STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 22, 2009 - 11:18 a.m.
Concord, New Hampshire

RE: DG 09-038
NEW HAMPSHIRE GAS CORPORATION:
Notice of Intent to File Rate Schedules.

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

Sandy Deno, Clerk

APPEARANCES: **Reptg. New Hampshire Gas Corporation:**
Meabh Purcell, Esq. (Dewey & LeBoeuf)

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq.

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

I N D E X

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
3	Settlement Agreement (09-30-09)	6
4	Revised Rate Case Surcharge Calculation and Summary of Temporary Rate Reconciliation Calculation (10-21-09)	11
5	Supplemental Testimony of Jennifer Boucher, including attachment (10-21-09)	14
6	N.H. Gas Corporation response to Question NHPUC 1-1, first set of data requests (07-31-09)	23
7	Direct Testimony of Stephen P. Frink, including attachments (09-30-09)	42
8	Chart entitled "DG 09-038 New Hampshire Gas Corporation Rate Impact Reflecting Rate Plan, Revised COG and Change in Billing Determinants"	50

P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good morning, everyone. We'll open the hearing in docket DG 09-038. On March 31, 2009, New Hampshire Gas Corporation filed a petition requesting approval of permanent rates and temporary delivery rates. An order was issued on April 2nd suspending the tariffs and scheduling a prehearing conference. In addition, a hearing on temporary rates was held, and an order issued on April 30 authorizing temporary rates, an incremental value of $69,995. Subsequently, we set a procedural schedule for a hearing on permanent rates. And, we have a Settlement Agreement that's the subject of today's hearing that was filed on September 30.

Can we take appearances please.

MS. PURCELL: Good morning, Commissioners. My name is Meabh Purcell, from Dewey & LeBoeuf, in Boston, representing New Hampshire Gas Corporation.

CHAIRMAN GETZ: Good morning.

CMSR. BELOW: Good morning.

MR. TRAUM: Good morning, Mr. Chairman and Commissioners. Representing the Office of Consumer Advocate, Kenneth Traum.

CHAIRMAN GETZ: Good morning.

MR. FOSSUM: And, good morning. Matthew Fossum, of the Staff of the Commission. And, with me today is Stephen Frink and Bob Wyatt of the Commission Staff.

CHAIRMAN GETZ: Okay. Good morning. Are you ready to proceed, Ms. Purcell?

MS. PURCELL: Yes, I am. I'd like to ask Ms. Zink and Ms. Boucher to take the stand as a panel. And, just on a housekeeping matter, minor, we will be starting with any new exhibits with Exhibit 3, because we had a couple of exhibits at the temporary rate hearing.

CHAIRMAN GETZ: Okay. Thank you.

(Whereupon Karen l. Zink and Jennifer Boucher were duly sworn and cautioned by the Court Reporter.)

MS. PURCELL: All set?

KAREN L. ZINK, SWORN

JENNIFER BOUCHER, SWORN

DIRECT EXAMINATION

BY MS. PURCELL:

Q. Ms. Zink, I'm going to start with you. Could you please state your name and your title and your business address for the record.

A. (Zink) Yes. I am Karen Zink. I am employed by the Berkshire Gas Company as their President, Treasurer, and Chief Operating Officer. I am also the Treasurer of New Hampshire Gas Corporation.

Q. Thank you. And, have you previously submitted prefiled testimony in this case?

A. (Zink) Yes. On March 31st, 2009, I submitted prefiled testimony in support of New Hampshire Gas's request for an increase in base distribution rates, as well as testimony in support of temporary rates.

MS. PURCELL: Thank you. And, I'd just like to note that the New Hampshire Gas March 31st filing has been marked as "Exhibit 1" already.

BY MS. PURCELL:

Q. And, what's the purpose of your testimony today, Ms. Frink -- or, Ms. Zink?

A. (Zink) The purpose of my testimony today is to explain and support the Settlement Agreement filed in this case by the Office of Consumer Advocate, the Commission Staff, and New Hampshire Gas on July 30 of 2009.

MS. PURCELL: And, I would like to mark the Settlement Agreement as "Exhibit 3".

CHAIRMAN GETZ: So marked.

(The document, as described, was

herewith marked as Exhibit 3 for identification.)

MS. PURCELL: And, I believe everyone -- all the Commissioners have a copy of it.

