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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

August 19, 2008 - 10:11 a.m.
Concord, New Hampshire

NHPUC SEP04'08 PM12:54

RE: DG 08-048
UNITIL CORPORATION AND NORTHERN
UTILITIES, INC.:
Joint Petition for Approval of
Stock Acquisition.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. Unitil Corporation:
Gary Epler, Esq.
Scott J. Mueller, Esq. (Dewey & LeBoeuf)

Reptg. Northern Utilities, Inc.:
Douglas L. Patch, Esq. (Orr & Reno)
Mark Kempic, Esq.

Reptg. United Steel Workers - Local 12012-6:
Shawn J. Sullivan, Esq. (Cook, Kenison...)

Reptg. Mary Polcheis:
Alan Linder, Esq.
New Hampshire Legal Assistance

COURT REPORTER: Steven E. Patnaude, LCR No. 52

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APPEARANCES: (c o n t i n u e d)

Reptg. Residential Ratepayers:

Meredith Hatfield, Esq., Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:

Edward N. Damon, Esq.

I N D E X

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WITNESS PANEL: MARK H. COLLIN
 JOSEPH A. FERRO
 STEPHEN R. ECKBERG
 STEPHEN P. FRINK
 RANDALL S. KNEPPER

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in docket DG 08-048. On March 31, Unitil Corporation and Northern Utilities, Inc. filed with the Commission a Joint Petition for approval of Unitil's acquisition of Northern. An order of notice was issued on April 24th setting a prehearing conference that was held on May 14. And, we issued a procedural order on June 3 granting interventions and approving a procedural schedule, that was later modified by secretarial letter on July 16th. And, we have before us a Settlement Agreement that was filed on August 15th.

Can we take appearances please.

MR. MUELLER: Good morning, Commissioners. On behalf of Unitil Corporation, to my right, Gary Epler, Chief Regulatory Counsel for Unitil, and I am Scott Mueller, of Dewey & LeBoeuf.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. PATCH: Good morning, Mr. Chairman, Commissioners. Doug Patch, I'm with the law firm of Orr & Reno, appearing here this morning on behalf of Bay State and Northern Utilities. To my right is Mark Kempic, who

1 is the Assistant General Counsel for NiSource Corporate
2 Services Company. And, in addition today, we have here
3 Stephen Bryant, who is the President of Bay State Gas and
4 Northern Utilities. We also have Joe Ferro, who is a
5 member of the panel, who is the Manager of Regulatory
6 Policy. In addition, we have Pamela Bellino, who is the
7 Operations Center Manager for Massachusetts with Bay
8 State, in the back here. And, we have Paul Rogosienki,
9 who is the Operations Center Manager for Maine and New
10 Hampshire. Sorry for taking so long. Thank you.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. BELOW: Good morning.

13 CMSR. MORRISON: Good morning.

14 MR. SULLIVAN: Good morning,
15 Commissioners. My name is Shawn Sullivan. I'm with the
16 firm of Cook, Kenison, Bedard & Sullivan, here in Concord.
17 I'm joined here by David Emerson -- Emerton, the Unit
18 Chair of the United Steel Workers of America, Local
19 12012-6.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. MORRISON: Good morning.

22 CMSR. BELOW: Good morning.

23 MR. LINDER: Good morning. My name is
24 Alan Linder. I'm an attorney with New Hampshire Legal

1 Assistance. We represent Mary Polcheis. She is a low
2 income customer of Northern.

3 CHAIRMAN GETZ: Good morning.

4 CMSR. BELOW: Good morning.

5 CMSR. MORRISON: Good morning.

6 MS. HATFIELD: Good morning,
7 Commissioners. Meredith Hatfield, for the Office of
8 Consumer Advocate, on behalf of residential ratepayers.
9 And, with me today is Steve Eckberg, who is representing
10 the OCA on the panel.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. BELOW: Good morning.

13 CMSR. MORRISON: Good morning.

14 MR. DAMON: Good morning, Commissioners.
15 Edward Damon, for the Staff. And, with me this morning
16 are Steven Mullen, Robert Wyatt, Stephen Frink, and Randy
17 Knepper. And, I believe that Amanda Noonan will join us
18 around 10:30 or so.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. BELOW: Good morning.

21 CMSR. MORRISON: Good morning.

22 CHAIRMAN GETZ: I note that there does
23 not appear to be anyone here representing Hess
24 Corporation?

1 (No verbal response)

2 CHAIRMAN GETZ: That appears to be a
3 fact. Okay. Any preliminary procedural matters, before
4 we hear from the panel?

5 MR. MUELLER: I would just note that we
6 have a panel of representatives from the signatories to
7 the Settlement Agreement. The individuals who sponsored
8 testimony on behalf of Unitil are also here or will be
9 here in the hearing room, to the extent that the
10 Commission has any questions for them. And, they include
11 Lawrence Brock, Thomas Meissner, George Gantz, and Francis
12 Wells.

13 CHAIRMAN GETZ: Okay. Thank you.

14 MR. PATCH: Mr. Chairman, just to note
15 for the record, there is a motion for confidential
16 treatment that Northern had submitted earlier in the
17 proceeding. I don't think it needs to be resolved today,
18 as I don't think any of the exhibits that are proposed to
19 be introduced are anything that would require confidential
20 treatment. That could change, I suppose, during the
21 hearing. But I would just like to remind the Commission
22 that, perhaps as part of the order addressing the
23 Settlement Agreement, they could address that issue at
24 that time.

1 CHAIRMAN GETZ: Okay. Certainly,
2 pursuant to our rules, and prior to any decision on the
3 motion for confidentiality of material be treated in
4 confidence. And, we normally address any outstanding
5 motions in a final order. But let me raise this question,
6 though, Mr. Patch. Is there any issue that there are,
7 with respect to the motion for confidentiality, I don't
8 recall the details, that there are parties to this
9 proceeding or someone in this room this morning that
10 shouldn't be privy to any confidential information?

11 MR. PATCH: I don't have the motion in
12 front of me, but I believe the motion -- I think the
13 information was provided to the Staff and the Consumer
14 Advocate, only to those two parties, not actually parties,
15 but to those two participants in the proceeding. But,
16 again, I don't see it as being an issue in terms of what's
17 being presented today. But it's not -- at least some
18 portions of that information, it's my understanding, is
19 not something that has been shared with anyone else other
20 than Staff and the OCA.

21 CHAIRMAN GETZ: Well, then, we'll rely
22 on you to alert us if we get into some information over
23 which there may be some debate as to its confidentiality.

24 Anything else, before -- are you

1 proceeding, Mr. Mueller?

2 MR. MUELLER: Yes, just to give you an
3 idea of how we're going to proceed here. I will ask --
4 introduce each of the -- have each of the witnesses
5 introduce themselves and ask they be sworn. I will then
6 introduce some of the Unitil's exhibits, including the
7 Settlement Agreement, with Mr. Collin, and ask him a
8 series of questions to walk through the Settlement
9 Agreement. And, then, the other parties will have some
10 direct for their witnesses and introduce their testimony.

11 CHAIRMAN GETZ: Is everyone in
12 agreement?

13 (No verbal response)

14 CHAIRMAN GETZ: Hearing no objection,
15 then, Mr. Mueller.

16 MR. MUELLER: Okay. Thank you. Good
17 morning, witnesses. Stand and be sworn.

18 (Whereupon **Mark H. Collin, Joseph A.**
19 **Ferro, Stephen R. Eckberg, Stephen P.**
20 **Frink** and **Randall S. Knepper** was duly
21 sworn and cautioned by the Court
22 Reporter.)

23 **MARK H. COLLIN, SWORN**

24 **JOSEPH A. FERRO, SWORN**

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

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STEPHEN R. ECKBERG, SWORN

STEPHEN P. FRINK, SWORN

RANDALL S. KNEPPER, SWORN

DIRECT EXAMINATION

BY MR. MUELLER:

Q. Beginning with you, Mr. Collin, could you please state your name, title, and business address for the record.

A. (Collin) Yes. My name is Mark Collin. I'm Senior Vice President and Chief Financial Officer and Treasurer of Unitil Corporation. And, my business address is 6 Liberty Lane West, Hampton, New Hampshire.

Q. Mr. Knepper, can you answer the same?

A. (Knepper) My name is Randy Knepper. I'm the Director of Safety for the Public Utilities Commission. And, my business address is 21 South Fruit Street, right here in Concord.

Q. Mr. Frink.

A. (Frink) My name is Stephen Frink. I'm the Assistant Director of the Gas and Water Division. I work for the Commission. And, the address is 21 South Fruit Street.

Q. Mr. Eckberg.

A. (Eckberg) My name is Stephen R. Eckberg. I'm employed as a Utility Analyst with the New Hampshire Office of Consumer Advocate. And, our business address is 21

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 South Fruit Street, Concord, New Hampshire.

2 Q. Mr. Ferro.

3 A. (Ferro) My name is Joseph A. Ferro. I am Manager of
4 Regulatory Policy for Bay State Gas Company and
5 Northern Utilities. My business address is 300 Friberg
6 Parkway, Westborough, Massachusetts.

7 Q. Mr. Collin, I'm going to show you a volume that
8 contains 257 pages of Bates stamped testimony, entitled
9 "Unitil Corporation and Northern Utilities Joint
10 Petition for Approval of Stock Acquisition". Does this
11 contain the Joint Petition, along with Unitil's
12 prefiled testimony in this proceeding?

13 A. (Collin) Yes, it does.

14 MR. MUELLER: I'd like to ask that that
15 be marked as "Exhibit Number 1".

16 CHAIRMAN GETZ: So marked.

17 (The document, as described, was
18 herewith marked as **Exhibit 1** for
19 identification.)

20 BY MR. MUELLER:

21 Q. And, Mr. Collin, I'm also going to show you a letter
22 dated April 23, entitled "Joint Petition for Approval
23 of Stock Acquisition". Does that letter -- that has
24 been filed with the Commission. Does that letter

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 contain certain supplements to the Company's prefiled
2 testimony?

3 A. (Collin) Yes, it does. It's a updated synergy study.

4 MR. MUELLER: Thank you. I'd like to
5 ask that that document be marked as "Exhibit Number 2".

6 CHAIRMAN GETZ: So marked.

7 (The document, as described, was
8 herewith marked as **Exhibit 2** for
9 identification.)

10 MR. MUELLER: Does the Commission need
11 copies?

12 CHAIRMAN GETZ: We have a copy.

13 BY MR. MUELLER:

14 Q. And, Mr. Collin, looking at what we marked as "Exhibit
15 Number 1" and "Exhibit Number 2", is the testimony
16 contained therein, was that prepared by you or under
17 your direct supervision?

18 A. (Collin) Yes, it was.

19 Q. And, are there any material changes, besides the
20 revision we marked as "Exhibit 2", any material changes
21 to that testimony?

22 A. (Collin) No.

23 Q. Okay. And, I'm now going to show you a document dated
24 "August 15, 2008", with the docket number DG 08-048,

{DG 08-048} (08-19-08)

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 that's starting out "Enclosed for filing is a
2 Settlement Agreement". Is this document the Settlement
3 Agreement that has been filed by the parties in this
4 proceeding?

5 A. (Collin) Yes, it is.

6 MR. MUELLER: I'd like to ask that this
7 be marked as "Exhibit Number 3".

8 CHAIRMAN GETZ: So marked.

9 (The document, as described, was
10 herewith marked as **Exhibit 3** for
11 identification.)

12 BY MR. MUELLER:

13 Q. Turning to what we've marked as "Exhibit Number 3", Mr.
14 Collin, can you just give us a brief overview of the
15 Settlement?

16 A. (Collin) Yes. It's a comprehensive settlement relative
17 to the proposed acquisition of Northern Utilities by
18 Unutil Corporation. It's broken down into six major
19 areas, which I'll go through in a minute. Basically,
20 it has an approval section, which are the necessary
21 approvals that Unutil is seeking in order to complete
22 the acquisition of Northern Utilities. It has a
23 financial and a ratemaking section, which covers
24 several issues that were raised during the proceeding

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 relative to financial matters and ratemaking matters.

2 It also has a customer service and service quality

3 section, which provides an agreement between the

4 parties on certain customer service standards and

5 service quality standards. A fourth section is on

6 safety and reliability. There's a number of provisions

7 in here on safety and reliability that was included in

8 the Settlement.

9 A fifth section has to do with a second

10 component of the acquisition, which, in addition to

11 acquiring Northern Utilities, Unitil Corporation is

12 also acquiring Granite State Transmission, Inc. And,

13 there is some agreement among the parties relative to

14 matters relative to Granite State Transmission. And,

15 finally, there is a ongoing reporting section in the

16 Settlement, which we'll go through and point out some

17 of the more key reporting aspects of the Settlement.

18 Q. Thank you, Mr. Collin. So, if we can just turn to

19 Page 1 through 3 of the Settlement, Article I, is it

20 true that that provides some procedural background to

21 this proceeding?

22 A. (Collin) Yes, it does. And, again, Article I, starting

23 on the first part of the Settlement, I'll just point

24 out that this was a very robust and complete process,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 which involved extensive discovery, participation by
2 all the parties, a number of witnesses, as the
3 Commission is aware, both the OCA and the Staff
4 submitted testimony, as well as the Company's direct
5 case. There was a number of technical sessions had
6 that lasted, lengthy technical sessions, that lasted
7 well into the day, and often without a lunch break. Ed
8 runs a pretty tight ship. But we got through a lot of
9 information. We also were conducting this process
10 concurrent with a similar process in Maine, as the
11 Commission is aware. We also require approval from the
12 Maine Commission relative to this transaction. And, we
13 were working together between Maine and New Hampshire
14 to keep both parties informed where we were not jointly
15 holding sessions. And, we did actually hold a joint
16 session at Unitil's headquarters, where we went over
17 our Integration Plan and Transition Plan as a joint
18 group. So, there's been a lot of cooperation, a lot of
19 work in here, and this procedural schedule is laid out
20 here in the introduction, but I'm not sure it really
21 gives the full flavor of all that's gone into this
22 Settlement by all the parties.

23 Q. Thank you.

24 CHAIRMAN GETZ: Can I just interrupt?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 MR. MUELLER: Absolutely.

2 CHAIRMAN GETZ: I want to make sure I
3 understand. It looks like all the parties to the case are
4 signatories, except United Steel Workers and Hess
5 Corporation?

6 WITNESS COLLIN: That's correct.

7 CHAIRMAN GETZ: And, I assume they had
8 the opportunity to participate in the settlement
9 agreements or the settlement discussions?

10 WITNESS COLLIN: Yes.

11 BY MR. MUELLER:

12 Q. If I can now turn, direct your attention to Page 4 of
13 Exhibit 3, Article II, entitled "Authorizations". Is
14 it true that what is recited here, in terms of the
15 parties' agreement on authorizations, essentially
16 reflects what the Company has requested in its original
17 Joint Petition and its financing petition?

18 A. (Collin) Yes, it does. The key authorizations is we
19 are seeking authorization of the service company
20 agreement between Unitil Service Corp. and Northern,
21 much like we have an agreement between Unitil Energy
22 Systems here in New Hampshire and the Service Company.
23 We're also asking for Northern's ability to participate
24 in the Unitil cash pooling and loan agreement, which

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 all our utility affiliates participate in. There's a
2 tax sharing agreement between the Unitil affiliates as
3 well. And, then, first and foremost, we're obviously
4 asking for approval of the 100 percent acquisition of
5 the common stock of Northern Utilities as being in the
6 public interest.

7 Q. Turning now to Page 5, running into Pages 6 through 8,
8 Article III, entitled "Rate Matters". Can you please
9 walk us through each of those provisions?

10 A. (Collin) Yes. On Page 5, I'm actually going to start
11 and let me highlight a financial or rate matter that's
12 just before Section 3, and it's under Section 2.4.
13 And, this was a commitment that was made by the Company
14 in its original prefiled testimony, and continues to be
15 captured here in the Settlement Agreement. And, that
16 is that the Company has agreed -- has agreed to make a
17 commitment that it would not seek recovery of what are
18 termed "Transaction Costs". Those are the costs of the
19 transaction, including investment banking fees,
20 advisory fees, and legal fees associated with this
21 transaction, as well as transition costs. And, those
22 are costs, one-time costs that we incur relative to
23 transition Northern over to Unitil. The Company made a
24 commitment in its filing that it would not seek

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 recovery of those costs from customers, but did ask to
2 be able to amortize those over a ten-year period, and
3 asked for the Commission's authority to amortize those
4 over a ten-year period, to better match those costs
5 from the Company's perspective with the benefits that
6 it will achieve over the longer term associated with
7 the transaction. So, that's really the first
8 financial/ratemaking type issues that's in here under
9 Section 2.4.

10 And, after that, the first item under
11 "Rate Matters" is the synergy savings. And, I believe
12 we have an update to that, which was filed as Exhibit
13 -- is that the Exhibit 2?

14 Q. Yes.

15 A. (Collin) And, the Company conducted, in conjunction
16 with its acquisition of Northern, conducted a synergy
17 analysis, and this was updated in --

18 Q. Yes. If I can just interrupt you, Mr. Collin, I'm
19 going to show you a document entitled "Oral Data
20 Request 2-2". Is this, in fact, the update to the
21 synergy savings study that you were just referencing?

