRIERS?**

13 A. Yes, I am.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. This supplemental testimony addresses issues relating to the supplemental
18 testimony that New England Gas Company ("NEG") filed on September 30, 2005.

19

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3696
October 19, 2005

1 **Q. HAVE YOU HAD THE OPPORTUNITY TO REVIEW THE DETAIL OF NEG'S**
2 **SUPPLEMENTAL FILING?**

3 A. Yes, I have.

4

5 **Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF THIS SUPPLEMENTAL**
6 **TESTIMONY?**

7 A. Yes. I am. I have attached to this testimony are two exhibits. They include:

8

9 Exhibit BRO-9 Comparison of NYMEX Natural Gas Prices

10

11 Exhibit BRO-10 Comparison of NEG Revised Rates with Proposed
12 Rates for Massachusetts Gas Utilities

13

14 **Q. IS NEG PROPOSING TO INCREASE ITS GCR CHARGES ABOVE THE LEVEL**
15 **REQUESTED IN ITS SEPTEMBER 1, 2005 FILING IN THIS PROCEEDING?**

16 A. Yes. The Company's September 30, 2005 testimony and exhibits are presented to
17 support an increase in the Company's proposed GCR charges for the 2005-06 GCR
18 period. For Residential and Small C&I customers, the Company's September 1,
19 2005 filing proposed an increase in GCR charges from **\$0.9504** per therm to
20 \$1.13705 per therm. NEG's September 30, 2005 filing seeks to raise the GCR
21 charge for those customers an additional \$0.15199 to **\$1.28904** per therm.
22 Combined with the September 1, 2005 increase that NEG proposed, GCR charges

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3696
October 19, 2005

1 for the Company's Residential and Small C&I customers would increase \$0.33864
2 per therm or 35.6%.

3 The net impact of this increase on a typical Residential Heating customer bill,
4 as shown in Schedule PCC-4, Revised September 30, 2005, is 23.8%. For most
5 other firm rate classes, the Company's September 30, 2005 GCR proposal would
6 yield similar increases in terms of dollars per therm. However, percentage increases
7 in an annual bill a for typical customer in each class would range from a low of
8 17.0% for a Residential Non-Heating customer to a high of 32.1% for a C&I Extra
9 Large High Load Factor customer. Exhibit BRO-1, page 2 of 2, filed with my
10 October 12, 2005 direct testimony in this proceeding, shows the percentage
11 increases in GCR charges by rate class that would result from NEG's September
12 30, 2005 filing.

13
14 **Q. ARE THE GCR CHARGES PRESENTED IN THE COMPANY'S SEPTEMBER 30,**
15 **2005 TESTIMONY AND EXHIBITS ACCURATELY COMPUTED?**

16 A. Yes, they are. The major substantive difference between the GCR rates presented
17 in NEG's September 30, 2005 Supplemental Testimony and those found in its
18 September 1, 2005 testimony are found in the NYMEX natural gas prices that are
19 used to project costs for non-locked gas supply volumes for the 2005-06 GCR year.

20

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3696
October 19, 2005

1 **Q. ARE THERE OTHER SIGNIFICANT DIFFERENCES BETWEEN THE COMPANY'S**
2 **SEPTEMBER 1, 2005 GCR RATE DETERMINATIONS AND THOSE PRESENTED**
3 **IN NEG'S SEPTEMBER 30, 2005 SUPPLEMENTAL FILING?**

4 A. Yes. Although the methodology used for computing the Company's GCR charges
5 has not been altered, a number of inputs to those computations have been updated.
6 In addition to the increase in NYMEX prices for gas volumes for which pricing was
7 not locked, NEG's supplemental testimony and exhibits reflect the influences of
8 updated deferred gas cost calculations that capture actual sales levels, revenue,
9 and expenses through August 2005 and revised projections of costs, sales and
10 revenue collections for the remainder of the current GCR period (i.e., through
11 October 31, 2005).

12
13 **Q. HOW IMPORTANT IS THE PRICING OF NON-LOCKED GAS VOLUMES TO THE**
14 **COMPANY'S OVERALL PROJECTED COSTS OF GAS FOR THE 2005-06 GCR**
15 **YEAR?**

16 A. As of July 31, 2005 (i.e., the most recent date for which data were available at the
17 time of NEG's September 1, 2005 filing), prices had not been locked for 48.9% of
18 the Company's forecasted requirements for its 2005-06 GCR period. In subsequent
19 updated information NEG indicates that as of August 31, 2005 its locked volumes
20 had risen. Based on that data, I computed the unlocked portion as of August 31

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER

Docket No. 3696

October 19, 2005

1 was 46.2% of the Company's forecasted 2005-06 gas volume requirements. Thus,
2 gas volumes for which pricing has not been locked prior to the beginning of
3 September 2005 represent a little less than half of the Company's total forecasted
4 requirements for the 2005-06 GCR year.

