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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

September 8, 2009 - 10:16 a.m.  
Concord, New Hampshire

RE: DG 07-033  
NORTHERN UTILITIES, INC.:  
Northern Utilities, Inc., proposed cost  
of gas filing for the Summer Period of  
May 2007 through October 2007.

PRESENT: Chairman Thomas B. Getz, Presiding  
Commissioner Clifton C. Below  
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: Reptg. Northern Utilities, Inc.:  
Susan S. Geiger, Esq. (Orr & Reno)

Reptg. PUC Staff:  
F. Anne Ross, Esq.  
Stephen Frink, Asst. Dir - Gas & Water Div.  
George McCluskey, Electric Division

Court Reporter: Steven E. Patnaude, LCR No. 52



1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning.  
3 We'll open the hearing in docket DG 07-033. On April 3,  
4 2009, Staff and Northern Utilities filed a settlement  
5 agreement in this proceeding, and a secretarial letter was  
6 issued August 14 setting a hearing on the merits for this  
7 morning.

8 So, let's take appearances please.

9 MS. GEIGER: Good morning, Mr. Chairman,  
10 Commissioner Below, Commissioner Ignatius. I'm Susan  
11 Geiger, from the law firm of Orr & Reno and I represent  
12 Northern Utilities this morning. And, with me from the  
13 Company is Lawrence Brock.

14 CHAIRMAN GETZ: Good morning.

15 MS. ROSS: Good morning, Commissioners.  
16 Anne Ross, with the Commission Staff. And, with me today  
17 is an analyst, George McCluskey, and head of the Gas  
18 Division, Steve Frink.

19 CHAIRMAN GETZ: Good morning. And, how  
20 do the parties intend to proceed today?

21 MS. GEIGER: Yes, Mr. Chairman. I've  
22 conferred with Attorney Ross, and we've decided that we'd  
23 proceed with a panel comprised of Mr. McCluskey and Mr.  
24 Brock.

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[WITNESS PANEL: Brock|McCluskey]

1 CHAIRMAN GETZ: Please proceed.

2 MS. GEIGER: And, while the witnesses  
3 are getting settled, I'd just like to ask the Bench if  
4 they have copies of the Settlement Agreement?

5 CHAIRMAN GETZ: We do.

6 (Whereupon Lawrence Brock and George  
7 McCluskey were duly sworn and cautioned  
8 by the Court Reporter.)

9 LAWRENCE BROCK, SWORN

10 GEORGE McCLUSKEY, SWORN

11 DIRECT EXAMINATION

12 BY MS. GEIGER:

13 Q. Why don't we proceed with Mr. Brock. Would us please  
14 state your name for the record.

15 A. (Brock) My name is Lawrence Brock.

16 Q. And, what is your position?

17 A. (Brock) I am the Controller at Unitil.

18 Q. And, Mr. McCluskey, please state your name for the  
19 record.

20 A. (McCluskey) My name is George McCluskey.

21 Q. And, what is your position with the Commission?

22 A. (McCluskey) I'm an analyst in the Electric Division.

23 Q. Thank you. And, have both of you reviewed what I'm  
24 going to show you that is captioned "Settlement

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[WITNESS PANEL: Brock|McCluskey]

1 Agreement" in this case?

2 A. (McCluskey) I have.

3 A. (Brock) Yes, I have.

4 MS. GEIGER: And, I'd like to ask that  
5 the Settlement Agreement dated April 2nd, 2009 be marked  
6 for identification as the next exhibit.

7 MS. DENO: Eleven.

8 MS. GEIGER: Exhibit 11.

9 CHAIRMAN GETZ: It will be so marked.

10 (The document, as described, was  
11 herewith marked as Exhibit 11 for  
12 identification.)

13 MS. GEIGER: Thank you.

14 BY MS. GEIGER:

15 Q. Mr. McCluskey, could you please summarize for the Bench  
16 the more salient provisions of the Settlement  
17 Agreement?

18 A. (McCluskey) Yes. Docket DG 07-033 started as a winter  
19 cost of gas proceeding, obviously, several years ago.  
20 One of the issues that was raised by Staff in that  
21 proceeding was related to the reconciliation mechanism  
22 that the Company used for its direct gas costs. For  
23 many years the Company had been comparing in that  
24 reconciliation mechanism the accrued costs for a

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[WITNESS PANEL: Brock|McCluskey]

1 particular month with billed revenues. Staff took the  
2 position in this proceeding that the appropriate  
3 mechanism should be comparing accrued costs with  
4 accrued revenues.

5 The Commission eventually issued an  
6 order, Order Number 24,786, which directed that the  
7 under/over collection should be calculated on an  
8 accrued basis, both accrued revenues and accrued costs.  
9 However, they did not specify how the Company should  
10 transition from the old mechanism to the new mechanism.  
11 And, as a result, we have the issue of the transition  
12 issue, which is the subject of this particular  
13 Settlement Agreement.