22 A. (Collin) Yes, it is.

23 MR. MUELLER: I'd like, Commissioner, to
24 ask that this be marked as "Exhibit Number 4".

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 CHAIRMAN GETZ: It will be so marked.
2 (The document, as described, was
3 herewith marked as **Exhibit 4** for
4 identification.)

5 BY MR. MUELLER:

6 Q. Do you have anything further on Article 3.1, regarding
7 the synergy savings, Mr. Collin?

8 A. (Collin) Yes. Briefly, based on the updated synergy
9 study, the largest area of potential synergy savings
10 continue to be associated with the achievement of
11 efficiencies and economies of scale relative to the
12 provision of shared utility services at Unutil Service
13 Corp. Based on this study, we estimated that there
14 would be synergies accruing directly to Northern of
15 about \$1.9 million annually relative to the shared
16 utility services. In addition to that, there was also
17 other synergies related to the -- at the local
18 operating level relative to cost-effective purchasing,
19 practices and insurance and other employee retiree
20 benefit plan type services, that provided an additional
21 \$500,000 of annual synergy savings in our estimate.

22 In total, the annual synergy savings
23 that we have estimated for Northern, as a result of
24 this acquisition, is about \$2.4 million per year. And,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 I'll make the point that we committed in our initial
2 filing, and it continues to hold in the Settlement,
3 that all these synergy savings would flow through to
4 Northern's customers, directly to Northern's customers
5 at the time of our next base rate proceeding. Prior to
6 that base rate proceeding, these synergy savings will
7 either delay or defer the need for any rate relief, and
8 allow us to basically stay out of a rate case longer
9 than we might otherwise but for the synergy savings.

10 Q. Turning now to Article 3.2, you just mentioned a
11 stay-out provision. Can you explain the Rate
12 Stabilization provision?

13 A. (Collin) Yes. Just one more thing on the synergy. The
14 synergies will flow to all of Unitil's affiliates. So,
15 in addition to Northern receiving synergies as a result
16 of the acquisition, there will also be some synergies
17 that accrue directly to Unitil Energy Systems, which is
18 also under the Commission's jurisdiction here in the
19 State of New Hampshire. And, that estimated synergies
20 to Unitil Energy System is \$1.5 million as a result of
21 the acquisition as well.

22 Turning to 3.2, as part of the
23 Settlement Agreement, in our initial prefiled
24 testimony, the Company had committed to stay out until

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 November 1st, 2009, in terms of a rate stay-out.
2 During the negotiations and several other issues in the
3 settlement, we reached agreement on a stay-out
4 provision that essentially will hold the Company out
5 from seeking rate relief, from filing for rate relief
6 until November 1st, 2010. So, it extended the
7 Company's initial commitment in its filing by an
8 additional year, plus change the nature of the date by
9 saying that "we won't file until after 2010". And,
10 then, also has an agreement in it relative to temporary
11 rates, where any temporary rates for a filing after
12 November 1st, 2010 would not take place until May 1st,
13 2011 or later. So, there's a key provision there for
14 stay-out in terms of benefits to customers.

15 There is two, what we call "off-ramps"
16 relative to that stay-out provision. One is described
17 here, looks at our large General Service customers, and
18 basically says that, to the extent that we were to lose
19 8 percent or greater of our base revenue associated
20 with those customers due a major customer leaving the
21 system or bypass or some other cause, that we could --
22 the stay-out provision would no longer apply. That
23 8 percent is measured against 2007 total base revenue.
24 So, that's a measure to address really a catastrophic

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 loss of sales to a major class that is important to the
2 financial integrity of the Company.

3 The second stay-out, we'll talk a little
4 bit -- a stay-out off-ramp, we'll talk a little bit
5 more about later. But it's basically a provision that
6 says that the stay-out provision would no longer apply
7 to the extent that Granite State -- Granite State
8 Transmission's rates, which are now under FERC
9 jurisdiction, became under state jurisdiction or under
10 the Commission's authority. And, to the extent that
11 that happened, we believe there would be need for lots
12 of different ratemaking activity to essentially
13 transition Granite State from a FERC-regulated entity
14 to a state-regulated entity. And, therefore, we
15 provided for an ability to move off the stay-out
16 provision and address those issues should that happen
17 before the end of the stay-out period.

18 Q. Mr. Collin, if I can now turn your attention to Article
19 3.3, on Page 6 of Exhibit 3. Can you tell us what
20 integration costs are and why it's appropriate for
21 Unutil to recover those costs or Northern to recover
22 those costs?

23 A. (Collin) Yes. There is a attachment to the Settlement.
24 It's Attachment --

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Attachment A?

2 A. (Collin) -- A, which does provide some additional
3 detail on the integration costs. But, in summary,
4 integration expenditures represent expenditures
5 associated with the utility plant, equipment, and
6 information systems that are incurred by the Company to
7 meet its obligations of customers after the acquisition
8 is completed. These types of costs are necessary
9 capital expenditures for the Company to meet its
10 utility service obligations to customers. They include
11 replacement or supplement existing utility plant,
12 equipment and systems and their associated costs, or
13 they enhance and extend the life of existing utility
14 plant, equipment and systems for the benefit of
15 customers.

16 We differentiate integration costs, and
17 have throughout this process, from transition or
18 transaction costs. In the case of transaction and
19 transition costs, which are shareholder costs and being
20 absorbed by shareholders, the integration costs are not
21 one-time expenditures or nonrecurring expenditures.
22 They represent actual investments by the Company in
23 systems and plant that will provide service to
24 customers. One of the unique parts of this transaction

{DG 08-048} (08-19-08)

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 is we call it a "carve-out". We actually carve
2 Northern Utilities out of the NiSource holding company
3 system. In doing that, we got portions of the Northern
4 -- the complete Northern company, but portions of it
5 were left behind, and that portion that was left
6 behind, if you will, are those centralized services and
7 systems that are provided by NiSource to all its
8 affiliates. So, when we acquired Northern, we only
9 acquire the operating side of the company, not the full
10 service side of the company, relative to things like
11 accounting, customer service, dispatch, and operations
12 type, supply, gas supply, all those things were left
13 behind. We need to replace those.

14 And, so, integration costs in many ways
15 reflect the replacement of those costs by Unitil, since
16 NiSource will no longer be providing those to Northern.
17 In addition to that, they also reflect -- integration
18 costs also reflect normal upgrades and updates to
19 systems that Northern has to serve its customers. So,
20 we've spent a lot of time during the settlement process
21 discussing integration costs and their appropriateness
22 for recovery. We've sought, unlike the transaction and
23 transition costs, which are shareholder costs, we
24 sought some assurance that these costs will be -- we'll

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 be allowed to seek recovery of those in the context of
2 a normal base rate case. And, this Settlement
3 provision and the documentation in the Settlement is
4 intended to basically show the agreement of the parties
5 that the Company would be allowed an opportunity to
6 seek recovery of that in its next base rate case.

7 Q. Mr. Collin, could you please explain the parties'
8 agreement on the Purchase Acquisition Adjustment
9 referenced in 3.4 of the Agreement?

10 A. (Collin) Yes. The Purchase Acquisition Adjustment
11 basically represents the difference between the
12 purchase price that the Company is paying for the
13 common stock of Northern Utilities and the book value
14 of the equity that we are acquiring. And, the
15 Commission is probably familiar with, in many
16 transactions, there is oftentimes a goodwill that's
17 recorded, which is the difference between those two.
18 When the purchase price is higher than that book value,
19 you'll see goodwill recorded in the transaction. In
20 this case, there is a terminology you could use to
21 explain it is there's actually negative goodwill, that
22 is the purchase price was less than the book value of
23 the equity. So, there is a negative goodwill
24 essentially associated with that. That Purchase

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Acquisition Adjustment, the parties have agreed,
2 consistent with the way that it's typically treated
3 when it's a positive amount or above, when the purchase
4 price is greater than that equity book value is treated
5 below the line and will be treated below the line for
6 ratemaking purposes, which means it will not come into
7 use in terms of calculating the Company's rate of
8 return for regulatory ratemaking purposes.

9 Q. And, has the Company, in Exhibit 1, provided a schedule
10 showing the derivation of that \$21.4 million cited in
11 Article 3.4?

12 A. (Collin) Yes. And, that was the estimate that was done
13 at the time we filed our testimony. This number will
14 move around as it does adjust for changes in the assets
15 and liabilities of Northern prior to the acquisition.
16 So, as those assets and liabilities move around, that
17 number will continue to adjust. But we did provide our
18 initial calculation. It's Exhibit LMB-5 in our
19 prefiled testimony, which is Bates stamped 209.

20 Q. Of Exhibit 1?

21 A. (Collin) Of Exhibit 1.

22 Q. Thank you. Turning now to Article 3.5, on Page 7 of
23 Exhibit 3. Can you please explain the provisions of
24 the Settlement relating to accumulated deferred income

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 tax?

2 A. (Collin) As part of the transaction, the Company and

3 NiSource agreed to use what's called the Section

4 338(h)(10) election for tax purposes on the

5 transaction. And, in a nutshell, that allows the

6 Company to treat, for tax purposes, the transaction as

7 an asset, as an asset sale, or, in our case, an asset

8 purchase, versus a stock or common equity purchase.

9 And, it has different tax consequences relative to the

10 Company. The Company deems that has a benefit to the

11 Company. But, because the net effect of that was to

12 eliminate the deferred tax balance on Northern's books,

13 as a result of the 338 election, those are totally

14 eliminated. And, because deferred taxes are typically

15 a deduction or a benefit to customers, because they're

16 a deduction to rate base, there was a potential

17 ratemaking harm as a result of that 338(h)(10) election

18 to customers. So, what the Company has agreed to do in

19 the context of this Settlement is to hold customers

20 harmless from that corporate tax election that it made

21 by continuing to calculate its deferred taxes as if the

22 transaction had never occurred. And, so, we will hold

23 customers harmless from that deferred tax calculation.

24 And, then, to the extent that in the future deferred

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 taxes, the credit to rate base would be higher because
2 of this election, to the extent that ever becomes a
3 more favorable impact to customers, we would also pass
4 on that favorability to customers. So, there's really
5 a two-stage benefit here to customers. One is, they're
6 held harmless, to the extent that 338 isn't as
7 attractive for ratemaking purposes. And, then, to the
8 extent our tax election results in a greater deduction
9 to rate base in the future years, we would include that
10 benefit and flow that directly to customers.

11 Q. Mr. Collin, I'm going to show you a two-page document
12 entitled "Oral Data Request", it contains Lawrence
13 Brock's name at the bottom. It's dated August 19th,
14 2008. Is this, in fact, a numerical example of how
15 this hold harmless provision would operate?

16 A. (Collin) Yes, it is.

17 MR. MUELLER: I'd like to ask that this
18 document be marked as the next sequential exhibit.

19 CHAIRMAN GETZ: Be marked as "Exhibit 5"
20 for identification.

21 (The document, as described, was
22 herewith marked as **Exhibit 5** for
23 identification.)

24 BY MR. MUELLER:

{DG 08-048} (08-19-08)

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. And, Mr. Collin, can you just briefly walk us through
2 that exhibit?

3 A. (Collin) Yes. Essentially, what this is trying to show
4 is how the Company will maintain pro forma regulatory
5 accounting books for the historical accumulated
6 deferred income tax balances that Northern had prior to
7 the transaction, and substitute those historical
8 amounts for the amount of the Company's actual deferred
9 income taxes under its 338(h)(10) election results, and
10 to substitute the historical Northern balances for what
11 we will actually see under our 338(h)(10) election
12 until such time that the 338(h)(10) election is more
13 favorable. And, then, we'll switch over to that stream
14 of deferred taxes. So, again, this is a concept of
15 holding the customers harmless, but also flowing
16 through part of the benefits of the 338(h)(10) election
17 when there's benefits from a ratemaking purpose for
18 that.

19 So, the second page just shows how that
20 would work in a given particular year. And that, in
21 this case, it's a 2011 year. And, what -- what would
22 happen is you'd have, in the first instance, the
23 historical accumulated income taxes related to Northern
24 here are a little over \$13 million. As a result of the

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 acquisition, those will be eliminated. And, so, you
2 would no longer get a \$13 million deduction to rate
3 base when you did your ratemaking, if you just took the
4 actual book amount of deferred taxes after the 338
5 election. The Company says "we'll pro form that" or
6 the Settlement says "we'll pro form that 13.1 million
7 back in for ratemaking purposes." We will eliminate,
8 in Line 2 here, we will not include actually a deferred
9 tax credit here relative to the 338 election. In the
10 future years, that turns around. And, so, we would
11 include that potentially in future years when it's more
12 favorable, again, to the actual historical. And, then,
13 the rest of the deferred tax ratemaking really doesn't
14 change.

15 Anything to do with FAS 109 and
16 regulatory assets is unaffected by the transaction of
17 the 338 election, so that remains the same. And, then
18 -- that was Line 3. And, then, Line 4 says that going
19 forward, any plant we add, from the day we own the
20 Company going forward, the 338(h)(10) election has no
21 impact on the deferred tax calculations between the
22 stock acquisition or an asset acquisition. So, there's
23 no impact there at all. So, our deferred taxes going
24 forward, we don't have to make any adjustment for it.

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[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Those will be calculated just as they always would have
2 been. So, the net here is trying to just demonstrate
3 that customers are held harmless from this, from our
4 election, because we will proform in what their
5 deferred taxes would have been but for the transaction.

6 Q. Turning now to Page 8 of Exhibit 3, Mr. Collin, can you
7 please explain the provisions of Article 3.6, entitled
8 "Cost of Capital"?

9 A. (Collin) Yes. Under the transaction, Northern will be
10 transferred to Unitil debt-free. There will be no debt
11 on Northern whatsoever. And, as a result of that, with
12 the transaction, Unitil intends to recapitalize
13 Northern with a balanced capital structure of
14 approximately 50 percent long-term debt and 50 percent
15 common equity. In doing that, we are going to be going
16 out, and under a separate petition, we filed with the
17 Commission a separate petition requesting authority to
18 issue for Northern about \$80 million of long-term debt.
19 When we bring that debt on, it will come on to Northern
20 at current market interest rates for long-term debt of
21 a similar investment grade.

22 We -- As a result of that, there will be
23 a increase in the embedded cost of long-term debt for
24 Northern relative to what's currently on its -- on its

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 books. Northern has a very favorable intercompany loan
2 that is -- was acquired or was issued at a time where
3 interest rates were extremely low, and it's at about
4 4.8 percent. So, because of the fact that our cost of
5 debt after the transaction will result in a slightly
6 higher overall cost of debt for Northern, we have
7 agreed, for the period that its old debt would have
8 been in place, we have agreed to use that cost of
9 capital until it expires. Once it expires, then the
10 new cost of capital or cost of debt would come into
11 effect. So, there is a transitional period here, if
12 you will. And, our plan is that the 4.8 percent was
13 due to expire in June of 2013. So, any ratemaking we
14 do up until June of 2013, customers will continue to
15 receive the benefit of that low cost debt that was on
16 Northern prior to the transaction, and we will proform
17 that for ratemaking purposes. Thereafter, we would
18 move onto our own cost of debt.

19 Q. And, Mr. Collin, I'm going to show you a one-page
20 exhibit entitled "Northern Utilities Weighted Average
21 Cost of Debt". Is this, in fact, a exhibit showing the
22 derivation of the weighted cost of debt that you were
23 just referring to and that's referred to in the
24 Settlement Agreement?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) Yes.

2 MR. MUELLER: I'd like to ask that this
3 be marked as the next sequential exhibit.

4 CHAIRMAN GETZ: It will be marked as
5 "Exhibit 6" for identification.

6 (The document, as described, was
7 herewith marked as **Exhibit 6** for
8 identification.)

9 BY MR. MUELLER:

10 Q. Mr. Collin, is it true that Unitil has also committed
11 not to seek recovery of any equity issuance costs
12 related to the raising equity for the proposed
13 transaction?

14 A. (Collin) Yes. Our current estimate in our filing was
15 the equity issuance costs would be about \$4 million. I
16 talked earlier about the transaction and transition
17 costs, our estimate in our filing for those was about
18 \$6.6 million. So, in total, the equity issuance costs,
19 along with those transaction and transition costs, all
20 represent costs -- shareholder costs that the Company
21 has agreed not to seek recovery of.

22 Q. And, looking at Article 3.7, on Page 8 of Exhibit 3, is
23 it true that Unitil has agreed to continue accounting
24 for environmental remediation costs that's currently

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 being used by Northern and to use the current cost
2 recovery mechanism for those costs?

3 A. (Collin) Yes.

4 Q. Let's turn now to Article IV, on Page 8 of Exhibit 3,
5 entitled "Additional Customer Provisions". Can you
6 please briefly explain those?