(Mr. Traum conferring with Atty. Purcell.)

BY MS. PURCELL:

Q. Ms. Zink, when you said that the Settlement was "filed on July 30th", did you mean --

A. (Zink) I was incorrect. I meant "September 30th". Sorry.

MS. PURCELL: Thank you. Thank you, Mr. Traum.

MR. TRAUM: That's my contribution.

BY MS. PURCELL:

Q. And, first, Ms. Zink, why did New Hampshire Gas file to increase the base distribution rates in March '09?

A. (Zink) This was the first rate filing by New Hampshire Gas in six years, and was necessary because the Company's current rates are insufficient to support current operations and maintenance expenses, and also ongoing capital expenditures. Therefore, the Company required a rate increase to address its revenue deficiency.

Q. Thank you. And, does the Settlement Agreement, in your view, provide a just and reasonable resolution of the issues in the proceeding?

A. (Zink) Yes, it does. Like any -- Like any settlement, the agreement represents compromises among the parties. While the agreement does not provide New Hampshire Gas with all the revenues requested, it will allow the Company to increase its rates by $288,732 over three years, which is an 8.5 percent increase under base distribution rates, for their overall rates. This increase will result in rates that are just and reasonable.

Specifically, in Article II, Section 2.1, the parties have agreed on four items. The first is that we've stipulated a rate base of 2,260,000 -- excuse me, $2,236,222, which excludes land held for future use. We've stipulated a cost of capital, allowing an overall rate of return of 8.875 percent. We've stipulated a test year net operating income of $26,741. And, finally, we've stipulated a revenue deficiency of $288,732.

Q. Thank you. And, could you just briefly explain the three year phase-in, how that will work?

A. (Zink) Sure. As specified in Section 2.2, the rate increase will be phased in over three years. The first year, the increase will be $173,239, that will be effective November 1st, 2009. Then, on November 1st, 2010, another increase of $57,747 will be implemented. And, finally, on November 1st, 2011, another $57,746 will be implemented.

Q. And, could you describe how deferred revenues are treated under the Settlement Agreement?

A. (Zink) Sure. The deferred revenues are addressed in Article III of the Settlement. The parties agree that New Hampshire Gas is authorized to defer on its books the difference between the amount which would be collected under the maximum rates designed to recover additional revenues of 288,732 and the actual revenues being billed to customers. It's important to note that no interest will accrue on the deferred revenue balance, and that recovery of the deferred revenues will begin on November 1st, 2012, and occur over a 24-month period. If, for some reason, the Company files for a delivery rate increase during that 24-month period, the deferred revenues will be forgone.

Q. Thank you. And, did the Company get temporary rate approval for temporary rates in this proceeding?

A. (Zink) Yes. The Company did receive approval for a

$69,995 of temporary rates.

Q. Okay. And, does the Agreement provide for reconciliation between temporary and permanent rate levels, as well as recovery of rate case expense?

A. (Zink) Yes. The Agreement provides for both under Article IV. First, the temporary rate increase of 69,995 will be reconciled to the first year revenue increase of 173,239, and will be recovered via a surcharge over the first 12 months of the Rate Plan. Second, prudently incurred rate case expenses will also be recovered via a surcharge over the first 12 months of the Rate Plan. These expenses specifically exclude affiliate charges from Berkshire Gas and outside expenses related to the Commission audit of New Hampshire Gas's books and records. While New Hampshire Gas has managed its rate case expenses, presenting a rate case is a complex undertaking, even for a company the size of New Hampshire Gas.

Q. Thank you. I'd like to show you a document with a cover letter dated October 21, and ask that you identify this.

A. (Zink) This is a letter that was submitted to the Commission on October 21st, which includes New Hampshire Gas's rate case surcharge calculation and a summary of the temporary rate reconciliation calculation.

MS. PURCELL: Thank you. I'd like to mark this as "Exhibit 4".

CHAIRMAN GETZ: Be so marked.

(The document, as described, was herewith marked as Exhibit 4 for identification.)

MS. PURCELL: And, since we just filed it yesterday, I did bring a few extra copies. But, if you don't need it, I had it couriered up yesterday?

CHAIRMAN GETZ: We're all set.

MS. PURCELL: You're all set? Okay. Thank you.

BY MS. PURCELL:

Q.   And, Ms. Zink, could you describe the provision in the Settlement that addresses New Hampshire Gas's ongoing capital expenditures and its commitment regarding capital expenditures?