14 Essentially, what the transition issue  
15 gets to is, with regard to the cutover to accrued  
16 accounting, "what is the appropriate starting balance  
17 for accrued accounting?" The Company and Staff  
18 disagreed on that, until we eventually agreed in  
19 settlement. And, what -- just one more thing about the  
20 Commission's order with regard to accrued accounting.  
21 It specified that accrued accounting would begin  
22 starting November 1, 2005.

23 In this particular Settlement Agreement,  
24 we have entered into an agreement that specifies the

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[WITNESS PANEL: Brock|McCluskey]

1 starting balance for accrued accounting, but we have  
2 also pushed off the starting data for accrued  
3 accounting until November 1, 2008. So that, in  
4 essence, is the compromise. And, Staff was able to  
5 demonstrate an appropriate position for the starting  
6 balance. And, Staff also agreed with the Company that  
7 this new mechanism should begin at a much later date,  
8 three years later.

9 And, the Article II, 2.1, is the  
10 paragraph of the Settlement Agreement which specifies  
11 the dollars which will be used to establish the  
12 starting balance for accrued accounting.

13 And, I think that, in summary, is what  
14 we've agreed to.

15 Q. Thank you, Mr. McCluskey. Mr. Brock, do you have  
16 anything else to add to Mr. McCluskey's summary of the  
17 Settlement Agreement?

18 A. (Brock) I do not. I agree with Mr. McCluskey's summary  
19 of the Settlement.

20 MS. GEIGER: Thank you. I have no  
21 further questions.

22 CHAIRMAN GETZ: Thank you. Ms. Ross?

23 MS. ROSS: We have no further questions  
24 of the witnesses. It's up to the Commissioners if you

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[WITNESS PANEL: Brock|McCluskey]

1 want more detail on the actual transition.

2 CHAIRMAN GETZ: Commissioner Below.

3 BY CMSR. BELOW:

4 Q. Could you characterize in any way what the impact might  
5 be on rates, of both moving the date in this particular  
6 settlement, as opposed to perhaps other positions that  
7 were taken earlier?

8 A. (McCluskey) I haven't -- I haven't actually looked at  
9 the impact on the rates. What the -- what the  
10 reconciliation mechanism does, it obviously tracks the  
11 Company's over or under collection at any point in  
12 time. But, importantly, it also determines the amount  
13 of interest on the over or under collection that the  
14 Company receives or has to pay customers. And, it's  
15 the amount of interest that really is impacted by this  
16 Settlement Agreement.

17 I can't give you a -- a year or so ago,  
18 when we were in the thick of this proceeding, I  
19 probably could have told you to the dollar what the  
20 impact would be. But this Settlement Agreement  
21 significantly reduces the annual interest that the  
22 Company would receive on, say, an over collection or  
23 have to pay customers on an under collection. And, did  
24 I get that -- is that the right way?

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[WITNESS PANEL: Brock|McCluskey]

1 MS. ROSS: Yes. Maybe the Company might  
2 have those numbers?

3 BY THE WITNESS:

4 A. (Brock) Yes. As Mr. McCluskey has said, it does  
5 significantly reduce the amount of interest the Company  
6 would collect on a going forward basis after  
7 November 1st, 2008. The estimate of the impact on  
8 interest, using the numbers in Article 2.1, which we  
9 have agreed on an opening balance of approximately two  
10 and a half million dollars, at 4 percent, which is the  
11 interest rate in the schedules, for every million  
12 dollars of decrease in under collection or a decrease  
13 in over collection, excuse me, the impact would be  
14 \$40,000. And, so, the impact derived from the numbers  
15 in Article 2.1, the two and a half million, estimates  
16 that there would be an annual impact to decrease the  
17 amount of interest collected by the Company of  
18 approximately \$100,000. And, so, there would be a  
19 decrease, a corresponding decrease in rates relative to  
20 that amount of money on an annual basis, estimated  
21 based on these figures.

22 BY CMSR. BELOW:

23 Q. And, how does that compare roughly with the total  
24 collections for a given season, a winter period?

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[WITNESS PANEL: Brock|McCluskey]

- 1 A. (McCluskey) On Exhibit A to the Settlement Agreement,  
2 Page 1 of 3 -- actually, if you go to Page 2 of 3.  
3 And, if I could just tell you to go to Page 3 of 3,  
4 which has the January 2008 through November cost of gas  
5 numbers. So, looking at the second block in this Page  
6 3 of 3, "Winter Period", and the second row, you have  
7 the cost of gas. Unfortunately, Commissioners, we  
8 don't have a total there. But you can see, in January,  
9 February, and March, you're looking at significant  
10 sums, certainly over \$5 million a month.
- 11 Q. Would it be fair to characterize total billings to  
12 customers on the order of, you know, over \$20 million  
13 for the Winter '08 season?
- 14 A. (McCluskey) Yes. That seems to be an approximate  
15 figure.
- 16 Q. And, thus, would it be reasonable to characterize this,  
17 the impact of this accounting transition, to be very  
18 small in the scheme of things, sort of noise, in terms  
19 of the effect on rates from one season or year to the  
20 next?
- 21 A. (McCluskey) It is small. I would not characterize it  
22 as "noise". In rate cases, we've fought over items of  
23 significantly smaller in dollar amount.
- 24 Q. Well, I'm not trying to diminish the significance and

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1 importance of getting this accounting issue squared  
2 away. I'm just trying to put it in a context of the  
3 overall impact on rates.