7 A. (Collin) Yes. There's a couple of provisions under
8 Article IV. One is just an affirmation that Unitil
9 will continue to -- continue the low income programs
10 and the low income energy efficiency programs currently
11 offered to the customers of Northern, so there will be
12 no change in that. And, then, we've also, subsequent
13 to the closing, Unitil has agreed to continue to
14 evaluate programs and work with the Commission Staff
15 and other interested parties, including New Hampshire
16 Legal Assistance and its low income clients on the
17 programs and keeping people informed on the status of
18 the programs and continuing effort -- a collaborative
19 effort to reach out to low income customers, as we have
20 and do with all our utility affiliates.

21 The other provision here is customer
22 communications. I think all the parties recognize
23 that, in a transition period like this, where you're
24 transitioning a company like Northern over to Unitil,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 there can be periods of customer confusion and
2 frustration of "Who do I talk to?" "How do I talk to
3 somebody?" "I didn't know this was happening. What do
4 I do now?" All the things that we probably face
5 whenever one of our vendors or one of the companies
6 that we work with changes. So, we're very cognizant of
7 that. We are going to work in every way we can to try
8 to keep customers informed, to work with the Staff, the
9 OCA, and other interested parties to make sure that
10 customers are receiving open and good communications
11 about this transition and try to work through that
12 process.

13 That said, it is a transition, and, you
14 know, it's always something that change is tough for
15 everybody, and we're just hoping to keep that as smooth
16 and as well coordinated as we possibly can.

17 Q. Turning now to Page 9 of Exhibit 3, Article V, "Service
18 Quality". Can you please summarize the parties'
19 agreement contained in those provisions?

20 A. (Collin) Yes. There's several provisions here on new
21 service quality metrics, which include automatic
22 penalty provisions, similar to the provisions that the
23 Commission already established for Northern in prior
24 dockets. We have agreed to some what I'll call

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 "enhancements", and I think most parties would agree
2 "improvements" to those service quality metrics, in
3 part bringing them in line with the service quality
4 type metrics that we were already using at the other
5 Unutil affiliates. I think they're a little more
6 stringent and an improvement than was previously in
7 place. And, so, we've agreed to implement those on
8 Northern, as we do on our other Unutil affiliate
9 companies. And, in addition, we've added some other
10 reporting on metrics to assist the Commission in
11 gaining more information relative to the quality of
12 service we're providing to customers. So, there was a
13 lot of discussion on that, a lot of good work that went
14 on between the parties, in terms of discussing those
15 metrics, and coming up with a plan that I think we feel
16 provides a very clear and good way to measure service
17 quality. We use it as a management team to help us
18 better operate the Company. So, they're important
19 metrics. They're not just regulatory metrics, they're
20 real management metrics. And, I think that it's been a
21 good discussion with the Staff and the OCA to come up
22 with a program that works for all of us.

23 Q. Now, I'm now turning to Page 10 of Exhibit 3, Article
24 VI, entitled "Gas Safety and Reliability". Can you

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 summarize the provisions of that article please?

2 A. (Collin) Yes. I'm sure this gentleman right next to me
3 can do a lot better job at that than I could, but I'll
4 leave that for him to add on a little bit. There are a
5 number of gas safety and reliability, and there was
6 some extensive discussion on these areas. And, there's
7 a number of reporting in various areas to help keep the
8 Gas Safety Engineer and the Commission informed about
9 safety and reliability on Northern's gas system. And,
10 I think we went through those. And, you'll see a
11 number of them listed here. I'll point out a couple of
12 important ones, not that any one is more important than
13 the other. But, on Section 6.4, there was an agreement
14 that the Company would continue the existing Bare Steel
15 Replacement Program that Northern had been working on
16 for a number of years and we'll continue to implement
17 that, and essentially would stay at the same pace of
18 replacement of the Bare Steel Program that had been
19 going on, which would put us on about a nine year plan
20 to finish up all bare steel here in the State of New
21 Hampshire, which is a good plan, I think is at the
22 right pace for that commitment.

23 There's also, as I indicated, a number
24 of reporting areas, and we're going to continue to work

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 with the Gas Safety Engineer and with the Commission
2 Staff and other interested parties on coming up with
3 detailed reporting formats that give more clarity on
4 various matters. And, so, there's been a lot of
5 agreement to continue to work on a going forward basis
6 to continue to improve the relationship and the
7 reporting standards and -- relative to gas safety, and
8 reliability, which is a key part of the transaction.

9 I also do want to point out, on Page 13,
10 under Section 6.9, we do have a specific call out here,
11 a discussion about post transaction services in an area
12 of our service territory, the Atkinson, Plaistow and
13 Salem area of the service territory, that is somewhat
14 remote to -- I think the Commission is familiar with
15 where Plaistow and Salem and Atkinson are relative to
16 our Portsmouth headquarters. And, it's important that
17 we be able to remain close enough to that territory to
18 provide emergency response and other customer care
19 facilities. It is currently served out of the Lawrence
20 facility of Bay State. And, obviously, with the
21 transaction, we will no longer be in a position to
22 continue to use the Lawrence facility of Bay State.
23 So, we'll be transitioning that facility. And, it's an
24 important agreement of the Company to transition that

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 and in an appropriate way, so that we'll have the
2 proper staffing shift and emergency response procedures
3 to know -- to ensure no degradation of response time
4 and that we establish an appropriate satellite facility
5 out there for on-site storage of emergency materials,
6 excavation equipment, and other materials as deemed
7 necessary.

8 Q. And, is it true, Mr. Collin, that in response to the
9 testimony of Mr. David Emerton of United Steel Workers,
10 that the Company has agreed to an additional commitment
11 in regards to providing safe and reliable service in
12 the Atkinson/Plaistow/Salem area?

13 A. (Collin) Yes. Through this process, we have had -- the
14 Steel Workers Union has participated in the settlement
15 discussions. And, we have had, both within the
16 settlement discussions and some sidebars, continue to
17 have discussions with the Steel Workers Union relative
18 to concerns out there. And, I think we've reached a
19 point where we've been able to reach an agreement on
20 the first stage or the first steps relative to
21 resolving their concerns that they have raised in their
22 testimony relative to that area. And, if I may read
23 this into the record?

24 Q. Yes, if you could read verbatim that commitment.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) "Recognizing the need to provide safe and
2 reliable service to the Atkinson/Plaistow/Salem area,
3 and to expeditiously bring an end to the services from
4 Bay State referenced in Section 6.9 and provided under
5 the Transition Service Agreement, Unutil commits to
6 post two service technicians and one distribution
7 operator positions within one week of the closing."
8 "Post" means you put it up on a board and say "I'm
9 acquiring these positions." So, that's what the "post"
10 refers to. "Unutil further agrees to develop an
11 integration plan for this area within 30 days of
12 closing and to share this plan with the Union and
13 solicit the Union's input and feedback before
14 finalizing such plan."

15 So, basically, an agreement that we will
16 be posting positions to service that area and
17 particularly provide that emergency response. We will
18 work on that transition plan in a rapid, fairly
19 expeditious fashion, and we will work cooperatively and
20 closely with the Union on putting that plan together.

21 Q. Mr. Collin, I now want to turn to Page 13 of Exhibit 3,
22 bottom of the page, Article VII is entitled "Granite
23 Gas Transmission Provisions". Can you please summarize
24 those provisions for us?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) Yes. Just before I get into the provisions
2 themselves, when Unitil desired to and decided to
3 pursue an acquisition of Northern Utilities, it was
4 fairly early on in our due diligence process that we
5 recognized the importance and the need for us to also
6 acquire Granite State Transmission, Inc. Granite
7 State, as the Commission knows, is essentially the
8 backbone of the Northern system all through New
9 Hampshire and up into Maine, and provides essentially
10 Northern all its access to the interstate pipeline
11 system or practically all its access. As a result of
12 that, we felt it very important and critical to the
13 negotiation that we acquire Granite State, and we were
14 successful at doing that.

15 From the beginning, when we came to the
16 Staff and the OCA and the other parties, we indicated
17 that we were interested in and willing to look at the
18 current organizational structure and the current
19 regulatory structure associated with Granite State
20 Transmission, to see if there was a better regulatory
21 structure, organizational structure from a company and
22 a customer perspective. And, we indicated that, once
23 we own the asset, we would be in a position to better
24 evaluate that, to do the studies, and to come up with a

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 plan, if you will, or a recommendation. We had a lot
2 of discussion during the settlement process on this
3 issue. It was, obviously, an issue that's been -- it's
4 been around long before this transaction took place. A
5 lot of people had a lot of different opinions on that.
6 And, I think where we came out is we were able to come
7 out with a resolution that I think is in the best
8 interest and really moves this issue forward, and will
9 get it resolved within a relatively short time, given
10 the transaction.

11 And, what you'll see under Article 7,
12 7.1, Unitil has agreed to do a comprehensive
13 collaborative study of the structure and operations of
14 Granite and Northern, in coordination with the parties,
15 so in coordination with the Staff and the OCA, within
16 one year of the closing of the proposed transaction.
17 So, the first year after the close of the transaction,
18 we will be looking at this organizational and
19 regulatory structure for Northern and Granite.

20 There is an Attachment B, which provides
21 a little more in-depth discussion of that. Our intent
22 is to complete that study collaboratively with the
23 parties, to come back, based on that, after looking at
24 a number of areas, if you turn to Attachment B, there

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 are a number of key areas that will be involved in the
2 study, including impacts on the system, our network
3 planning issues, construction requirements and
4 reliability. We'll look at integrity management
5 planning costs and our program costs and our capital
6 expenditures related to integrity management, either as
7 a FERC-regulated interstate pipeline or as a
8 distribution pipeline. We'll look at organizational
9 impacts relative to reducing the operating pressure of
10 the pipeline. And, we'll also look at supply
11 contracts, and whether that organizational structure
12 has enough impact on the ability to acquire least cost
13 supply contracts. We'll look at the impact on
14 marketers and suppliers or shippers on the pipeline,
15 what will be the impact on the marketers and suppliers.
16 And, then, we'll obviously look at the legal and
17 regulatory structure. What regulatory structure makes
18 most sense and the legal structure for Granite? So,
19 that study was a key component of the settlement. It
20 was one of the, if I may say, one of the last issues
21 settled. And, I think that we ended up with a good
22 result relative to being able to move forward with this
23 settlement on that issue.

24 In addition to that, during the study

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[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 period, under Section 7.2, we've agreed for an interim
2 rate change to Granite. It has a current five year
3 contract. Granite and Northern currently are under a
4 five year special contract which expires at the end of
5 October of this year. And, as a result of that
6 expiring, there had to be a new -- a new election by
7 Northern for capacity on Granite, as well as a new rate
8 set. And, what we have agreed here in the Settlement
9 is to have Northern enter into an agreement with
10 Granite, to set its rate at the current what they call
11 the "recourse rate", which is basically the maximum
12 tariff rate that Granite has on file with the FERC.
13 And, that rate would be in effect for a period of up to
14 two years. The one -- That's kind of a stay-out for up
15 to a period of two years. The one off-ramp would be,
16 to the extent that Granite came under state
17 jurisdiction for rates, then that rate would
18 essentially convert over to the state, and the stay-out
19 would no longer apply, and we'd do the rate setting at
20 the state level. So, that's an important part of this.
21 It allows us, during this study period, to essentially
22 remove the rate issues at the FERC off to the side so
23 that we can do the study without that also being an
24 issue on the table.

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[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 And, then, finally, a real hard-struck
2 deal here, the last component. Apparently, there's
3 been an ongoing issue relative to the assessment, the
4 Commission's annual assessment on Granite. And, Unitil
5 agrees that, beginning with the next fiscal year,
6 starting July 1st, 2009, that Granite would pay the
7 annual assessment under RSA 363-A and closing that
8 particular docket.

9 Q. Mr. Collin, I'm now going to turn to Page 15 of
10 Exhibit 3, and ask you to highlight any of the
11 provisions under the article entitled "Reporting" that
12 you think are significant?

13 A. (Collin) Yes. There's really, I guess, two here that I
14 just want to highlight, a number of reporting
15 conventions here that we've agreed to. Two important
16 ones, 8.3, we will be providing the Commission, the
17 Staff, and the OCA an initial report on our transition
18 plan on or before September 15th. That will
19 essentially update all the parties on the status of our
20 transition from -- to bring Northern over to Unitil,
21 and go through some of that planning effort. We'll
22 continue to provide that reporting to the Staff and the
23 OCA on a monthly basis thereafter, so that the Staff
24 and the OCA can continue to stay apprised of our

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 transition and how well it's going, and the process
2 that we're undertaking. So, that's a key component of
3 our reporting.

4 Q. I'm going to show you a document entitled "Data Request
5 Staff 2-105". Is this, in fact, the current version of
6 the Transition Service Agreement that Northern -- that
7 Unitil and NiSource have agreed to to date?

8 A. (Collin) Yes.

9 Q. And, this is one of the things you'll be reporting on?

10 A. (Collin) Yes.

11 MR. MUELLER: Okay. I'd like to ask
12 that this be marked as the next sequential exhibit.

13 CHAIRMAN GETZ: It will be marked for
14 identification as "Exhibit Number 7".

15 (The document, as described, was
16 herewith marked as **Exhibit 7** for
17 identification.)

18 BY MR. MUELLER:

19 Q. And, did you have anything further on reporting
20 requirements, Mr. Collin?

21 A. (Collin) I did. Just one other item that's near and
22 dear to my heart for sure. Separately from this
23 docket, we also filed a request, as I mentioned
24 earlier, for authorization from the Commission to allow

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Northern to issue \$80 million of new long-term debt.
2 We expect to be going to the market in early September,
3 about the second week of September, right after Labor
4 Day, and are planning on what they call "circling the
5 terms" of that deal in that period. Right after we
6 circle, we would bring that information to the
7 Commission, which would give -- let us know exactly
8 what we were going to get in terms of interest rate.
9 Let us know exactly what we're going to get in terms of
10 term structure. It is a multi-tranche deal, where
11 we're going out and looking for debt of 10-year,
12 20-year and 30-year type term structure. We're trying
13 to get a mix of that. We haven't decided on the exact
14 amount of each of those yet, because we want to be able
15 to be responsive to the market, and make sure that
16 we're getting the most attractive melding of those
17 different tranches, to try to get the best and most
18 favorable rate for the Company as possible. So, we
19 will be reporting on that, and we'll be seeking the
20 Commission's authorization to proceed with that
21 financing or approval of that financing concurrent with
22 the approval of this -- or, hopefully, the approval of
23 this transaction.

24 Q. Do you have anything, any further comments on the

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Settlement Agreement, Mr. Collin?

2 A. (Collin) Not at this time.

3 MR. MUELLER: Okay. That completes my
4 direct examination.

5 MR. DAMON: Can I just have one word?
6 Sorry.

7 (Atty. Damon conferring with Atty.
8 Mueller.)

9 BY MR. MUELLER:

10 Q. Just to clarify, Mr. Collin, turning to the
11 authorization section of Exhibit Number 3, I'm looking
12 at Page 5, Article 2.3, is it true that the parties
13 have agreed to recommend that the Commission approve
14 the financing that you just described?

15 A. (Collin) Yes.

16 Q. And, that financing is what -- And, you submitted
17 testimony in this -- in docket DG 08-079, which we
18 marked as "Exhibit Number 3" in this -- we marked as --

19 A. (Collin) I don't think you've marked it, Counselor.

20 Q. Did we mark it? I think I left out an exhibit. Let me
21 go back. Let me show you a document dated May 30,
22 2008, on the letterhead of Dewey & LeBoeuf. Is this
23 document the Company's petition and supporting
24 testimony requesting financing for the proposed

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 transaction?

2 A. (Collin) Yes.

3 MR. MUELLER: We would ask that that be
4 marked as the next sequential exhibit.

5 CHAIRMAN GETZ: It will be marked as
6 "Exhibit 8" for identification.

7 (The document, as described, was
8 herewith marked as **Exhibit 8** for
9 identification.)

10 MR. MUELLER: It has been filed with the
11 Commission. I don't have multiple copies. I'm not going
12 to be asking any questions.

13 CHAIRMAN GETZ: Okay.

14 MR. MUELLER: That completes my direct
15 examination.

16 CHAIRMAN GETZ: Okay. Let me make sure
17 I understand as to how we're going to proceed. So, it
18 will be direct for each of the witnesses. Who's planning
19 to go next? Ms. Hatfield. And, then, we'll -- do I
20 assume correctly that there may be some questions by Staff
21 or the Consumer Advocate for other witnesses, is that
22 correct?

23 MS. HATFIELD: Yes. And, I can either
24 ask those questions now or I can wait until after all of

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 the panelists have gone through --

2 CHAIRMAN GETZ: Why don't we go through
3 direct, and then the attorneys who have done direct then
4 will have an opportunity for cross of the other witnesses.
5 Then, we'll go to Mr. Linder after that. And, then, the
6 last opportunity to go, Mr. Sullivan, who's -- the Union
7 is not a signatory.

8 MR. SULLIVAN: Correct.

9 CHAIRMAN GETZ: But it sounds like there
10 may be agreement on one issue that's -- I'm not sure if
11 we're treating this as a codicil to the Settlement
12 Agreement or an additional condition, but --

13 MR. SULLIVAN: What I understood from
14 the detailed explanation of 6.9 of the Settlement, I'm not
15 going to have any more questions on that, because it
16 addresses our concerns about the Company's ability to meet
17 the "no net harm" test. So, we're going to be pretty
18 quiet from here on in.