A.   (Zink) Sure. Capital expenditures are addressed in Article V of the Settlement. One point to note is that, in the Company's docket DG 07-083, which was the Commission's approval of the acquisition of New Hampshire Gas by Iberdrola, New Hampshire Gas will continue to maintain the current level of eight full-time employees and also maintain its operations and service center in Keene, New Hampshire.

However, in the original approval of the acquisition, the Company had agreed to spend a minimum average capital expenditure of $275,000. For this settlement purposes, the parties have agreed that, for the period of the Rate Plan, which is through October 31st, 2012, the required minimum average annual capital expenditures will be reduced to $200,000, from the $275,000.

Q. Thank you. And, does the Settlement Agreement have provisions that address low income and energy conservation matters?

A. (Zink) Yes, it does. In Article VI of the Agreement, these measures are laid out. The parties have agreed that New Hampshire Gas will provide its customers twice annually with a bill stuffer that will contain information regarding energy efficiency measures and budget billing. This bill stuffer will be developed in conjunction with the OCA and the Commission Staff. Further, New Hampshire Gas shall continue its current practice of directing customer inquiries regarding availability of low income programs to specific agencies and organizations and will continue to assist customers to establish affordable payment programs.

Q. Thank you. Ms. Zink, are there any issues that we will be discussing today that are not addressed within the terms of the Settlement Agreement?

A. (Zink) Yes. There is one. In preparing the rate design, as well as the cost of gas adjustment factor, New Hampshire Gas noticed that the heating degree-days used to normalize volumes were significantly different than the Berkshire Gas heating degree-days. Specifically, Jennifer Boucher will be addressing this specific issue.

Q. Thank you. And, Ms. Zink, finally, what is your overall conclusion regarding the Settlement Agreement?

A. (Zink) I would say that the Agreement provides a reasonable opportunity for New Hampshire Gas to earn a fair return, and thus provides just and reasonable rates.

MS. PURCELL: Thank you. I'd now like to conduct some direct exam of Ms. Boucher before making the panel available.

BY MS. PURCELL:

Q. Ms. Boucher, could you please state your full name and your position and your business address for the record?

A. (Boucher) Certainly. I'm Jennifer Boucher. I'm the Manager of Regulatory Economics for the Berkshire Gas Company. My business address is 115 Cheshire Road, Pittsfield, Massachusetts. And, I provide affiliate services to New Hampshire Gas Corporation.

Q. Thank you. And, Ms. Boucher, are you the -- did you submit supplemental testimony in this proceeding on October 21st?

A. (Boucher) Yes, I did.

Q. And, had you filed any prior testimony in the proceeding?

A. (Boucher) No, I had not.

Q. So, I would like to show you a document dated October 21st and ask that you identify that.

A. (Boucher) This document is my supplemental testimony.

MS. PURCELL: Thank you. I'd like this supplemental testimony to be marked as "Exhibit 5"?

CHAIRMAN GETZ: So marked.

(The document, as described, was herewith marked as Exhibit 5 for identification.)

BY MS. PURCELL:

Q. Ms. Boucher, was this testimony and the attachments prepared by you or under your direction and supervision?

A. (Boucher) Yes, it was.

Q. And, if I were to ask you the same questions today, would your answers be substantially the same?

A. (Boucher) Yes.

MS. PURCELL: And, I'd like to, since this testimony was just filed yesterday, and it's not contained within the Settlement Agreement, I would like to spend a little time and ask Ms. Boucher to run us through the basic, all the -- you know, I'm going to just run through the testimony with her and conduct a little bit longer direct than I might normally. But --

BY MS. PURCELL:

Q. So, Ms. Boucher, could you just explain the purpose of this testimony?

A. (Boucher) Certainly. The purpose of my supplemental testimony is to describe an issue that the Company discovered with respect to its Keene heating degree-days, to talk about the effect that those heating degree-days could possibly have on the Company's rate design, and to discuss the Company's proposed remedy to its degree-day concern.

Q. Thank you. And, actually, did you have an opportunity to explain your concerns to the Commission Staff and with the OCA prior to the hearing today?