4 A. (McCluskey) The impact is quite minor.

5 Q. Okay.

6 A. (McCluskey) And, it probably would not be in the 0.1 of  
7 a percent range -- it probably would not rise to the  
8 level of 0.10 percent.

9 Q. And, for each of you, do you think this is a reasonable  
10 -- a just and reasonable resolution of this issue and,  
11 you know, reasonably consistent with accounting  
12 practices, Generally Accepted Accounting Practices, the  
13 way this is being accounted for?

14 A. (McCluskey) I believe it does. What it does is it  
15 maintains the accrued accounting approach. And, it  
16 simply starts the clock ticking on the accrued  
17 accounting at a later date than otherwise would have  
18 happened.

19 A. (Brock) Yes. The Company agrees that this settlement  
20 is a fair way to resolve the issue of transitioning to  
21 the accrued accounting.

22 CMSR. BELOW: Okay. That's all.

23 CHAIRMAN GETZ: Commissioner Ignatius.

24 CMSR. IGNATIUS: Thank you.

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[WITNESS PANEL: Brock|McCluskey]

1 BY CMSR. IGNATIUS:

2 Q. Mr. McCluskey, when will we first see this transition  
3 in place? Will it be a part of the upcoming cost of  
4 gas filings?

5 A. (McCluskey) In talking to Mr. Frink this morning, he  
6 indicated that, with regard to EnergyNorth, I believe  
7 he said they have already made the filing for the  
8 winter proceeding, but not Northern at this point.  
9 And, I believe the Company, because the Commission  
10 hasn't issued an order on the Settlement for  
11 EnergyNorth at this point, I don't believe they have  
12 fully reflected the Settlement Agreement in their  
13 filing at this time.

14 Q. Is there an issue with the longer the transition time  
15 takes, if you're going back to November 1, 2008, is  
16 there an impact for customers that grows if it doesn't  
17 get picked up in the actual filing until next summer's  
18 filing?

19 A. (McCluskey) No. There's no financial impact. Because  
20 the start date, regardless of when the Company makes  
21 the filing, the start date will be November 1, 2008.  
22 They will have to adjust their reconciliation account  
23 back, using the principles set out in the Settlement  
24 Agreement, back to that date, regardless of whether

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1           they do it tomorrow or a year hence.

2                           CMSR. IGNATIUS: All right. Thank you.

3                           CHAIRMAN GETZ: Any redirect? Other  
4 questions for the witnesses?

5                           MS. GEIGER: No thank you, Mr. Chairman.

6                           CHAIRMAN GETZ: Okay. Hearing nothing,  
7 then the witnesses are excused. Thank you, gentlemen.

8                           Any objection to striking the  
9 identification and admitting Exhibit 11 into evidence?

10   (No verbal response)

11                           CHAIRMAN GETZ: Hearing no objection,  
12 they will be admitted into evidence.

13   Opportunity for closing? Ms. Ross.

14                           MS. ROSS: Yes. Staff believes that  
15 this Settlement is a reasonable resolution of the  
16 transition issue. It actually supports the Staff's  
17 litigated position, but the compromise is that the  
18 effective date is delayed significantly, which allowed the  
19 companies to continue to collect the higher interest rates  
20 through 2006 and 2007, and on till November 1st, 2008.  
21 But, going forward, it will, as you've heard testimony,  
22 reduce this Company's interest in its reconciliation  
23 accounts.

24   And, Staff believes that not only does

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1 it reduce recovery to the Company, that's not a rationale  
2 for necessarily supporting a change, but it does also make  
3 the accounting of costs and revenues in the reconciliation  
4 consistent, so that both costs and revenues are accounted  
5 for on an accrued basis, which this Commission has  
6 supported in its previous orders. And, we do that by  
7 adjusting the balance in the accrued accounts on  
8 November 1st to take into account revenues that are  
9 actually billed in November for usage in October.

10 So, we do recommend this Settlement.

11 Thank you.

12 CHAIRMAN GETZ: Thank you. Ms. Geiger.

13 MS. GEIGER: Thank you, Mr. Chairman.

14 Northern would respectfully ask that the Commission  
15 approve the Settlement Agreement as in the public  
16 interest. It was produced in the spirit of compromise.  
17 And, we'd note that the mechanism and the methodology  
18 that's been agreed to here for Northern is consistent with  
19 the way Unitil handles its accounting. And, therefore,  
20 the Company, since it has been acquired by Unitil, was in  
21 a better position to settle with Staff than when the  
22 docket was initially opened. So, we would ask that it be  
23 approved. Thank you.

24 CHAIRMAN GETZ: Okay. Thank you. Then,

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[WITNESS PANEL: Brock|McCluskey]

1 we'll close the hearing and take the matter under  
2 advisement.

3 (Whereupon the hearing ended at 10:34  
4 a.m.)

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