5
6 **Q. HOW DID NYMEX PRICES FOR NATURAL GAS CHANGE BETWEEN NEG'S**
7 **SEPTEMBER 1, 2005 FILING AND THE COMPANY'S FILING OF SUPPLE-**
8 **MENTAL TESTIMONY IN THIS PROCEEDING?**

9 A. Exhibit BRO-9 provides a comparison of the NYMEX prices for 8/25/05, upon which
10 pricing for unlocked volumes was premised in NEG's September 1, 2005, with the
11 NYMEX prices from 9/28/05 that the Company used in its September 30, 2005 filing.
12 That comparison reflects further increases natural gas prices by month ranging
13 from 33% to nearly 38% for the months comprising the winter of 2005-06, and
14 natural gas price increases ranging from 22.7% to 25.8% for the summer months of
15 summer of 2006. Based on NEG's September 1, 2005 filing, the weighted average
16 cost of gas volumes for which prices were not locked was \$9.878 per Dth.
17 Comparable data from the Company's September 30, 2005 filing yield a weighted
18 average cost for gas volumes for which prices had not been locked of \$12.781 per
19 Dth. In other words the cost of gas volumes without price locks jumped almost
20 \$3.00 per Dth or 30.6% between the two filings.

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3696
October 19, 2005

1 Exhibit BRO-9 also offers a comparison of the above referenced natural gas
2 price data with comparable data as of the close of trading on October 18, 2005.
3 This more recent data shows some softening of prices over the last couple weeks,
4 but not dramatic reductions.

5
6 **Q. WHAT GCR CHARGES SHOULD THE COMMISSION APPROVE FOR IMPLE-**
7 **MENTATION BY NEG EFFECTIVE NOVEMBER 1, 2005?**

8 A. I recommend that the Commission permit NEG to implement the GCR charges set
9 forth in the Company's September 30, 2005 filing. Although an argument may be
10 made for deferral of some portion of the added increase in gas costs reflected in
11 NEG's supplemental filing, such action is likely to further significantly raise the level
12 of the increase that NEG customers would experience next year. I recognize that
13 the most recent NYMEX data reflects some softening of gas prices for the next 12
14 months relative to the levels used in NEG's September 30, 2005 filing. However,
15 considering the highly volatile nature of gas prices in recent months, the observed
16 dip in prices is relatively minor, and at this point there are no guarantees that such
17 lower prices will be sustained (particularly with the potential remaining for additional
18 severe weather in the Gulf of Mexico and the growing prospect that the U.S. will
19 enter the coming winter season with less than full natural gas storage inventories).

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER

Docket No. 3696

October 19, 2005

1 Price fluctuations for a single day could easily erase the entirety of the price
2 reductions reflected in the most recent NYMEX data.

3 Moreover, Exhibit BRO-10 compares NEG's proposed GCR charges with the
4 gas cost rates proposed by Massachusetts gas utilities in mid-September 2005
5 filings before the Massachusetts Department of Telecommunications and Energy.
6 (It should be noted that all of the referenced utility filings for Massachusetts gas
7 utilities were made prior to any knowledge of the effects of Hurricane Rita.) The
8 comparison in Exhibit BRO-10 indicates that, with one exception, the GCR charges
9 NEG proposed in its September 30, 2005 filing are lower in terms of dollars per
10 therm than the charges proposed by neighboring utilities in Massachusetts prior to
11 their consideration of the effects of Hurricane Rita. Thus, it is highly likely that even
12 with approval of the full amount of the GCR increase in NEG's supplemental filing,
13 firm gas sales customers in Rhode Island would be assessed lower gas costs than
14 their neighbors in Massachusetts.