19 CHAIRMAN GETZ: Okay. Thank you. Then,
20 let's turn to Ms. Hatfield.

21 MS. HATFIELD: Thank you, Mr. Chairman.
22 Good morning, Mr. Eckberg.

23 WITNESS ECKBERG: Good morning.

24 BY MS. HATFIELD:

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. How long have you served in your current position as a
2 Utility Analyst with the Office of Consumer Advocate?

3 A. (Eckberg) Since July 2007.

4 Q. And, have you previously testified before the
5 Commission in your current capacity?

6 A. (Eckberg) In my current capacity, no. This is my first
7 time testifying on behalf of the OCA. However, I have
8 testified before the Commission on previous occasions
9 in previous capacities.

10 Q. Could you please briefly describe your educational
11 background and your work experience for the Commission?

12 A. (Eckberg) Certainly. I hold a Bachelor's degree in
13 Meteorology from the State University of New York, and
14 a Master's degree in Statistics from the University of
15 Southern Maine. I have previously been employed with a
16 consulting firm in Boston, working with regulated
17 utilities on energy efficiency programs. I have served
18 as the Program Manager of the Weatherization Assistance
19 Program at the New Hampshire Governor's Office of
20 Energy and Community Services, which is now known as
21 the Office of Energy and Planning. And, I have served
22 as the Statewide Program Administrator of the New
23 Hampshire Electric Assistance Program, employed at
24 Belknap-Merrimack Community Action. My educational

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 background and work experience are described in more
2 detail in Attachment 2 to my joint prefiled testimony
3 in this case.

4 Q. Do you have a copy of that joint prefiled testimony
5 with you now?

6 A. (Eckberg) Yes, I do.

7 Q. And, was this testimony prepared by you or under your
8 direction?

9 A. (Eckberg) It was. Mr. Traum and I prepared this joint
10 testimony together.

11 Q. Do you have any corrections or additions to your
12 testimony at this time?

13 A. (Eckberg) No questions -- No corrections or additions,
14 but it is important to point out that the Settlement
15 Agreement, as filed in this case, which the OCA
16 supports, reflects that we have made compromises on
17 several of our positions described in our testimony.

18 MS. HATFIELD: I'd like to mark the
19 OCA's joint testimony as "Exhibit 9".

20 CHAIRMAN GETZ: So marked.

21 (The document, as described, was
22 herewith marked as **Exhibit 9** for
23 identification.)

24 BY MS. HATFIELD:

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Mr. Eckberg, did you work on the Settlement Agreement
2 that has been marked as "Exhibit 3" in this case on
3 behalf of the OCA?

4 A. (Eckberg) Yes. I shared those responsibilities also
5 with Mr. Traum.

6 Q. Could you please describe the main issues you raised in
7 your joint testimony that we've just marked as
8 "Exhibit 9" that you filed on behalf of the OCA?

9 A. (Eckberg) Certainly. Mr. Traum and I focused on eight
10 separate issues in our testimony that we believe were
11 needed to protect the interests of residential
12 ratepayers. Those issues are listed and described in
13 more detail on Pages 2 through 3 of our joint
14 testimony.

15 Q. Is it your opinion that each of these issues raised by
16 the OCA in its joint testimony has been addressed by
17 the Settlement Agreement that the Commission is
18 considering today?

19 A. (Eckberg) Yes. I believe that the Settlement Agreement
20 addresses all these issues, and represents a fair and
21 reasonable compromise to the issues raised by the OCA
22 and those raised by other parties in the case.

23 Q. Are there any particular aspects of the Settlement that
24 you would like to highlight for the Commission?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Eckberg) Yes. There's three issues that are
2 particularly important to the OCA. Firstly, the most
3 global issue is the fact that there is not a "most
4 favored nation" clause in the Settlement Agreement.
5 The OCA advocated for this, as we usually do in
6 multistate cases, in order to ensure that New Hampshire
7 consumers receive the same or equivalent protection and
8 benefits from the proposed transaction. In this case,
9 Unitil and Northern agreed to share information
10 confidentially among the settling parties in both
11 states. This was extremely helpful and facilitated
12 discussion between our office and our counterpart
13 agency in Maine. And, it meant that we did not need a
14 "most favored nation" clause in the Settlement.

15 Secondly, I'd like to highlight the
16 issue of the stay-out provision, which Mr. Collin
17 mentioned earlier. That's in paragraph 3.2, on Page 6.
18 And, this describes Unitil's commitment not to seek a
19 distribution rate increase for Northern until at least
20 November 1st, 2010. We believe that this provides
21 valuable short-term rate protection for customers. My
22 understanding is Mr. Frink may discuss this provision
23 in more detail perhaps.

24 The third issue of importance is the

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 additional customer provisions, as described in Article
2 IV of the Settlement Agreement, on Page 8. In
3 Paragraph 4.1, Unitil agreed to continue the energy
4 efficiency and low income assistance programs currently
5 offered by Northern, and also agreed to work with the
6 OCA, New Hampshire Legal Assistance, and Staff to
7 review these programs going forward. With the next
8 multiyear programmatic filing, regarding Northern's
9 energy efficiency programs due in early 2009, and with
10 the upcoming winter energy issues facing consumers, the
11 OCA believes that we need to work with Unitil
12 proactively on these issues. In addition, in paragraph
13 4.2, Unitil agreed to provide advance copies of
14 customer communications relating to the proposed
15 transaction to Staff and the OCA. And, in fact, this
16 has -- has already done so during the proceeding.

17 Lastly, I would like to draw the
18 Commission's attention to Attachment A to the
19 Settlement Agreement, which Mr. Collin also discussed
20 earlier. This Attachment describes Unitil's updated
21 estimate of the transaction's integration costs. As
22 described in Paragraph 3.3 of the Settlement, Unitil
23 may seek recovery of these integration costs, and the
24 OCA therefore requested that Unitil provide some

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 additional detailed information on the estimate of
2 these costs. And, those are contained in Attachment A.
3 We believe that this attachment is very helpful and
4 useful. We also would like to point to the part of
5 Paragraph 3.3 that extends the depreciation period for
6 these projects beyond their normal service lives. We
7 believe this provides an important benefit for
8 ratepayers as well. It provides Unitil with the
9 mechanism to make necessary improvements earlier than
10 Northern would have, absent the transaction and the
11 ability to recover those costs for those improvements,
12 albeit over a slightly longer period, thus reducing the
13 Company's annual revenue requirement related to these
14 projects.

15 Q. Thank you. Is there anything else you would like to
16 add, Mr. Eckberg?

17 A. (Eckberg) Yes. I'd like to express the OCA's
18 appreciation to the Companies, to Staff, and the
19 settling parties, for the productive and cordial
20 settlement discussions that resulted in this Settlement
21 Agreement. The OCA supports the Settlement as a fair
22 resolution of the issues in this case.

23 MS. HATFIELD: Thank you. No further
24 questions.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 CHAIRMAN GETZ: Thank you. Mr. Damon.

2 MR. DAMON: Thank you. The Staff would
3 like to conduct direct examination of Steve Frink, Randy
4 Knepper, a couple of questions for Mr. Ferro, and then
5 reserving the right to ask a few questions, sort of in the
6 nature of cross-examination of Mr. Collin and Mr. Ferro on
7 a couple of points as well. So, --

8 CHAIRMAN GETZ: Are you going to do
9 direct, Mr. Patch, of Mr. Ferro at some point?

10 MR. PATCH: I don't think it will be
11 necessary, if Mr. Damon has him just state his position
12 with the Company, I don't have anything else to add
13 really.

14 CHAIRMAN GETZ: Please proceed.

15 MR. DAMON: I have a couple of more
16 questions other than that.

17 MR. PATCH: No, but just as part of the
18 questions that you ask.

19 MR. DAMON: Okay. Very good.

20 BY MR. DAMON:

21 Q. Mr. Frink, could you please state your involvement in
22 this docket, and what you have done in respect to
23 acting on behalf of Staff?

24 A. (Frink) My primary responsibility was to look at the

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 impact of this acquisition on Northern. And, that's
2 what I did.

3 Q. You filed testimony?

4 A. (Frink) Yes, I did.

5 Q. Let me show you a document and ask you if you can
6 identify that?

7 A. (Frink) That's my testimony in this proceeding.

8 MR. DAMON: I ask that this be marked as
9 an exhibit.

10 CHAIRMAN GETZ: This is the July 16
11 testimony?

12 MR. DAMON: Yes.

13 CHAIRMAN GETZ: Okay. It will be marked
14 for identification as "Exhibit 10".

15 (The document, as described, was
16 herewith marked as **Exhibit 10** for
17 identification.)

18 BY MR. DAMON:

19 Q. Mr. Frink, in your written testimony, which has been
20 marked as "Exhibit 10", you recommended that the
21 proposed acquisition of Northern by Unitil be denied
22 because it did not meet the "no net harm" standard.
23 Could you explain that further?

24 A. (Frink) Yes. I expected there would be a rate increase

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 with the acquisition being implemented as proposed in
2 the filing. Unitil was forecasting synergy savings,
3 but there were no guarantees that those savings would
4 be realized. Whereas, there were some items that were
5 certain to have a negative rate impact and included for
6 recovery in Northern's next general rate case. Those
7 items were the tax treatment of the transaction,
8 whereby ratepayers would lose the benefit of deferred
9 tax credit that would normally be deducted from rate
10 base when calculating the revenue requirement.

11 Attachment SPF-3 of my testimony shows the increase to
12 the revenue requirement as a result of eliminating the
13 credit. The rate impact decreases over time, from a
14 high of 1.8 million in 2009, to a low of 77,000 in
15 2028.

16 Another rate impact would have been --
17 would have occurred if Unitil were to file for a rate
18 increase prior to June of 2013, as the cost of debt
19 would increase with a refinancing of the Northern debt.
20 Northern debt, currently at approximately 5 percent,
21 that's long-term debt, would increase -- was estimated
22 to increase to approximately 7 percent. This was
23 offset somewhat by a change in the capital structure,
24 but it would be expected to have a rate impact of at

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 least a couple of hundred thousand, if not several
2 hundred thousand dollars in increased rate base.

3 And, lastly, their integration costs,
4 which Unitil intended to seek recovery, that may not
5 have been incurred or would have been incurred at a
6 later date absent the merger. So, for those reasons, I
7 recommended the Commission deny the petition.

8 Q. Yes. Based on the allegations and the supporting
9 testimony with respect to the petition, right?

10 A. (Frink) Yes.

11 Q. Now, Staff has entered into a Settlement Agreement in
12 this docket. Does the terms -- Do the terms of that
13 Settlement Agreement address your rate concerns as
14 you've expressed in your testimony?

15 A. (Frink) Yes, it does. The Settlement requires Northern
16 to proform adjustments in future rate cases to ensure
17 customers will not be harmed for the loss of the
18 deferred tax credit. And, if a general rate case is
19 filed prior to June of 2013, Northern's cost of
20 long-term debt will be calculated at the current cost.

21 Also, prudently incurred capital
22 investments necessary to integrate Northern need to be
23 recovered through rates, but will be depreciated over
24 longer lives than would normally be the case. As most

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 of these capital items have relatively short service
2 lives, it's likely Northern would have replaced them in
3 the near future and fully depreciated them over roughly
4 the same time period as that which Unitil will be using
5 under the terms of the Settlement Agreement.

6 Q. Now, your testimony also raised concerns regarding
7 Unitil's acquisition of Granite. And, would you please
8 summarize what those expressed concerns are?

9 A. (Frink) Yes. Granite is an interstate pipeline
10 regulated by the FERC, and primarily serves Northern,
11 which holds 93 percent of the subscribed Granite
12 capacity. All of Northern's upstream gas supplies pass
13 through Granite, and the Granite capacity charges are
14 recovered through the cost of gas. There are Northern
15 safety and rate issues related to the Granite
16 operations. And, unless Unitil is able to operate
17 Granite safely and economically, Northern customers
18 could be harmed.

19 Q. Could you just explain, who holds the other 7 percent
20 of the subscribed capacity on Granite?

21 A. (Frink) There are three or four marketers that hold
22 capacity on Granite.

23 Q. And, are these marketers that do business in Maine and
24 New Hampshire?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Frink) Yes. Those marketers use that capacity to
2 serve customers in Maine and New Hampshire.

3 Q. How does the Settlement address Staff's concerns
4 regarding Granite?

5 A. (Frink) Under the terms of the Settlement, Unitil is
6 conducting a comprehensive study in collaboration with
7 Staff and other interested parties, to determine the
8 physical and corporate structure of Granite that will
9 best serve Northern's customers. The report is to be
10 completed within one year and filed with the
11 Commission.

12 Q. And, what is your understanding of the Commission's
13 roles regarding the Granite report?

14 A. (Frink) That depends on the results of the report. If
15 the report finds that customers are best served by
16 Granite as presently configured, and all parties agree,
17 no Commission action would be required. If the report
18 finds that customers would be most benefited from state
19 regulation of Granite, the Commission may be asked to
20 participate in a FERC filing requesting state
21 jurisdiction. If Staff and/or other parties do not
22 agree with the results of the report, the Commission
23 may be asked to open an investigation into what Granite
24 structure is in the public interest.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Absent the Unitil acquisition of Granite and Northern,
2 would Staff be seeking a Granite study similar to what
3 is in this document, in the Settlement Agreement?

4 A. (Frink) Yes. The issues are the same with or without
5 the change in ownership. That said, the fact that
6 Granite does not currently operate an interstate
7 pipeline allows for a fresh look at Granite's
8 operations and corporate structure, and provides an
9 ideal opportunity to put in place the structure that
10 best serves customers.

11 Q. Thank you. Mr. Knepper, I'll ask a few questions of
12 you as well. What has been your role or please
13 summarize the work that you've done in respect to the
14 role you've had in this docket?

15 A. (Knepper) I prefiled testimony. I participated in the
16 technical sessions, and helped craft some of the
17 Settlement Agreement, especially as it applies to the
18 gas safety and reliability sections.

19 Q. Okay. And, could I show you this document and ask if
20 you can recognize that as your prefiled testimony?

21 A. (Knepper) Yes, that appears it.

22 MR. DAMON: Okay. I'd ask that this be
23 marked for identification as "Exhibit 11" I believe.

24 CHAIRMAN GETZ: Well, let's just treat

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 the full filing --

2 CMSR. BELOW: No, it's a separate date.

3 CHAIRMAN GETZ: Okay. Got you. The
4 July 22nd testimony of Mr. Knepper then will be marked for
5 identification as "Exhibit 11".

6 (The document, as described, was
7 herewith marked as **Exhibit 11** for
8 identification.)

9 MR. DAMON: Okay. If the Commission
10 wishes, I could add to the previous exhibit, I believe
11 it's Exhibit 10, the other testimony of Steve Mullen,
12 Amanda Noonan, and Robert Wyatt.

13 CHAIRMAN GETZ: Yes. Let's treat all
14 three pieces of testimony that were filed on the 16th as
15 part of Exhibit 10.

16 (The testimonies of Steven Mullen,
17 Amanda Noonan and Robert Wyatt were
18 subsequently included with **Exhibit 10**.)

19 MR. DAMON: And, I have copies of these,
20 and I'll give them to the Clerk.

21 CHAIRMAN GETZ: And, Mr. Frink,
22 Mr. Wyatt, Mr. Mullen, and Ms. Noonan are in that package
23 of testimony filed on July 16.

24 BY MR. DAMON:

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Mr. Knepper, could you please summarize the concerns
2 that you expressed in your prefiled testimony. And, I
3 know an identification of those concerns are found on
4 Page 4 of your testimony.

5 A. (Knepper) Yes. Basically, I had five areas of concern.
6 Namely, the scope and size of integration; continuation
7 of Northern's Bare Steel Replacement Program; third,
8 improving emergency response times; four, technical
9 management of operating transmission lines, as well as
10 management of local operating centers; and, five,
11 examining the configuration, jurisdictional
12 responsibilities, and the classifications of Granite as
13 an interstate transmission pipeline subject to both
14 FERC and PHIMSA in Washington. I wanted to examine to
15 see if Granite could potentially be absorbed within
16 Northern's distribution system and subject to New
17 Hampshire Public Utilities Commission, as well as the
18 Maine Public Utilities Commission.

19 Q. Now, you mentioned a "Bare Steel Replacement Program".
20 In other situations, the subject of cast iron has come
21 up as well, but why is cast iron dealt with here?

22 A. (Knepper) Northern has very little cast iron within
23 their system. They do have a small, minor amount.
24 Cast iron is in a relatively small area; the bare steel

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 is spread throughout. So, the bare steel has been the
2 focus of our Safety Division's replacement efforts for
3 Northern for quite some time, over the last, I believe,
4 17 years.

5 Q. Okay. And, I'd like to ask you how the Settlement
6 Agreement addresses the concerns that you raised in
7 your prefiled testimony? And, if you wish, you could
8 refer to the Settlement Agreement provisions in Article
9 VI, if you want to elaborate on any of those as well.