A. (Boucher) Yes. Over the course of the past several weeks, we brought that to the attention of Staff.

Q. Okay. So, can you just briefly explain what the issue was and how you've resolved it?

A. (Boucher) Certainly. During the preparation of the Company's winter cost of gas adjustment, we discovered I would characterize it as a "peculiar" level of warmer-than-normal temperatures using the Company's Keene heating degree-days. And, that's in comparison to Berkshire's degree-days. For last winter, the November to April period, the Keene heating degree-days were showing about a 14 percent warmer-than-normal weather for that period, while Berkshire's degree-days were showing that the temperatures experienced in our area were virtually normal or slightly colder than normal.

Since this data is the primary impetus for the weather-normalization calculation, the Company feels that, if the Keene heating degree-days are flawed, that it could have an impact on the rate design in the instant case.

Q. Thank you. And, did the Company attempt to verify the issues with this Keene data?

A. (Boucher) Yes. The Company conducted a site visit of its weather instrument at its propane facility and found that the instrument was functioning and reporting properly. We also verified that the calculation of the daily heating degree-days was being calculated properly, and no inaccuracies were found.
Q. What irregularities did the Company discover in the data?
A. (Boucher) On the attachment to the supplemental testimony, on the top portion of Attachment NHGC-1, I displayed the compilation of the Company's Keene historical degree-days over the last 20 years. And, the Company essentially discovered that about five years ago a major change or some major change to the collection of degree-days occurred. As prior to this period, the annual degree-days were in the area of seven to eight thousand (8,000) annual degree-days. But, beginning in 2004, the Company has only experienced in the realm of 6,000 heating degree-days.
Q. Did this irregularity or issue impact the Company's rate proposal in this proceeding?
A. (Boucher) In this proceeding, it did not affect the rate proposal, because the Settlement is based on revenue requirements. However, for rate design

purposes, the test year billing determinants were based on the "irregular" Keene heating degree-days. And, as a result, the Company has concern that the use of those "normal" test year billing determinants may flaw the rate design.

Q. So, how did the Company propose to address it, to remedy it?

A. (Boucher) After bringing this concern to the attention of Staff and the OCA, the recommended approach to remedying the rate design concern is to recalculate the test year billing determinants utilizing the Concord Weather Station as the basis for the heating degree-days. And, the Company feels that Concord is a good proxy for Keene, because of its close location, about 40 miles away. The Concord Weather Station is managed by the National Weather Service, who prepares and publishes daily climate data. And, also, there is a valid historical 30-year database for Concord degree-days available.

Q. And, then, have you been able to show the results of using the Concord degree-days?

A. (Boucher) Yes. Using the Concord degree-days, test year billing determinants are actually about 90,000 therms fewer than the original test year billing determinants. This is displayed on the attachment, where the annual billing determinants dropped from a little over 1.3 million therms in the original filing, to a little over 1.2 million therms using Concord as the basis.

Q. And, what would be the impact in the development of the cast-off rates by not using this Concord data?

A. (Boucher) If the rates were designed using the original Keene-based degree-days, the Company could potentially experience close to a $90,000 revenue shortfall by having incorrect cast-off rates.

Q. But using the Concord data does not have any impact on the Company's revenue requirement, is that correct?

A. (Boucher) That's correct.

Q. Does this conclude your testimony on this issue?

A. (Boucher) Yes, it does.

MS. PURCELL: Thank you. I have nothing further. The panel is available for questions.

CHAIRMAN GETZ: Thank you. Mr. Traum.

MR. TRAUM: Thank you, sir.

CROSS-EXAMINATION

BY MR. TRAUM:

Q. Just for the Commission's benefit, I'll ask the panel, in terms of bill impacts, am I correct that a Staff witness is going to be addressing those?

A. (Boucher) Sure.

Q. With that, I only have one question that I'd ask you to expand upon, and that's referring to Article 6.1 of the Settlement, the provisions regarding energy efficiency and budget billing. Could you explain how the provisions in the Settlement go beyond what the Company does at this point in time on behalf of its customers?

A. (Zink) Regarding the energy conservation, the Company currently does not have a specific bill stuffer that goes out to customers. If someone was interested in energy conservation and asked a question, if they came into the office, we would direct them to various websites to find energy conservation information. We also had a handout that was provided by the State of New Hampshire that we could give to customers. But we didn't specifically have something in the bill on a consistent basis that would say "These are the things you can do."

