Northeast Utilities System

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ON BEHALF OF
YANKEE GAS SERVICES COMPANY

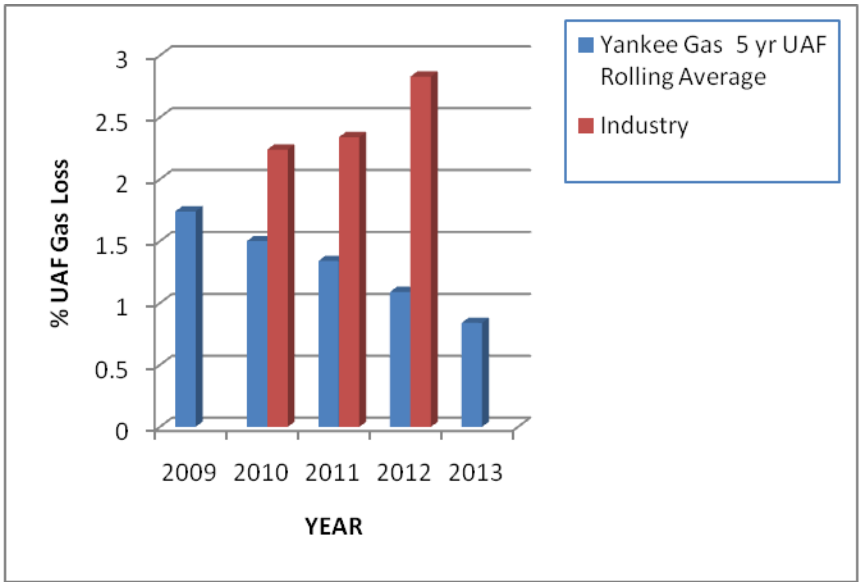
Energy and Technology Committee
March 4, 2014

RE: RAISED BILL 5410, AN ACT CONCERNING GAS COMPANIES COST RECOVERY OF LOST AND UNACCOUNTED FOR GAS

This bill requires the Public Utilities Regulatory Authority ("PURA") to adopt regulations that will result in establishing a predetermined amount of lost and unaccounted for gas ("LUFG") to be recovered in rates. Per this bill, any losses greater than the predetermined factor will be absorbed by the gas company and if actual gas losses are less than the predetermined factor, the gas company can keep the recovery for those losses.

All entities in the natural gas industry have the issue of LUFG including, production, gathering, pipeline, and distribution companies alike. LUFG has a variety of causes including, but not limited to leaks, stolen gas, and line pack as the distribution system grows (i.e., as we add new mains and services to serve new customers gas is used and needed in the pipe but not yet received by the customers). However, the primary cause of LUFG is actually due to the fact that gases are more difficult to measure than liquids, and are highly affected by temperature and pressure. Gas meters measure a defined volume of natural gas, regardless of the pressurized quantity or quality of the gas flowing through the meter. Therefore, it is important to note that not all LUFG is due to leaks and "released" in the air or "never used" by customers.

In terms of leak management, Yankee Gas has a robust leak mitigation plan. Performing more leak surveys than code requires and repairing leaks in a shorter time frame than code requires. The Company also initiated a significant aging infrastructure replacement program in 2011 and is spending $40 million annually to retire the cast iron and bare steel pipe which is more prone to leaks. Due in large part to these efforts, the number of Yankee Gas' open Class II leaks at year end have been reduced from 263 in 2010 to 54 in 2012. Further, Yankee Gas' unaccounted for gas loss has been declining for five years and should continue to decline even further with the cast iron replacement initiative and reduction in the backlog of leaks.



Further, utility companies have a regulatory compact in which they are entitled to recover their prudently-incurred costs of doing business. Imposing a fixed recovery amount that is inconsistent with actual costs and losses violates that compact.

Given the large number of contributors to lost and unaccounted for gas, and the fact the industry does not have any standard industry-wide accepted methodology for accurately measuring unaccounted for gas by individual subcategories and therefore cannot quantify such gas within those subcategories with any confidence of recognized accuracy, prior to consideration of legislation requiring the development of a factor, PURA should open a docket to investigate the issue and determine, with the gas companies, what can be done to improve the measurement and reduce lost and unaccounted for gas and what the cost associated with such a plan would be In such a proceeding, PURA can examine trends over time in order to truly understand progress that is being made or lost with each variable.

Thank you for the opportunity to provide testimony on this bill.