10 A. (Knepper) Yes. Basically, in my prefiled testimony, I
11 had looked at the average replacement rate over the
12 last 17 years, and that came out to about 5.2 miles a
13 year annually. That's done through municipal projects,
14 in-house initiated projects, encroachment, all kinds of
15 ways to handle things. And, Northern, at this time,
16 has about 36 miles of pipeline, bare steel replacement
17 pipeline left to replace. They replaced about
18 75 percent of the initial, I think at the time, 17
19 years ago, they had about 127 miles. So, they're down
20 to the last portion. I was very adamant about wanting
21 to get that replaced. It will be almost nearly a
22 quarter of century before all that's replaced. And, we
23 agreed to replacing at an average rate of 4 miles a
24 year. But we wanted some flexibility in that. And,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 so, we will get it all replaced within the nine year
2 period. So, at the end of the conclusion of nine
3 years, there shouldn't be any bare steel left within
4 Northern's distribution system.

5 Q. Okay. Now, you've expressed concerns about emergency
6 response times. And, I would ask you if you could turn
7 to Page 12 of the Settlement Agreement, Section 6.6.
8 And, could you please explain where these percentages
9 and so forth for leak and odor calls has come from?

10 A. (Knepper) Yes, 6.6, basically what we've asked Unitil
11 to meet is emergency response standards that we've set
12 up for other operators within New Hampshire. And, this
13 would show a slight improvement from what Northern is
14 doing currently. These parameters that are a certain
15 percentage has to be met within 30 minutes, that
16 percentage gets higher, up to 45 minutes, and even
17 higher, you know, you have to be there within 60
18 minutes. Those are response to externally calls --
19 externally driven calls from the public, could be from
20 the fire department, could be from a pedestrian walking
21 down the street. We think emergency response is
22 critical, that there needs to be a focus on that. And,
23 so, we've incorporated these in there.

24 As I was saying, Northern currently

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 meets six of those nine standards easily. There's one
2 that they're just slightly a little bit less, and
3 there's two more that required a little bit of focus
4 on. That would be the 30 minutes after hours and
5 weekends. I think, with some slight tweaking and some
6 management, that Unutil has ensured that they will
7 focus on it. And, I'm confident that they will meet
8 those.

9 Q. Okay. And, you mentioned three standards that they're
10 a little bit below at this point. What are the other
11 two?

12 A. (Knepper) The normal hours meeting 82 percent of their
13 responses would be within 30 minutes during normal
14 business hours. That would be 7:00 a.m. to 4:00 p.m.
15 Unutil may have an 8:00 to 5:00. But that's what we
16 would consider normal, when there's crews out there
17 doing other activities. After hours, it would be those
18 same things occurring at night. And, then, weekends
19 and holidays, that percentage would drop a little bit
20 to 76 percent. Those are the ones that are critical.
21 Typically, if you can meet the 30 minute response, you
22 usually meet all the others.

23 Q. Okay. Now, in Paragraph 6.6, there's a provision that
24 states that Northern will work with Staff to develop

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 within six months a monthly report format and that will
2 provide certain information such as, and it's listed
3 there. Why has the Staff asked for the Company's
4 cooperation in providing information like that?

5 A. (Knepper) Well, two areas. You know, you get the
6 summary numbers that we get here, and we've asked for
7 monthly reporting. And, what we're trying to do is
8 also look at the details of those reporting. So, we
9 want to see the exact calls, who is getting there, what
10 time it took, how long in dispatch, things like that
11 that may highlight practices that need to be improved
12 upon. But we're also looking to make sure that the
13 Atkinson/Plaistow/Salem area isn't getting masked by
14 the responses within the Portsmouth area. And, so,
15 that increased reporting we think will reflect that.

16 Q. And, could you -- the other provisions in here, are
17 some of these similar to what was agreed to in the
18 Grid/KeySpan merger, like the 6.1, etcetera?

19 A. (Knepper) You know, if you want, Ed, I can go over
20 these, just to make sure. 6.1 is just a safeguard
21 provision. It basically says Northern or Unitil will
22 continue to operate as they've traditionally done, and
23 Northern has always done, and most of the operators in
24 New Hampshire, as well as New England operate it.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 There's nothing more than that. It just prevents them
2 from getting any grandiose ideas about changing that.

3 6.2 is asking for some O&M reporting.
4 We're looking for -- one thing that we don't get now is
5 the quantity of hours spent doing operation and
6 maintenance activities. And, we think this will be
7 actually an increase to determine if you have the
8 appropriate amount of people working on specific
9 activities. And, so, that's what 6.2 is there to
10 address, including the type of activities, number of
11 employees, and hours per activity. Unitil stated that
12 it's going to take a little bit of time to get that,
13 but they will earnestly start that process.

14 6.3 is "Primary Valve Determinations and
15 Notifications". Basically, we're asking to make sure
16 the isolation areas within Northern don't exceed more
17 than 500 customers or -- or response time does not
18 exceed more than 12 hours. That's similar to what we
19 had put in for EnergyNorth, except their isolation area
20 is little bit larger because of the size of the
21 distribution systems that they have to maintain, as
22 well as they also have a number of resources that they
23 can call upon within their own company before going to
24 mutual aid to also ensure the 12 hours. The 12 hours

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 is the key point, and that's equivalent for both. It
2 also says that Northern would have to let the Safety
3 Division know if there's going to be any drastic
4 changes to within those primary valve designations.

5 6.4, I think I've already talked about,
6 the Bare Steel Replacement Program. That's been an
7 important program. We've seen a lot of reduction in
8 corrosion leaks and leaks in general. And, a lot of it
9 you can see it correlates with replacing the older one
10 pipe within their system.

11 6.5 is "Marking of Underground
12 Facilities". One of my duties here at the Commission
13 is to manage the DigSafe Program for New Hampshire. We
14 see, on a day-to-day basis, the importance of in-house
15 marking and the extra benefits you get with that. I
16 think Unitil agreed with that concept as well. And,
17 they thought that they would continue Northern's
18 practice. There is a section, that
19 Atkinson/Plaistow/Salem area, where they do outsource
20 it, and they have committed to using in-house locating
21 for that. So, I see that being a slight improvement.

22 6.6, the "Emergency Response Standards",
23 I've already talked about. 6.7 and 6.8 is just
24 continuation of informing the Safety Division of their

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 weekly construction and maintenance schedules, as well
2 as giving proper supervision of the contractor crews.

3 6.9, I think Mark already talked about
4 that, as well as -- and that was a point that was made
5 by the Steel Workers Union. That's to address that you
6 have this kind of isolated area within your
7 distribution system that we had some concerns about. I
8 think that was in my prefiled testimony. And, I
9 believe this paragraph alleviates most of my concerns.
10 And, then, 6.10 is just some general language that
11 says, regardless of this, we still have plenty of
12 authority given by this Commission to implement other
13 safety measures.

14 Q. Now, you've heard the description of an agreement
15 reached between the Union and Unutil regarding staffing
16 levels. Do you have any comments on that?

17 A. (Knepper) I don't, at this time. One of the comments,
18 I guess, is between the Union and the Company. We're
19 not a part of that agreement right now. But we'll see
20 it reflect in, you know, certain -- some of these
21 parameters that we oversee in Gas Pipeline Safety.

22 Q. Okay. And, could I ask you also to --

23 A. (Knepper) I do have one more area, which was a focus of
24 my testimony, and that, like Steve, in his testimony,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 it's very important to the Safety Division to -- we
2 think now is the appropriate time to look at the
3 Granite State pipeline. And, I think Article 7.1
4 addresses some of my concerns that I had as well within
5 my testimony. But I do want to highlight that the
6 purpose of the study is to assess whether the
7 customers, the customers of Northern and Granite, would
8 be best served by integrating Granite and Northern, or
9 otherwise reorganizing them and their operations. I
10 think now is the time, and I think Unitil does as well,
11 to examine whether the existing structure should just
12 be replicated, or, before a lot of work and effort is
13 to go into setting up these companies and doing things,
14 you know, isn't now a good time to reexamine the
15 configuration of Granite and Northern right now? So, I
16 am a big advocate of that. This study may come out and
17 say that the existing is fine. It may come out and say
18 that there's a better method. But I'm glad that Unitil
19 is going to embark in doing a collaborative study with
20 the Commission.

21 Q. Yes. I think Mr. Frink has addressed the situation
22 involving FERC jurisdiction regarding rate regulation.
23 But, from your point of view, regarding the safety
24 regulation, what is the current status of safety

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 regulation regarding Granite, as far as you understand
2 it?

3 A. (Knepper) Currently, Granite, you know, as you know,
4 has 87 miles of pipeline in Maine and New Hampshire; 40
5 of it's in New Hampshire, 47 of it is in Maine. They
6 fall under the Pipeline -- PHIMSA, what they call
7 "PHIMSA", which is the "Pipeline Material Hazardous
8 Safety Administration", if I got that right, which is
9 based out of Washington. I think local jurisdiction
10 and oversight of that would give a little bit more
11 scrutiny to what goes on in those pipelines. We feel
12 that Northern has been the downstream recipient of some
13 of the actions that have taken place over the last
14 couple years that we've seen both up in Maine, as well
15 as New Hampshire. They have a very distinct way of
16 operating between Granite and Northern. And, some of
17 these issues are going to get resolved, hopefully. I
18 think the oversight and scrutiny, I think, from my
19 conversations with people in Washington, maybe
20 Granite's been inspected five times within the last
21 six, seven years. If it's done at a local level, it
22 would probably be more, you know, five times a year
23 from New Hampshire PUC. As is shown in my testimony,
24 you know, these are areas that we quickly showed are

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 things we are concerned with. And, I put some of those
2 in my attachments to my prefiled testimony.

3 So, it's not conditionable upon FERC, if
4 we want to, as a Safety Division, we can request that
5 we have jurisdiction over that line. We may do that.
6 We may do that independently, we may not. I'd like to
7 see how the study turns out. But that is always an
8 alternative.

9 Q. So, in summary, is it fair to say that the Settlement
10 Agreement that's entered into regarding the safety
11 provisions in Article VI adequately address the
12 concerns that you express in your testimony?

13 A. (Knepper) I think, between Article VI and VII, yes.

14 Q. Right. Thank you.

15 CHAIRMAN GETZ: Excuse me a second, Mr.
16 Damon. Are you complete with your direct for Mr. Frink
17 and Mr. Knepper?

18 MR. DAMON: Well, yes, I am. I was
19 going to ask a few questions of Mr. Ferro.

20 CHAIRMAN GETZ: Okay. Why don't we have
21 Mr. Patch qualify his client's witness. Then, we'll take
22 -- we at least need to give a 15 minute break to Mr.
23 Patnaude. But just off the record, Steve.

24 (Brief off-the-record discussion)

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 ensued.)

2 CHAIRMAN GETZ: Let's go back on the
3 record. And, Mr. Patch, if you want to do the -- qualify
4 your witness, and then we'll take a 15 minute break, and
5 then go back to Mr. Damon, and then Ms. Hatfield, and Mr.
6 Linder and Mr. Sullivan.

7 BY MR. PATCH:

8 Q. Mr. Ferro, could you state your name for the record
9 please.

10 A. (Ferro) Certainly. My name is Joseph A. Ferro.

11 Q. And, could you state what your position is?

12 A. (Ferro) I am Manager of Regulatory Policy for Bay State
13 Gas and Northern Utilities.

14 Q. And, you've testified before this Commission before?

15 A. (Ferro) Yes. Let me just say that I have filed -- made
16 prefiled testimony and testified in front of this
17 Commission on many, many occasions for over 20 years.
18 And, although I have not filed testimony in this
19 proceeding, as it was most appropriate in the capable
20 hands of Unitil to file testimony, nor has anyone else
21 from my company filed testimony in this proceeding, I
22 have been involved in the process of carrying the
23 signed purchase stock agreement through the process, to
24 the point where it is here today. Mostly covering

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 regulatory and technical matters through the meetings
2 I've had with all the parties. I've attended virtually
3 all the technical conferences.

4 During this process, I, and I believe I
5 speak for my company, have been quite impressed with
6 Unitil and its ability to take over the operations of
7 Northern Utilities. While I'm impressed, I am not
8 quite so surprised. Because Unitil's ability to take
9 over Northern Utilities, for the best interest of our
10 customers, is really expected from Bay State Gas and
11 Northern Utilities. And, it's reflective of the
12 selection process of accepting Unitil's bid for
13 Northern Utilities. So, we're quite pleased.

14 I just want to add that I do commend all
15 the parties working through this purchase stock
16 agreement. As Mr. Collin had said earlier, everyone
17 has been quite cooperative. It's been a pleasure and
18 an honor to see through such an agreement. As you can
19 imagine, I personally have a significant attachment to
20 the customers of Northern Utilities.

21 Q. And, Mr. Ferro, just one or two more questions. You're
22 familiar with the Joint Petition that was filed in this
23 proceeding and has been marked as an exhibit?

24 A. (Ferro) Yes.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. And, you participated in and are familiar with --
2 participated in discussions with regard to and are
3 familiar with the Settlement Agreement, is that
4 correct?

5 A. (Ferro) That's correct.

6 MR. PATCH: Okay. I have no further
7 questions.

8 CHAIRMAN GETZ: Okay. Then, let's take
9 a recess and resume about 12:15.

10 (Whereupon a recess was taken at 11:55
11 a.m. and the hearing reconvened at 12:19
12 p.m.)

13 CHAIRMAN GETZ: Okay. We're back on the
14 record, and resuming with Mr. Damon.

15 MR. DAMON: Thank you.

16 BY MR. DAMON:

17 Q. Okay. Mr. Ferro, a couple of questions for you.

18 First, you have reviewed the Petition and supporting
19 testimony that was filed and has been marked as
20 "Exhibit 1", I assume?

21 A. (Ferro) That's correct.

22 Q. Yes. And, is there any statement of fact relating to
23 Northern in Exhibit 1 that the Company disagrees with?

24 A. (Ferro) No, there aren't any.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. And, another question. On Paragraph or Section 3.2(a),
2 which relates to the stay-out provision, and the first
3 way in which that stay-out provision might be
4 shortened. And, could you just explain your
5 understanding of how that provision works, 3.2(a)?

6 A. (Ferro) Certainly. As Mr. Collin had explained, the
7 stay-out period involves Unitil not coming in for a
8 base rate increase until, at the earliest, May 1, 2011,
9 implementing rates on an emergency basis. There is
10 one, there's an exception to that provision, and that
11 is, in the event that Northern distribution revenues
12 have been reduced due to certain large customers
13 leaving the system or stop using natural gas service,
14 to the extent that it impacts Northern's annual
15 distribution revenues by 8 percent or greater.

16 Q. And, in that connection, have you prepared a document
17 that relates to the large customer and total company
18 distribution revenues for 2007?

19 A. (Ferro) Yes, I did.

20 Q. Okay. And, I'd ask you to look at that and ask if
21 that's what you have done?

22 A. (Ferro) Yes, this is the schedule I prepared yesterday
23 afternoon.

24 Q. Okay. Do you have a copy of that?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Ferro) I do.

2 MR. DAMON: I'd ask that this exhibit be
3 marked for identification.

4 CHAIRMAN GETZ: It will be marked as
5 "Exhibit 12".

6 (The document, as described, was
7 herewith marked as **Exhibit 12** for
8 identification.)

9 MR. DAMON: Okay. Do you want to me to
10 proceed, even though it's not -- she doesn't have one?
11 Okay.

12 BY MR. DAMON:

13 Q. Mr. Ferro, could you please describe what this exhibit
14 shows.

15 A. (Ferro) Certainly. This schedule first presents the
16 distribution revenues, annual distribution revenues for
17 2007 for Northern Utilities' New Hampshire Division by
18 each large volume rate class, including a category for
19 special contracts. Large volume rate classes in
20 Northern Utilities' New Hampshire Division represents
21 customers whose annual use is greater than 80,000
22 therms a year. This schedule shows that, of those
23 classes, annual distribution revenues are \$2 million
24 roughly. In addition, Northern Utilities' New

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Hampshire Division has three special contract
2 customers, and that totals approximately \$1 million.
3 It shows that the total large customer distribution
4 revenue, and large customer distribution revenue is the
5 revenue that is germane or in connection with
6 Section 3.2(a) of the Settlement Agreement, totals
7 roughly \$3.4 million. Then, after that, what is
8 certainly relevant to this analysis is Northern - New
9 Hampshire 2007 total distribution revenue. And, it
10 shows here that that's roughly \$21.2 million.

11 And, finally what's relevant to this
12 schedule is that 8 percent of that \$21.2 million is
13 roughly \$1.7 million. So, therefore, that \$1.7 million
14 represents the threshold after which Unitil or Northern
15 Utilities would file -- could file a base rate
16 increase, if, in fact, \$1.7 million of revenue erosion
17 occurred from these select large volume customers.

18 I'd just make a few comments on this
19 schedule, further comments?

20 Q. Sure.

21 A. (Ferro) One is, you know, a simple observation is that
22 it would take almost half of the large customer, maybe
23 more than half of the large customer distribution
24 revenue to erode to hit this threshold. Another point

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 I want to make is that you can see that \$1 million is
2 special contract revenue. There is no indication that
3 the Company has that these customers do not intend to
4 take Northern Utility service. These contracts related
5 to -- involve what I would refer to as an "evergreen
6 clause", where that the contract will continue in
7 force, unless one of the parties elects to terminate
8 the contract.