So, we believe this is an expansion of what we currently do today, because now at least twice a year customers will read in their bill, if they read the bill stuffers, that there are energy conservation programs available to them, and these are some of the things that they might be able to do.

Regarding low income, the Company already directs customers to various agencies, such as the Southwestern Community Services, which is for local fuel assistance and other assistance programs; the Veterans Administration; the City of Keene; the Salvation Army; and other various local charities. So, this was just to ensure that this continues to occur, that we're directing people to where they can go for help. And, also, what we do now, and we'll continue to do, is help customers set up affordable payment programs that are having trouble paying their bills.

MR. TRAUM: Thank you. That's all I have.

CHAIRMAN GETZ: Mr. Fossum.

MR. FOSSUM: Thank you. I don't have very much, though.

BY MR. FOSSUM:

Q. When this case was filed, this is a question for Ms. Zink, do you recall being asked by Staff to perform a market analysis comparing the rates proposed by the Company to those of the Company's competitors in the Keene area?

A. (Zink) I do recall that.

Q. Do you recall the results of that analysis?
A. (Zink) One second. I do recall, I just want to see if I have it here with me.
Q. If you don't, that's fine.
A. (Zink) What my recollection is that, from a residential heating perspective, we were still competitive with our competitors. Some of the larger, the very largest customers, there was a slight concern, from a competitive standpoint, that increasing the rates could have an impact, which is one of the reasons we compromised on the Settlement Agreement. We feel very comfortable with where energy prices are today for New Hampshire Gas, as well as our competitors, that we do not have to worry about the loss of load because of this rate increase.
Q. Now, just for the sake of being thorough, I'm going to show you this document. I'll ask if you recognize this?
A. (Zink) Yes, I do.
Q. And, could you very briefly explain what that document is?
A. (Zink) Sure. This was a data response that was submitted on July 31st that compared the cost for a typical residential heating customer and an average C&I

customer for New Hampshire Gas to those of its competitors, which would have been propane suppliers serving the Keene area. And, at the time when we did this analysis, we compared the current rates that customers were paying on a Fixed Price basis or a Non-Fixed Price basis to what we proposed. And, for the residential customers, the increase on our proposed rates, which were in our initial filing, would have shown an increase of under $400 a year, and, for the average commercial and industrial customer, would have been an increase of about $2,000 a year.

Q. Thank you. And, this is a document, just for clarification, that was prepared by you or under your direction?

A. (Zink) Correct. Now, I should mention that that was based on gas prices that were in effect last year. And, if you look at where they are this year, we would expect customers' bills would actually go down, based on where gas prices are today.

MR. FOSSUM: Thank you. I would like to enter this data response as the next exhibit.

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

(The document, as described, was

herewith marked as Exhibit 6 for
identification.)

BY MR. FOSSUM:

Q. Now, given this analysis and what you've just said about gas prices being -- or, propane pricing being even lower now, are you confident that the Company would be able to continue to retain its customers?
A. (Zink) Yes. Very confident.
Q. Now, additionally, you had said that, because your propane prices had dropped, logically, then the prices of your competitors would have dropped as well. And, so, do you continue to remain confident that you'll be able to maintain your existing customers, even given that reality of the market?
A. (Zink) Yes. Yes, we do.
Q. Shifting gears slightly, the Company at one time, as I understand it, had undertaken a study regarding the possibility of building a liquefied natural gas or LNG facility in Keene. Do you recall that study?
A. (Zink) Yes, I do.
Q. And, recently, did the Company update that study?
A. (Zink) Yes. What the Company did was, the original consultant that provided the study, we asked him to analyze if his results from that last study were still

effective, in which he said that it would not be economical for the Company to site a facility there, because the cost of putting the facility there, compared to the additional revenue that may or may not be generated, he verified that his results from that original study were still correct, and it would not make sense for the Company to site an LNG facility in Keene.

Q. Now, that conclusion, did that take into account the possibility of federal, state, or other grant money, or perhaps Stimulus money, that might be involved in building the facility?

A. (Zink) That was considered, but there would not be enough available on the outside that would have made sense, from a Company perspective, to have implemented any cash towards that type of a facility, even with Stimulus money available.

Q. And, I take it, to the best of your knowledge, that situation hasn't changed recently?

A. (Zink) That is correct.

Q. Now, you seem to -- given what you've said, would you be -- would the Company be willing to make any further inquiry into the possibility of such funding and to report back to the Commission the results of whatever it finds?