15

16 **Q. DO YOU HAVE ANY OTHER MATTER THAT YOU WOULD LIKE TO ADDRESS**
17 **IN THIS SUPPLEMENTAL TESTIMONY?**

18 A. Yes. In my direct testimony, I raised concerns regarding the distribution of sales by
19 month in the Company's forecast data for the 2005-06 GCR year. After further
20 discussions with NEG personnel, I have assessed that the patterns of load shifting

SUPPLEMENTAL DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3696
October 19, 2005

1 observed in NEG's sales forecast do not have as pronounced an impact on the
2 seasonal distribution of gas supply volumes that Mr. Beland uses in his gas supply
3 planning activities. Moreover, a portion of the change in the distribution of gas sales
4 by month that I observed can be attributed to changes in the average lengths of
5 billing cycles over time. Although I continue to believe that there are aspects of the
6 Company's forecasts of weather normalized sales and design winter sales that
7 warrant further examination, those factors do not appear to have a substantial
8 impact on the Company's projected costs of gas for the 2005-06 GCR period.

9

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

11 A. Yes, it does.

12

New England Gas Company

Docket No. 3696

Comparison of NYMEX Natural Gas Prices

Month/Year	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	NYMEX Gas Price 8/25/05 1/	NYMEX Gas Price 9/28/05 2/	NYMEX Gas Price 10/18/05 3/	Increase in Gas Price 8/25/05 to 9/28/05 4/	Percent Change 8/25/05 to 9/28/05 5/	Change in Gas Price 9/28/05 to 10/18/05 6/	Percent Change 9/28/05 to 10/17/05 7/	Composite Percent Change 8/25 - 10/18 8/
Nov 2005	\$10.242	\$14.100	\$13.421	\$3.858	37.67%	(\$0.679)	-5.06%	31.0%
Dec 2005	\$10.642	\$14.570	\$13.801	\$3.928	36.91%	(\$0.769)	-5.57%	29.7%
Jan 2006	\$10.922	\$14.875	\$14.310	\$3.953	36.19%	(\$0.565)	-3.95%	31.0%
Feb 2006	\$10.902	\$14.665	\$14.160	\$3.763	34.52%	(\$0.505)	-3.57%	29.9%
Mar 2006	\$10.677	\$14.215	\$13.735	\$3.538	33.14%	(\$0.480)	-3.49%	28.6%
Apr 2006	\$9.077	\$11.415	\$10.885	\$2.338	25.76%	(\$0.530)	-4.87%	19.9%
May 2006	\$8.827	\$10.885	\$10.485	\$2.058	23.31%	(\$0.400)	-3.81%	18.8%
Jun 2006	\$8.857	\$10.905	\$10.490	\$2.048	23.12%	(\$0.415)	-3.96%	18.4%
Jul 2006	\$8.900	\$10.942	\$10.522	\$2.042	22.94%	(\$0.420)	-3.99%	18.2%
Aug 2006	\$8.940	\$10.984	\$10.554	\$2.044	22.86%	(\$0.430)	-4.07%	18.1%
Sep 2006	\$8.920	\$10.958	\$10.527	\$2.038	22.85%	(\$0.431)	-4.09%	18.0%
Oct 2006	\$8.950	\$10.985	\$10.557	\$2.035	22.74%	(\$0.428)	-4.05%	18.0%

1/ Schedule GLB-2, September 1, 2005, page 3 of 19.

2/ Schedule GLB-2, Revised, September 30, 2005, page 3 of 19.

3/ NYMEX Prices at close of trading October 18, 2005.

4/ Column (b) - Column (a).

5/ Column (d) / Column (a).

6/ Column (c) - Column (b).

7/ Column (f) / Column (c).

8/ (Column (d) + Column (f)) / Column (a).

New England Gas Company*Docket No. 3696***Comparison of Residential Heating Customer Gas Cost Rates****For New England Gas - RI and for Massachusetts Gas Utilities*

Utility	\$/Therm
KeySpan - Lowell	\$1.7025 b/
KeySpan - Colonial Cape	\$1.6953 b/
KeySpan - Boston	\$1.6223 b/
KeySpan - Essex	\$1.6061 b/
Bay State Gas	\$1.4907
Fall River Gas	\$1.4678 a/
Blackstone Gas	\$1.3700 a/
Berkshire Gas	\$1.3530
N. Attleboro Gas Company	\$1.3474
NStar	\$1.3200
Fitchburg Gas	\$1.2970
New England Gas Company - RI (9/30/05)	\$1.2890
New England Gas Company - RI (9/1/05)	\$1.1370
KeySpan - EnergyNorth	\$1.0961 c/

* Except as otherwise noted, charges shown for Massachusetts Gas Utilities are proposed Cost of Gas Adjustment Charges that were submitted to the DTE September 16, 2005.

a/ Rate is in dollars per Ccf rather than dollars per therm.

b/ Cost of Gas Adjustment in effect for October 2005.

c/ Cost of Gas Adjustment in effect for **September 2005** (Oct 2005 unavailable)