9 And, another observation I want to make
10 is that, by way of footnote, Staff, understandably so,
11 identified the UNH service that Northern Utilities
12 provides as a possibility of distribution revenues that
13 could drop off suddenly and might impact the stay-out
14 provision. And, so, I footnote in the schedule that
15 part of these distribution revenues include the UNH
16 cogen unit, that was a special contract, but has since
17 expired, and now they're taking regular service from
18 Northern Utilities. In year 2007, distribution
19 revenues were roughly \$550,000.

20 Now, it is true that, as I'm sure that
21 the Commission realizes, that UNH has been involved in
22 a landfill project, whereby, instead of using Northern
23 Utilities service to distribute or transport natural
24 gas to their cogen unit, that they would be using

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 landfill natural gas. And, in that case, one might
2 think that the \$550,000 will drop off. But that
3 doesn't seem likely in my view, and that's because UNH
4 needs natural gas service from Northern Utilities,
5 apparently they have -- I shouldn't say "apparently",
6 have commuted that to us, to at least supplement its
7 landfill gas. And, by "supplement", they talk about
8 backup service, but it's really service that needs to
9 be providing a mixture of natural gas with landfill gas
10 at certain times. And, those certain times could be
11 anytime. And, if it's anytime, they really want --
12 need firm service from us. So, whether it's me
13 negotiating a contract with UNH, or Unitil after me,
14 UNH is going to have to pay for firm service of some
15 sort, at some level, to supplement its landfill gas.
16 And, so, it's highly unlikely that \$550,000 will go
17 away completely.

18 Finally, I just want to comment on this,
19 these distribution revenues, that, as I think all of us
20 are aware, natural gas pricing, while it has increased
21 over the past year, although we've seen it drop over
22 the last few weeks, has remained quite competitive and
23 quite lower than oil. That impacts service to the
24 special contract customers, but, more importantly, it

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 impacts service to our other firm dual fuel customers,
2 who have elected to and commit to natural gas service.
3 That commitment is not temporary, like for 2007. Those
4 customers, it's my understanding, have to commit to an
5 energy supply source for at least a couple of years.
6 So, it's not likely, and, in fact, I think the level of
7 distribution revenues that we see in this schedule will
8 at least be reflective of that dual fuel use, if not
9 even more, over the upcoming years.

10 I do also want to say that, I was remiss
11 when I was talking about the special contracts.

12 Another feature of the special contracts, in addition
13 to the "evergreen" provision, is that they include a
14 minimum annual revenue requirement. And, therefore,
15 even if these special contract customers decided to use
16 less service from Northern Utilities, they would be
17 subject to a minimum revenue requirement, distribution
18 revenue requirement, that would certainly suppress any
19 significant decline of the million dollars you see on
20 this schedule.

21 Q. Okay. So, in summary then, as I understand your
22 testimony, you have no reason to believe that this
23 8 percent decrease is likely to occur in the future,
24 based on what you know today?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Ferro) That's absolutely my opinion.

2 Q. Okay. Just a brief question on Section 7.2, regarding
3 the firm transportation contract between Granite and
4 Northern. It states that the current recourse rate is
5 a dollar -- about \$1.67 per decatherm. And, could you
6 just for the record explain what "current recourse
7 rate" means?

8 A. (Ferro) I'm sorry that what "rate" means?

9 Q. Yes. When you say "current recourse rate", --

10 A. (Ferro) As Mr. Collin said, the current recourse rate
11 is the FERC approved tariff rate for firm service, the
12 maximum rate that Granite State can charge.

13 MR. DAMON: Okay. Those are all the
14 questions I have in the nature of direct examine.

15 CHAIRMAN GETZ: Questions for other
16 members of the panel?

17 MR. DAMON: You want me to go first?

18 CHAIRMAN GETZ: Yes.

19 MR. DAMON: Sure.

20 CHAIRMAN GETZ: And then we'll turn to
21 Ms. Hatfield after that.

22 MR. DAMON: Okay.

23 **CROSS-EXAMINATION**

24 BY MR. DAMON:

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Mr. Collin, I'd ask you to go back to Section 2.4, on
2 Page 5 of the Settlement Agreement, because you did
3 address that in your direct examination. And, I'd like
4 you to address the definition of "transition costs" in
5 that last sentence in Section 2.4. And, as I
6 understand it, the definition of "transition costs" as
7 used there is meant to be more inclusive than just the
8 expenses that might be payable under the Transition
9 Services Agreement. Is that your understanding as
10 well?

11 A. (Collin) That's correct.

12 Q. Could you just give us for the record some idea of what
13 other types of expenses might be included in that
14 definition of "transition costs" that are not TSA
15 related expenses?

16 A. (Collin) Right. There's two components of the
17 transition costs. One component, as Ed is talking
18 about, are related to the Transition Services
19 Agreement, which are services that Unitil will acquire
20 from NiSource during the Transition Period to ensure a
21 smooth and coordinated and nondisruptive transition of
22 Northern to Unitil, from a customer perspective, from
23 an operational perspective. So, all the fees we pay to
24 NiSource under that Transition Service Agreement are

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 included in this cost category. In addition to that,
2 there are costs that are being incurred by Unitil,
3 including an example would be hiring that we're doing
4 now, we're actually starting to hire some of the staff
5 for Northern in advance of acquiring Northern. There's
6 this gap period. And, during this gap period, those
7 transition costs, the cost of that hiring and the
8 staffing, and any consulting services we have related
9 to that, transition services all fall into that area.
10 Again, transition services are shareholder costs. We
11 will not be seeking recovery of those costs from
12 customers. They're non-reoccurring. Once we own
13 Northern, those same staffing costs will then become
14 part of Northern's normal O&M and part of Northern's
15 operational costs. But, prior to the ownership of
16 Northern, there's a gap period of costs that fall into
17 that transition services area.

18 Q. Okay. And, regarding the Transition Services Agreement
19 that's been marked for identification, could you just
20 state how long the Transition Services Agreement will
21 be in effect for?

22 A. (Collin) Well, it's designed to have four -- three
23 periods, and then an ability to extend it, if needed
24 longer than that. But the Transition Services

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Agreement has an initial period of four months, or 120
2 days. So that, under the Transition Services
3 Agreement, we will pay at cost essentially the same
4 charges that NiSource now charges its own affiliate
5 companies, Unitil will be able to acquire transition
6 services at cost for an initial four-month period.
7 Thereafter, there are extension periods to that.
8 There's two 3-month extension periods. So, we could go
9 out another three months to take us to seven, or
10 another three after that to take us to ten months in
11 total under the Agreement. There is a step-up in
12 pricing as we go beyond the initial term. The first
13 step-up is a 10 percent adder to the cost, the cost
14 adder, and then the second step-up is a -- goes up to
15 15 percent adder. So, there's a step-up as we go out
16 further in the transition service.

17 And, then, finally, there's a provision
18 in there, to the extent that we go out ten months and
19 there still is a need for some kind of transition
20 services, that we would have an ability to -- the
21 parties would enter into good faith negotiations to try
22 to provide for that, if needed. Our expectation is,
23 is, obviously, we want to transfer this company as
24 quickly as possible. But, at the same time, we are

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 cognizant of the fact that, in transitioning, we need
2 to do it prudently, we need to do it with good
3 planning, and then carefully, to make sure that the
4 customers are not affected by that transition process.
5 It's a very complex, comprehensive process. And, we
6 think we got a good agreement and a good partner to do
7 it with.

8 Q. And, as we sit here today, Mr. Collin, what services do
9 you expect will be requested to be included under the
10 TSA?

11 A. (Collin) Well, as we sit here today, there's, Ed, as
12 you know, when we brought the Commission Staff and the
13 OCA and the Maine Staff and the OCA down to talk about
14 our transition plan, there's 56 functional teams that
15 cover all facets of the operations of a local
16 distribution company, a local gas company. And, we're
17 looking across all 56 of those functional areas. And,
18 we have the ability to get transition services for all
19 those areas as we need to. We're slowly going through
20 the process, as we carefully go through it, to identify
21 those areas that we'll either need a short-term
22 transition service, maybe a month, maybe even less than
23 a month in some cases, or may need longer term
24 transition services, but we're currently in the process

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 of looking at all 56 of those functional areas,
2 determining those. And September, about mid September,
3 we're going to come back with a report, as required
4 under the Settlement Agreement, and I think then we'll
5 have some more definition around exactly who makes the
6 cut and where the transition services are going to be.

7 Q. I think the question of services to that Atkinson area
8 will be part of the Transition Services Agreement?

9 A. (Collin) Sure. Yes. That's an example of an area that
10 we continue to get transition services from their
11 Lawrence office in that area, until we have the
12 appropriate staffing in place and our ability to handle
13 the emergency services. Sure.

14 Q. But, as of today, are there any other areas where you
15 know the Company will be requesting services or is this
16 all to be decided in the future?

17 A. (Collin) Well, there's areas of higher likelihood or
18 areas that we know about. There's some examples of gas
19 dispatches is one of the areas that we're working side
20 by side now, that's a service provided out of Bay
21 State, and that will be an area that's likely to
22 receive transition services, just because of the nature
23 of gas dispatch, the educational side of that, the
24 training side of that, and bringing that whole function

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 up. We want to run it side by side for a while, to
2 make sure that all gets down. So, I know that's an
3 area where we've definitively talked about transition
4 services.

5 There is, as you mentioned, the
6 transition services for the Atkinson/Plaistow area is
7 an area we'll be looking at. I think, in the customer
8 service function, you know, when we actually cut over
9 that function, will be carefully choreographed, I
10 guess, to make sure that it's done in a way that
11 customers don't see a bump in the service that they're
12 accustomed to, that the billing is done. And, there's
13 so many hooks and links to the customer service system
14 that other functions that maybe arguably you could
15 transition, you may not, because you want it to be --
16 you want it to be done in a coordinated fashion.
17 That's a big function, the changeover, we have to
18 transition over the financial functions. Again, we'll
19 do that in a way that ensures the integrity of the data
20 and that the information is properly transitioned over.

21 Gas supply management is another area
22 where we'll continue to work very closely with Bay
23 State. They've had an integrated gas supply between
24 Northern and Bay State. And, so, we'll be carefully

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 making the transition in that area. And, exactly, you
2 know, the timing and how that's going to be
3 transitioned over is what the groups are working on,
4 you know, aggressively now to get for mid September, to
5 be able to put in front of everyone a cut-over plan and
6 a transition plan.

7 Q. Okay. What about Granite's operations? Would that be
8 subject to the TSA as well?

9 A. (Collin) Sure.

10 Q. Possibly?

11 A. (Collin) Sure. Yes.

12 Q. Now, I'm pretty sure that there's been some testimony
13 about the Business Integration Plan and so forth, and I
14 know a very lengthy document has been provided through
15 discovery. But could you just tell us whether the
16 Business Integration Plan -- well, could you just
17 summarize what that plan is made up of and the
18 timetable for it?

19 A. (Collin) Sure. The Business Integration Plan really
20 has two components. One is what we keep talking about,
21 the transition services. And, that's a part of the
22 plan. You have to transition, you have to be prepared
23 and go through this transition of services that are
24 currently provided by NiSource and its affiliates to

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Northern and provide for that. So, part of the
2 Business Integration Plan is planning the transition.
3 And, the second is the integration of Northern into
4 Unitil. And, that's really, once you transition, now
5 you need to begin to provide all those services that
6 were formally provided by NiSource and its affiliates
7 to Northern. And, you need to have a plan and a plan
8 of action and a coordinated effort to be providing
9 those on an ongoing basis. So, that's the second
10 component. So, we're working on that. So,
11 essentially, you transfer from transition to
12 integration and move through that process.

13 Q. Okay. In terms of the integration aspect of the plan,
14 as I understand it, there is a planning component and a
15 testing component as well?

16 A. (Witness Collin nodding affirmatively).

17 Q. And, in terms of the timeframes for all this, where are
18 we right now?

19 A. (Collin) Well, we'll be talking about that again when
20 we bring the update. But each system that we
21 transition over, each technology system, information
22 system, each practice, operation that needs to be
23 transitioned over from NiSource and its affiliates to
24 Unitil, we'll go through a plan, we'll have a cut-over

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 plan of how to transition that over, and then it will
2 go through a testing phase. Where we will test that,
3 that information system in a live environment, where we
4 can test it and make sure that it's operating according
5 to and meets all the standards and operating in a
6 manner that's appropriate before we cut over. And, so,
7 it will be tested, approved, and then we will be ready
8 to cut over and go live. So, it's a very focused and
9 planned process.

10 Q. And, in terms of the testing process, though, is that
11 something that's already underway generally or is it --

12 A. (Collin) In some areas. It will be most active in the
13 October timeframe, that last month of October. And,
14 then, as we get transition services, it will be
15 throughout the Transition Period, if you will. Some
16 systems will transfer earlier, around the close. Some
17 systems will transfer after the close. And, in that
18 four month initial period I expect we'll do most of our
19 testing and transition over.

20 Q. Okay. Is the Business Integration Plan on track for a
21 November closing?

22 A. (Collin) Yes. Again, it's not a -- The November
23 closing, it's not as if everything transitions or
24 everything cuts over on November. We wouldn't want to

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 do it that way. It really has designed in it a process
2 where we can acquire transition services to help us
3 phase in this transition in a prudent manner. And, you
4 know, our interest is to do that as quickly as
5 possible, but, again, we have to do that within the
6 constraints of any kind of system conversion of this
7 nature.

8 Q. Uh-huh. And, are there any known glitches in adapting
9 existing systems at Northern or building new systems
10 necessary to operate Northern?

11 A. (Collin) Not -- When you say "known glitches", you
12 know, it's a process. There's always things that come
13 up, you have to figure them out, and you have to work
14 your way around them. You have to put in place the
15 right fixes, if you will. I think we're very confident
16 in the process. And, I think it's, you know, I should
17 say that, and I mentioned earlier, that we couldn't ask
18 for a better partner in this process than, you know,
19 NiSource and its affiliates, and the people who have
20 come to work with us on the transition efforts. Some
21 who are in the room today have been extremely
22 cooperative and have really been great to work with to
23 make this process as smooth and as good a process for
24 customers and the Company as possible.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Now, the Company has to do some incremental hiring, and
2 that's been shown I think in the analysis of the
3 synergy study, that's one of the exhibits here. But
4 are those hiring plans on schedule, as far as you're
5 concerned at this point?

6 A. (Collin) Yes, they are. You know, as a financial
7 person, I wouldn't mind them slowing down a little bit.
8 But they're going pretty hard and we're bringing people
9 on. As I said, that cost, up until we own Northern, is
10 being borne by shareholders, is a cost that we feel, in
11 order to make this transition and to do it well, and to
12 do it as expeditiously as possible, we need to get the
13 staff and get the people on board to staff this company
14 and to staff it right. So, we're moving forward very,
15 very quickly. And, I guess with a lot of faith that,
16 in the end, we'll get the approvals we need to proceed
17 with the acquisition. I'd hate to try to unwind it
18 all.

19 Q. Yes. So, you're confident, as we sit here today, that
20 either you've hired the necessary people to operate
21 Northern and Granite appropriately or you will be able
22 to do that by the time the cut-over in each of those
23 areas occurs?

24 A. (Collin) Yes.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Now, Fitchburg, which is another Unitil affiliate, has
2 gas operations, besides electricity operations. Could
3 you just comment on how the gas operations services
4 currently provided to Fitchburg through the service
5 company might be adapted to meet the needs of Northern
6 and/or Granite?

7 A. (Collin) Yes. I think, through the process, in looking
8 at the Business Integration Plan, we have been
9 open-minded to look at, when we look at Northern or we
10 look at Granite and look at their systems and processes
11 that they may have in place, we're looking for the best
12 practice, we're looking for the best way to do things.
13 And, there may be instances where we learn something or
14 we find a system that is currently being used at
15 Northern, or, you know, Granite to a lesser extent,
16 that would be practical for us to integrate that into
17 our gas operations in Fitchburg. So, when we look at
18 this, we are taking account that we own the gas
19 operation, and it has certain systems, practices and
20 procedures in place, and trying to find best practices
21 and ways of doing things. Where it's appropriate to do
22 it jointly, you know, there are some areas where that
23 may make sense. And, where it's not, you know, where
24 you have to have stand-alone operations, you do that.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 But we're trying to find ways to find as many
2 efficiencies and to run the business as well as we
3 possibly can. You know, that's what we do.

4 Q. And, could you comment on how Unutil expects to operate
5 Northern and Granite after the acquisition, and while
6 the study that's referred to in the Settlement
7 Agreement is being conducted? I know there's special
8 provisions on the transportation contract, but --

9 A. (Collin) Yes. I'd like to say "status quo", but it
10 really -- it really isn't the status quo in a way,
11 because what we found and learned during this process
12 is that NiSource, because of its larger corporate
13 structure and the number of different areas that it's
14 involved in, has very strict affiliate rules relative
15 to the interaction of Granite and Northern. And, they
16 have, because of that, and they have to have that
17 because of the reach of their operations and the types
18 of things they're in, they're under more strict FERC
19 regulation relative to the contact between the local
20 distribution company and their operating pipeline.

21 What Unutil, because we're basically a
22 local distribution company, either electric or gas, we
23 don't have other pipeline assets, we're not in the
24 marketing business, because of those different nature

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 of Unitil's business, we do not have as strict an
2 affiliate rule issue at the FERC as I believe exists
3 today. So, we expect Granite and Northern to be
4 operated in a more cohesive and use joint staff, a
5 thing that NiSource can't currently -- you know, it's
6 very difficult for them to share staff and to share
7 services. So, we expect to have much more flexibility,
8 much more ability to share information and share staff
9 because of the nature of our operations. So, in many
10 ways, we will operate them as if they're integrated,
11 once we acquire them, even without the formal
12 integration. The fact is that the FERC will still
13 regulate the rates and services of Granite. But, in
14 terms of the actual operation and nature of it, they
15 will be operated in very much an integrated manner on a
16 going forward basis.

17 Q. Okay. Now, you have described this agreement with the
18 Union about continuing to share with them at least some
19 of your integration plans regarding the -- I believe
20 the hiring and the operating in that Atkinson area,
21 right?

22 A. (Witness Collin nodding affirmatively).

23 Q. Those will also as well be shared with Staff, those
24 plans?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) Yes. As part of the -- we've committed here a
2 monthly report and regular reporting on our Transition
3 Services Plan.

4 Q. Yes.

5 A. (Collin) So, that would be a component of and would
6 continue to be shared going forward.

7 Q. Okay. Next, I draw your attention to Exhibit 4, and
8 you described this, but I think very briefly. And, I'd
9 like it if you could just walk us through that in a
10 little bit more detail. That's your estimate of
11 synergy savings. And, could you, for example, turn to
12 Attachment 1, Page 1 of 4, and Page 2 as well. And,
13 could you just go over what those figures are? Where
14 do they come from?

15 A. (Collin) Well, there's two sets of data here. One is
16 to look at the pre-acquisition or prior to the
17 transaction, and that's up on Lines 1 through 3,
18 services provided by NiSource and its affiliates to
19 Northern. So, we took those, based on 2008
20 information, and looked at those across the, as you'll
21 see up in Lines 1 through 3, the NU divisions, the
22 Maine Division, the New Hampshire Division, and Granite
23 State Transmission. And, those are services that are
24 the cost of services that are provided on a centralized

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 basis, on a support basis, to Northern. And, then, we
2 compared those to what we calculated is the cost of the
3 same services provided by Unitil Service Corp. or
4 Unitil Service Company to Northern, and compared the
5 two. The difference between the two was synergies that
6 we calculated of a total here of 5.1 million, and
7 that's on Line 5. And, you can see it by Unitil
8 affiliate, operating affiliate.

9 And, then, finally, down on Line 6 and
10 7, there's some additional cost savings that we believe
11 we can save relative to Northern specifically, that's
12 an additional 500,000. So that the net synergies, the
13 total synergies are 5.6 million across the Unitil
14 system, and you can see the different areas or the
15 different allocation on Line 7 to the various Unitil
16 affiliates. UES, as I mentioned earlier, is
17 1.5 million, that's in the first column. Fitchburg Gas
18 & Electric Light Company, our Massachusetts subsidiary,
19 is 1.7 million, and so on, across here. You see the
20 Maine Division, the New Hampshire Division, and Granite
21 State Transmission, which, actually, based on our
22 numbers, there would be a slight increase in costs
23 there.

24 What this is doing is it looks at, to

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 calculate the cost of us serving Granite and our other
2 affiliates, we essentially reran our service company
3 model with Granite services, Granite and Northern
4 services included in the model. So, we took a look at
5 -- we took a look at our existing 2008 budget, we said
6 "now what would it cost us to also provide these same
7 services to Northern and Granite? We added in the
8 additional staffing and additional resources that we
9 would need to do that, and then ran our service company
10 model again, and came up with a budget or a cost
11 estimate to provide those services. Those services
12 came in less than what they were currently paying for
13 similar or like services from NiSource.

14 Now, why does that occur? It's kind of
15 one of the -- early on in this process we got the
16 question "well, how does a small company end up having
17 synergies taking over from a large company? And, you
18 know, how do you get economies of scale? And, really,
19 that's exactly what it is. It's economies of scale
20 that are created, but it's not an economy of scale
21 relative to NiSource. Where the economies are
22 occurring is at Unitil. If you look at Unitil prior to
23 the services to Northern, it had certain fixed costs,
24 certain overheads that it had to spread across its

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 customer base. When we bring in Northern, and it's
2 such a perfect fit, in terms of its service territory,
3 in terms of its location, in terms of its -- the nature
4 of its business, that we can quickly expand the service
5 company services without adding significant overheads
6 and fixed costs. So that, by adding that additional
7 customer base of Northern, we were able to quickly
8 spread our existing fixed and overhead costs across
9 many more customers, and, as a result of that, achieve
10 significant savings, not only at Northern and Granite,
11 but also receive significant savings at our other
12 operating affiliates. And, so, when you look at the
13 synergy study, that's exactly what it's modeling,
14 that's exactly what it is showing. Is that Unitil is
15 achieving significant economies of scale by adding this
16 asset that is in its backyard, right next door, and
17 provides a tremendous opportunity to spread our fixed
18 costs and base across a wider customer base.

19 Q. Okay. Page 4 of that attachment or that Exhibit 4 has
20 "Incremental Salaries Summary by Departments". Could
21 you please just summarize what that information is and
22 what assumptions are being made regarding salary levels
23 and --

24 A. (Collin) I'm sorry, what page are you on, Ed?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Q. Page 4 of Exhibit 4.

2 A. (Collin) Yes.

3 Q. Of the attachment, I'm sorry.

4 A. (Collin) Yes. As I described, Page 4 is an
5 identification of, on the top part, is the distribution
6 operating center level positions that we would be
7 bringing over directly with the acquisition of
8 Northern. So, there's no incremental salaries
9 occurring from a comparison. Where basically the same
10 salaries that are currently embedded in Northern will
11 stay there. So, there's no change in salary level in
12 that part of the synergy analysis. The lower half, on
13 Lines 1 through 11, shows the new positions that we're
14 bringing in in order to meet the needs of Northern on,
15 you know, within the service company structure. And,
16 as I was describing earlier, those new positions and
17 those salary levels, and, generally, the salary levels
18 we use here are based on our existing salary system and
19 pay level system, and our midpoint type of estimate
20 process or an estimate based on midpoints for our
21 salary grades. We would take these salaries and we
22 would put them into our Unitil Service Company budget,
23 and, again, go through that billing process that I
24 described earlier, where we then rebill Unitil Service

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Corp. across all the Unitil affiliates. And, the net
2 result is the synergies that we discussed. But this is
3 showing the incremental salaries that we expect to
4 incur in order to be able to provide the services that
5 are currently provided by NiSource and its affiliates
6 to Northern.

7 Q. And, that salary information is input onto Page 3 of
8 that attachment, as I understand it?

9 A. (Collin) Yes.

10 Q. Mr. Mullen, in his testimony, referred to this study as
11 a "cost comparison study". Is that one fair way to
12 characterize what it is?

13 A. (Collin) Yes, because, in the end, we compare our cost
14 to provide these services to NiSource's costs. I don't
15 want to miss in that that there are real economies of
16 scale and efficiencies going on at Unitil. Instead of
17 a relative cost comparison, the real savings are
18 because of our structure, the Unitil Service Company
19 structure, and its ability to take on in its systems,
20 in its management, in its fixed costs, you know, even
21 its office space, all its overheads, can take on a
22 number of -- 50,000 plus more customers, particularly
23 when they're right in your backyard, right next door,
24 without having to add a significant amount of cost. It

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 has to add some incremental cost, because of the new
2 staffing, but it doesn't have to add to fixed costs.
3 This is real pure economies of scale at the Unitil
4 Service Corp./Unitil Corporation level that are
5 allowing us to achieve these kinds of synergies.

6 Q. Okay. Regarding the study regarding Granite State
7 Transmission, that's referred to, I believe, in the
8 text of the Settlement Agreement, as well as in
9 Attachment B as a "collaborative study". And, could
10 you refer to -- could you describe what that actually
11 refers to? In what way will there be collaboration?

12 A. (Collin) Yes, I'm trying to describe how to describe
13 "collaboration" without using the word "collaboration".
14 But, essentially, Unitil is going to undertake a study.
15 It is going to marshal the resources, marshal the
16 resources to do the study. And, as listed here under
17 (2), is going to go through a multipart study to look
18 at the benefits and costs of various organizational
19 structures or regulatory structures for Granite State.
20 In doing that, throughout the process, at various
21 stages of the process, we will share findings, share
22 results, and share conclusions even or where we might
23 go recommendation-wise with the Staff and other
24 parties, so that they can input and maybe question or

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 have an ability to contribute their thoughts to the
2 process, so we don't get all the way down the road and
3 find out, you know, "well, what if you had done this
4 way back here?" We really want to move the process
5 along in a way so that each stage the parties are on
6 board, essentially are bought into the process, you
7 know, if I can say that in a non-negative way, but are
8 brought in, any way, into the process. So that, in the
9 end, hopefully we all get to the end of the process and
10 the recommendations together, instead of waiting till
11 the end to get there.

12 Q. Okay. Thank you. Now, as I understand it, according
13 to the Settlement, the focus of the study is to assess
14 whether the customers of Northern and Granite would be
15 better served by integrating them or otherwise
16 reorganizing them and their operations. That's part of
17 the Settlement Agreement, right?

18 A. (Collin) Yes.

19 Q. And, consideration will be given to planning, costs,
20 operations, management of supply, access for third
21 party suppliers, reliability, safety, and the public
22 interest, and that's part of the Settlement as well?

23 A. (Collin) Yes. Attachment B has a fairly good list of
24 the types of broad areas that will be looked at.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 There's a number of different areas of costs and
2 benefits.

3 Q. And, I think this has been alluded to by other
4 witnesses, if not yourself, but the study does have
5 implications for the question of state versus federal
6 jurisdiction over Granite, right?

7 A. (Collin) It does, yes. No, that's clearly one of the
8 areas that would have to be looked at in the process.

9 Q. Okay. And, there's two main elements of that, as far
10 as I see it, and ask you if you would agree with that.
11 One is rate regulation and another is safety
12 regulation, those are the primary areas?

13 A. (Collin) Well, I think, as Randy said, the safety
14 regulation, you could probably get around or find ways
15 potentially to have safety regulation without that
16 change. But, clearly, rate regulation is one that
17 would require the FERC essentially giving up
18 jurisdiction and the state agreeing to take that on.

19 Q. Yes. Now, Attachment B, I count up six areas of study,
20 and it says that "the report will address at a minimum
21 those six areas." Are there other -- Are there any
22 other major areas that are not included on that list
23 that you would think is important for it to be part of
24 the study?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) None I'm aware of at this time.

2 Q. And, does the Company have an open mind regarding the
3 results of the study as we sit here today?

4 A. (Collin) Yes, I think we've expressed that throughout
5 the settlement process. And, I tried to, during my
6 direct, you know, talk about that it was really from
7 the very beginning of this acquisition we understood
8 the importance of Granite, the relationship of Granite
9 and Northern. I do think we will operate those two
10 entities with a lot more closeness or the relationship
11 will be a lot different than it currently is under
12 NiSource. As a result of that, some of the issues that
13 may have troubled Randy in the safety area or even in
14 the ratemaking area may be lessened. But, despite all
15 that, we've been agnostic, really, is the word we've
16 used, about the conclusion of what this study may
17 result in. We're happy to go into it open-minded, and
18 are eager to get a resolution that hopefully everybody
19 can agree to. And, I'll just point out, it's
20 consistent with the way we've operated Unitil in the
21 state before with our electric operations, where we,
22 you know, unilaterally, we really volunteered to take a
23 FERC affiliate out of FERC, you know, to eliminate that
24 power supply side out of FERC jurisdiction and move it

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 into state jurisdiction. And, really, that was our
2 recommendation to move from a FERC jurisdiction over --
3 a significant amount of our power supply to state
4 jurisdiction.

5 Q. Okay. Regarding the possible recovery of integration
6 costs, that's Section 3.3, I'll tell you, at the outset
7 of this case, I couldn't understand why any integration
8 costs should be allowed for potential recovery. And, I
9 know you alluded to this a bit on your direct
10 examination, but could you just confirm what the
11 rationale is, why the Commission should, you know,
12 countenance the idea of potential recovery for
13 integration costs?

14 A. (Collin) Yes. You know, and I said before, and we
15 shared this in the settlement process, and I think --
16 hopefully this is not confidential, but I think we did
17 a poor job (a) the word "integration", kind of connotes
18 something that maybe is, you know, is not something
19 that has worked well in terms of describing these
20 costs, and it gave a sense that it was a one-time or
21 not a repeating cost. And, what we've done I think is
22 a better job, and I think in reaching the settlement,
23 at giving a better definition and making sure everyone
24 understood "integration".

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 First and foremost, as I said earlier,
2 Northern is a carve-out from the NiSource companies.
3 So, when we carved that asset out from NiSource, we did
4 not acquire its customer information system, we did not
5 acquire its accounting system, we did not acquire its
6 operating systems, we did not acquire its dispatch
7 system. So, we did not -- we did not acquire the whole
8 company. In not acquiring that, we also don't pay for
9 that stuff. And, we don't pay for it on an ongoing
10 basis and don't pay for that going forward. But we
11 have to replace it. We obviously need to provide a
12 customer service system, we obviously need to provide
13 an accounting system. So, from our perspective, it's a
14 replacement cost. It's just the cost that NiSource and
15 its affiliates were providing these services for go
16 away, and we bring in our systems and our cost
17 structure. So, from that perspective, it seemed
18 appropriate that we should be able to recover those
19 costs, just as, before the transaction, those costs
20 were being recovered in rates when NiSource was
21 providing them. So, it's just a change in who's
22 providing them, not so much a change -- not additive.

23 The other -- So, that's probably the
24 most salient feature that we tried to talk about and

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 worked on in terms of integration costs. The other
2 fact is, that we've argued, and I think it's helped
3 with it, is that these type of system costs and type of
4 projects that we're talking about, customer information
5 systems, accounting systems, operating systems, turn
6 over all the time. Technology is moving so fast. And,
7 the best practices, in terms of various technology
8 systems is moving so fast that their lives are
9 relatively short. That they're basically five, you
10 know, average five year lives, maybe some ten year
11 lives, but they're moving through their cycle very
12 quick. So, the fact that we're coming in and replacing
13 everything and putting it up to the current technology
14 level, the current state of the art, our current system
15 level, is not all that unusual in the cycle. It may
16 have accelerated some of these costs or some of these
17 replacements. But it's not all that unusual that we'll
18 see this cost repeated again and again and again over
19 the next five, ten, fifteen years. This is a typical
20 cost.

21 So that those two points we've -- I
22 think have -- using those points have gotten agreement
23 among the parties that, yes, these are appropriate for
24 recovery in the Company's cost of service, none of

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 which we recover until we come in for rates. So, all
2 of this, with the stay-out period, for the first two
3 years of the lives of these assets, which have five
4 year and eight year lives, you know, we're absorbing
5 the cost of putting these systems up into place. We're
6 only going to recover it once we come in for base
7 rates. I guess the only -- yes, I guess that's the
8 response.

9 Q. Another question on the synergy savings study, will an
10 update to that be part of this initial report on the
11 status of the transition plan? It's not actually
12 mentioned in 8.3 on Page 15. But what would your
13 understanding of that be?

14 A. (Collin) The synergy study?

15 Q. Yes.

16 A. (Collin) You know, I don't -- no. I would say that
17 we're not planning on continuing to update that. It's,
18 at this point, you know, where we've updated it this
19 far through, any changes are really small on the
20 margin. We don't expect -- We continue to expect this
21 to be the result. You know, I suppose, if we had some
22 dramatic changes, I mean, we would let you know. But,
23 at this point, it's really -- it would be tweaking
24 something that we're pretty confident in, and it's

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 really what we're going with.

2 Q. Okay. Recognizing that there are some differences
3 between the two, and again as we sit here today, are
4 the terms of the settlement being negotiated in Maine
5 materially more advantageous to Maine customers than
6 the settlement in New Hampshire is to New Hampshire
7 customers?

8 A. (Collin) As you know, we've worked very hard throughout
9 this process to keep both Maine and New Hampshire
10 informed of what was going on in each jurisdiction,
11 where we were actually tweaking language and wording in
12 each settlement to match another settlement or not
13 match another settlement. And, we just found that
14 every time we go -- we go to Maine, we step ahead in
15 the process, we come here and we'd meet with New
16 Hampshire and we'd go -- we'd step ahead in the
17 process, and it was going back and forth. And, we
18 committed to try to, you know, from our perspective,
19 avoid this "most favored nation" necessity clause.
20 And, instead just keep the parties informed, we'll let
21 them make the choices throughout the process of what
22 they thought was comparability or what was appropriate
23 for comparability. Discuss those issues, trade those
24 off within the jurisdiction we're in, to come up with

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 something that we thought was -- everyone could agree
2 to. And, I can say that there is no material
3 difference between the two. There are some differences
4 in, you know, in the particular area of the cast iron
5 program, for instance, in Maine is very specific to
6 Maine. But, without the specific areas, if you took
7 those out, they're very comparable and materially the
8 same.

9 Q. Yes. And, could you just provide us with information
10 about the Maine procedural schedule. Where are you in
11 the Maine proceeding?

12 A. (Collin) Our hope is that we'll be filing a settlement
13 in the next few days, and hearings next week.

14 Q. Okay. Is there an expected time for the delivery of an
15 order on that expected settlement?

16 A. (Collin) Oh, yes. No, we've asked for, in both
17 jurisdictions, and it's critical to our schedule, to
18 receive a order, obviously, approving the transaction
19 by October 1st of this year. It really -- That is the
20 first component of our schedule to complete the
21 financing, in order to be able to close the transaction
22 and to complete the transaction. Our current closing
23 date schedule is November 7th of this year. So, we're
24 pressing ahead, and that order date is very important

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 to us to stay on schedule.

2 Q. Thank you. A few more questions just for you,
3 Mr. Ferro. One question that is of concern to Staff,
4 and can you confirm that this Settlement and the
5 Commission's consideration of the Settlement will not
6 cause the consideration of other matters Northern has
7 pending, with respect to the New Hampshire Division,
8 will not be suspended until after the closing? That
9 Northern will continue to push forward on these other
10 dockets and other issues that Northern has been
11 discussing with Staff?

12 A. (Ferro) Certainly, Northern is very mindful of a few
13 open dockets and a few open issues that it plans to
14 carry out to the end. One comes to mind is the
15 Integrated Resource Plan filing that last we checked
16 Northern provided a revision to the proposed
17 settlement. Another matter that's not a docketed
18 matter, but will be reflected in winter cost of gas
19 filings is the Spectra metering problem and the current
20 and ongoing negotiations with Portland Natural Gas
21 Transmission System on resolving that issue.

22 A couple of other open dockets that come
23 to mind are -- one is the supply related working
24 capital issue, that is a generic proceeding. And,

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 quite frankly, as we go through that, and we currently
2 and in an ongoing way being quite engaged in that
3 proceeding. But, however, if that is not resolved by
4 the close of the transaction, if you will, I imagine it
5 might be a little bit awkward for someone like myself
6 or Bay State Gas to be involved as Unitil is involved
7 in that proceeding. And, a similar proceeding that
8 also falls in that category is the proceeding on the
9 interest on monthly deferred gas cost balances, where
10 Staff has taken the position of using accrued revenues
11 in that calculation; the Company has not agreed with
12 that position, and right now the Company had filed a
13 motion for reconsideration. Those are the four issues
14 that come to my mind.

15 Q. Yes. But the Company will press forward with those
16 issues and dockets, notwithstanding --

17 A. (Ferro) We will press forward on all those issues, and
18 again, until it's not appropriate for us to do so.

19 Q. Yes. And, one last question. Will Northern agree to
20 cooperate pre-closing with Unitil in accomplishing the
21 change of management in accordance with the Business
22 Integration Plan that Unitil has developed?

23 A. (Ferro) Yes. The best way to start responding to that
24 issue is I think we should turn to I believe its

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 Exhibit 7, Page 4, Section 3.3 spells out the extension
2 of the term. So, the first thing to point out is that,
3 in addition to the term of the agreement of 120 days,
4 we have a first extension of three months, and a second
5 extension of another three months. While we have
6 extreme confidence that Unitil will be able to go it on
7 its own, so to speak, after such an extended period of
8 transition, Bay State Gas, NiSource, is not going to go
9 away. It's in everyone's best interest, most
10 importantly our customers, to make sure that we provide
11 the appropriate and proper assistance to Unitil to
12 completely hand over the so-called keys to Unitil. So,
13 as a responsible utility company, Bay State Gas,
14 Northern Utilities, NiSource, we would not in any way
15 let our customers hang or Unitil hang with respect to
16 any kind of transition issues that need to be resolved.

17 Q. Okay. And, I know you don't speak directly for
18 Granite, but, as far as you know, Granite would exhibit
19 the same degree of cooperation?

20 A. (Ferro) That's right. While I can't, I'm not in a
21 position to speak on Granite's behalf, that's correct.
22 Granite, being a NiSource company, they certainly
23 would, in my opinion, feel the responsibility of making
24 this go through -- making sure this goes through right

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 to the end.

2 MR. DAMON: Thank you. I have no
3 further questions.

4 CHAIRMAN GETZ: Ms. Hatfield.

5 MS. HATFIELD: Thank you. Mr. Damon
6 actually asked my questions, and Mr. Collin answered them.

7 CHAIRMAN GETZ: Okay. Thank you. Mr.
8 Linder?

9 MR. LINDER: Mr. Chairman, having heard
10 all the testimony today, we really do not have any
11 cross-examination. I would only ask to be permitted to
12 make a short closing statement in support of the
13 transaction today.

14 CHAIRMAN GETZ: Okay. Thank you. Mr.
15 Sullivan?

16 MR. SULLIVAN: I have no questions based
17 on the detailed testimony of Mr. Collin. Thank you.

18 CMSR. BELOW: I think just one
19 clarifying question, Mr. Collin.

20 BY CMSR. BELOW:

21 Q. On 6.9 of the Settlement Agreement about the "Post
22 Transaction Service to the Atkinson/Plaistow/Salem
23 Area", there's a reference that "Bay State will
24 continue to service the area from its Lawrence

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 facilities". And, that refers to service technicians,
2 distribution technicians, the actual field personnel
3 who will service the area, is that correct?

4 A. (Collin) Yes.

5 Q. And, that's -- But you will begin hiring additional
6 personnel, at least three, to supplement your workforce
7 and plan to sort of relocate people there or have
8 people work to serve that area, once you've established
9 a satellite facility to support those people? Is that
10 the rough plan?

11 A. (Collin) Yes. The idea is the three incremental
12 positions that I think I read into the record would be
13 dedicated to that area primarily. That would be --
14 they would have to be located in a way that they could
15 provide emergency response and other services to that
16 area.

17 Q. And, about how many customers do you have in that area?
18 Or not you, but --

19 A. (Collin) I want to say there's maybe a 1,000, 1,500, or
20 somewhere in there.

21 A. (Knepper) It would be about 2,000.

22 CMSR. BELOW: Okay. I think that's all.

23 CHAIRMAN GETZ: Just a few details from
24 the Settlement Agreement for Mr. Collin.

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 BY CHAIRMAN GETZ:

2 Q. Under the customer communications, in 4.2, talks about
3 Northern providing "advanced copies of bill inserts and
4 other customer communications". And, is this a
5 courtesy advance copy, and actually I'm not sure if
6 it's for Mr. Collin or Mr. Ferro, or is it some notion
7 that there would be opportunity to comment?

8 A. (Collin) It's more than just a courtesy, it is to seek
9 out comment. We've already begun to do that, in
10 working with Amanda and the Consumer Division, and
11 others who are interested in that material, to
12 coordinate and take comments. And, it's basically a
13 collaborative type process to try to capture issues
14 before they happen.

15 Q. And, then, on the next page, under Article V, "Service
16 Quality", and this automatic penalty provision, I think
17 Mr. Knepper may have pointed this out when he was on
18 direct. But I interpret this section in the context of
19 the last section of 6 -- last sentence of 6.10, that
20 this is not meant to be an exclusive remedy, and that,
21 to the extent that there are issues that arise for
22 penalties or fines for any other service quality or
23 other issue, that that's not covered by this automatic
24 penalty maximum of \$60,000 for a year?

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 A. (Collin) Yes. I'm not sure that that provision was
2 specifically intended to go with that. But we either
3 could stipulate or I don't think there is anything in
4 here to limit the Commission's authority in any of
5 these areas.

6 Q. And, then, the last thing in here was the Commission
7 assessment in 7.3, I read that section to be entirely
8 prospective, from July 1st, 2009 going forward?

9 A. (Collin) That's correct.

10 Q. Okay. Then, the last general issue I wanted to inquire
11 about is, currently, Unitil has 100,000 electric
12 customers and 15,000 gas customers. If the transaction
13 is approved, it will be 100,000 electric customers and
14 67,000 gas customers, which is a very different mix.
15 And, if I -- I think the only place I saw this
16 addressed, and it might have been Mr. Meissner's
17 testimony, it sounds like the most senior person with a
18 natural gas industry background is a director at the
19 Service Corp. And, my understanding is, looking at the
20 testimony, is most of the senior officers' backgrounds
21 are in the electric industry, though I guess you might
22 argue that you've also been part of the combined
23 company for some time. Is there any notion of giving
24 greater emphasis at the senior management level or

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 hiring with respect to experienced managers from the
2 natural gas industry?

3 A. (Collin) Well, there's kind of two parts to that.
4 Despite only having 15,000 customers in Fitchburg is,
5 and as I'm sure you regulate all your companies, small
6 or large, we kind of have to live up to the same
7 requirements, standards, rules and regulations. We've
8 operated the gas business, in fact, it's been the
9 longest operating business of any of the Unitil
10 Companies, since the mid 1800's. So, we are very
11 familiar with operating a gas business. Arguably, the
12 size is smaller, and with size does come some issues.
13 So, we do have, you know, some experience in that area.

14 Our current hiring plan does not have
15 any changes to the senior management function. And, we
16 are focusing on bringing in capable gas managers and
17 operating people, really at the director level and
18 below. And, we will be hiring several individuals in
19 all different areas, including gas operations, gas
20 compliance activities, gas supervision, and gas
21 construction. So, we do expect to be bringing on a lot
22 of talent and a lot of capability in those areas. I
23 think we view at the senior level is, again, we do have
24 some experience with the gas utility, but that our

[Witnesses: Collin|Ferro|Eckberg|Frink|Knepper]

1 current group is very familiar with operating local
2 distribution companies, we're utility management
3 skilled, and I guess have confidence in our capability
4 to operate Northern in an appropriate way and in a
5 successful way.

6 But, whether or not we ever have an
7 opening for a senior person, I'm sure, to the extent
8 that we do, those with gas capability would be a nice
9 add. But that's not in our current plan. All our
10 adding is below, below that level.

11 CHAIRMAN GETZ: Okay. Thank you. Any
12 redirect?

13 MR. MUELLER: No redirect.

14 CHAIRMAN GETZ: Anything further for
15 this panel?

16 (No verbal response)

17 CHAIRMAN GETZ: Hearing nothing, then
18 you're excused. Thank you, gentlemen. Is there any
19 objection to striking identifications and admitting all of
20 the exhibits into evidence?

21 MR. MUELLER: No objection.

22 CHAIRMAN GETZ: And, they will be
23 admitted into evidence. Anything else to address, before
24 we provide the opportunity for closings?

1 (No verbal response)

2 CHAIRMAN GETZ: Well, before we do that,
3 one item. The procedural schedule provides for briefs.
4 Fair for me to conclude that briefs are not necessary or
5 sought in this proceeding?

6 MR. MUELLER: Unutil would agree with
7 that conclusion.

8 CHAIRMAN GETZ: Okay. Then, there shall
9 be no briefs. Opportunity for closings, beginning with
10 Mr. Sullivan.

11 MR. SULLIVAN: Thank you. I'm allowed
12 to be brief. Mr. Collin did speak to some specific plan
13 to post positions and to develop an integration plan for
14 the Atkinson/Plaistow/Salem area. I believe that allows
15 them to have the physical capability to meet the goals
16 that have been set and agreed to, and allows them to meet
17 the "no net harm" test. And, I think this proceeding
18 should move forward.

19 CHAIRMAN GETZ: Thank you. Mr. Linder.

20 MR. LINDER: Mr. Chairman,
21 Commissioners, New Hampshire Legal Assistance, on behalf
22 of its low income client, did sign onto the Settlement
23 Agreement and we are in support of the Settlement
24 Agreement. We're particularly pleased with the provisions

1 of Article IV, and particularly 4.1, which is directed
2 towards the low income customers. Unitil agreeing to
3 continue the Low Income Fuel Assistance Discount Program
4 and the Low Income Energy Efficiency Program. And, also
5 agreeing to consider possible improvements in those
6 programs, possible expansion of those programs, and meet
7 with Staff and the parties to discuss those issues, and to
8 include New Hampshire Legal Assistance and its low income
9 clients in periodic meetings to review the status of those
10 programs.

11 And, really, it is no surprise that
12 there is such an agreement. I think it's reflective on
13 the part of both companies, Unitil and Northern, its
14 commitments, its respective commitments to their low
15 income customers, as has been evidenced by both companies
16 with respect to their low income programs, in providing
17 the discount programs and the energy efficiency programs
18 that they have over the years. So, we are very pleased to
19 look forward to working with Unitil, as it continues to
20 move forward to -- on behalf of its low income customers.

21 And, we particularly want to thank the
22 companies and the Commission Staff and the OCA and the
23 other parties for the courtesies that have been extended
24 to New Hampshire Legal Assistance and its low income

1 clients. Thank you.

2 CHAIRMAN GETZ: Thank you.

3 Ms. Hatfield.

4 MS. HATFIELD: Thank you, Mr. Chairman
5 I'd like to echo many of the comments of Mr. Linder, and
6 thank the Staff, the two companies, and all the parties
7 for all of the work that everyone did on the Settlement.
8 The OCA does support the Settlement. We look forward to
9 working with Unitil. We thank Northern for their service
10 to the state. And, we would respectfully request that the
11 Commission approve the Settlement as proposed.

12 CHAIRMAN GETZ: Mr. Damon.

13 MR. DAMON: Staff has employed the
14 services of a number of different Staff members with
15 different responsibilities: Steve Frink, of course, on a
16 lot of rate-related matters; Randy Knepper on a lot of
17 safety-related matters; Steve Mullen on the financing
18 aspects and synergy savings and so forth; Amanda Noonan in
19 the area of service quality; and also Bob Wyatt, who
20 looked at the gas supply and dispatch capabilities of the
21 Company and assessing his degree of confidence in Unitil's
22 ability to operate a larger gas utility than they now do.

23 The Staff and other parties have engaged
24 in extensive discovery through data requests and numerous

1 technical sessions. The Company was very good to
2 cooperate in holding an all-day technical session at its
3 headquarters in Hampton that was not on the schedule, but
4 we did allow for the participation of the Maine parties as
5 well, and that was a very helpful session that we had
6 there.

7 And, for the reasons reflected in the
8 testimony, as well as in the hearing testimony here this
9 morning, Staff does support the Settlement, and believes
10 that it is appropriate for the Commission to approve the
11 Settlement. That said, I think there's no question, and I
12 think Mr. Collin and others at the Company recognize this,
13 that this acquisition, you know, presents major challenges
14 for the management of Unitil, in terms of making sure that
15 the transition to new management occurs smoothly and so
16 on. So, we think that they have the capability to do
17 that, and we'll expect to see that from them.

18 And, finally, as Mr. Ferro indicated, it
19 is important for Northern to continue to be active and
20 responsive in participating in issues of interest and
21 importance to the New Hampshire Commission, and they will
22 do that. And that, in addition, that they will cooperate,
23 to make sure that the transition to new management occurs
24 as smoothly as possible. Thank you.

1 CHAIRMAN GETZ: Thank you. Mr. Patch.

2 MR. PATCH: Northern would also like to
3 thank the parties involved in the proceeding, the Staff
4 and the Office of Consumer Advocate, and all the parties,
5 and Unitil for their cooperation, and the Commissioners as
6 well, and would urge that the Commission approve this.
7 Obviously, there are timeframes involved, and those have
8 been noted in the record. But would urge that the
9 Commission approve it. We believe that it is consistent
10 with the statutory criteria noted in the Joint Petition,
11 and urge the Commission's speedy approval.

12 CHAIRMAN GETZ: Mr. Mueller.

13 MR. MUELLER: On behalf of Unitil
14 Corporation, I also would like to extend our thanks to the
15 Staff, the Consumer Advocate, the Steel Workers Union, New
16 Hampshire Legal Assistance, current Northern management,
17 Bay State/NiSource, for their cooperation in this
18 proceeding. We set out a fairly expedited procedural
19 schedule four months ago, and we have been successful in
20 meeting that schedule.

21 I think the Commission should take
22 considerable comfort in the fact that this has been a
23 rigorous and robust process, in which both the potential
24 risk and benefits of the proposed transaction have been

1 thoroughly examined. And, as a result of the commitments
2 made by Unitil in the Settlement Agreement, I think we
3 have demonstrated that the proposed transaction will
4 benefit New Hampshire ratepayers. And, we would ask for
5 the Commission's expeditious approval of the Settlement,
6 as well as both the financing docket, as well as this
7 docket regarding the proposed transaction.

8 CHAIRMAN GETZ: Okay. Then, we will
9 close this hearing and take the matter under advisement.
10 Thank you, everyone.

11 (Whereupon the hearing was adjourned at
12 1:38 p.m.)