A. (Zink) To update above and beyond what we already had done and filed with the case? I'm --

Q. Yes. Update from then till now, including things like what efforts the Company's made to discern the availability of Stimulus funding or other government money?

A. (Zink) We can certainly look into it. I don't think the conclusion would be any different.

Q. Without regard then necessarily to that LNG plant, would the Company be willing to submit a report of its efforts to find or utilize Stimulus or other government money in the conduct of its operations?

(Atty. Fossum conferring with Mr. Frink.)

MR. FOSSUM: If it's all right with the Commission, I'll allow Mr. Frink to ask a question, just to make sure that the Company fully understands what information we're looking for.

BY MR. FRINK:

Q. What Staff would like to see is what efforts you've made to find grants or Stimulus money and what the results of those efforts were? So, who you talked to, --

A. (Zink) Uh-huh.

Q. -- on what basis you were applying or acquiring, you know, Clean Air or whatever? And, so, that's really all we're looking for. Not from this point on, but, really, just what have you done in the search for this money, what kind of money could you acquire and how would that impact your plans? And, just some kind of a report that says "this is what we looked into, this is what the answer was, and this is the results, if we plugged that into our studies as to whether this is economically feasible or not."

A. (Zink) Okay. We can provide that.

MR. FRINK: Thank you.

MR. FOSSUM: Thank you.

CHAIRMAN GETZ: Mr. Fossum, I take it that's not a record request in this docket, but a follow-up report, is that correct?

MR. FOSSUM: That's correct, yes. And, with that, I have nothing further.

CHAIRMAN GETZ: Commissioner Below.

CMSR. BELOW: Thank you, Mr. Chairman.

BY CMSR. BELOW:

Q. Ms. Boucher, I need a little help in understanding the billing determinants. In your attachment in Exhibit 5, looking over in the far right-hand column, at Line 35, there's the "Revenue Shortfall" figure of "$87,931" that you referenced. And, you said that revenue shortfall would occur if you use the Keene test year heating degree-day data that you had collected, actual for 2008, which is quite a bit lower than the normal heating degree-days. Or, maybe, let me stop there. Did you use the normal heating degree-days for your test year or the actual that you measured?

A. (Boucher) We used the normal, the "normal" billing determinants, which were based on the difference between normal Keene heating degree-days and actual Keene heating degree-days. And, the results of using the actual Keene heating degree-days are that a large weather adjustment was made to actual billing determinants, which presents the Company with about 1.3 billing therms for the test year. The Company doesn't believe that those are the best "normal" billing determinants that could be used, but that using Concord heating degree-days to normalize its actual test year experience are more appropriate. And, if we do use the Keene-based billing determinants to design our cast-off rates, there's a likelihood that we will not experience those billing volumes, and therefore not collect the revenues we're entitled to.

Q. So, just help me through your right-hand column --

A. (Boucher) Okay.

Q. -- columns, where you, at Line 24, you show "Total Rate Design Revenues" of almost 1.3 million, which is what the rate should be designed to achieve in a weather-normal year, is that correct?

A. (Boucher) That's exactly right.

Q. Okay. So, on average, over time, it should work out that you would get that revenue?

A. (Boucher) Correct. That would be our "cast-off" point. We want to design our rates to collect the 1,297,407.

Q. Okay. Then, in the next line you show the Keene billing determinants, with an average base rate per therm --

A. (Boucher) Uh-huh.

Q. -- of "$0.98"?

A. (Boucher) That's right. And, that is derived by taking the rate design revenues in Line 24, and dividing those revenues by the Keene billing determinants of "1,324,945", that results in an average billing unit of 98 cents per therm. This is just a very simplistic look at the billing, what the rates would be using those billing determinants. And, then, following that,

the Company expects that it's more likely to experience about 1.2 million therms per year. And, at that 98 cents, if that's what the cast-off rates were designed at, we could never achieve our allowed revenue of "1,297,407", because we simply wouldn't have the billing determinants.
Q. So, what Line 35 shows is, if on -- if -- well, tell me what it shows.
A. (Boucher) Sure. It's a very confusing issue. Let me try.
Q. Yes.
A. (Boucher) If we design the cast-off rates with the billing determinants that were proposed in the initial filing, the Company feels that it will never achieve its rate design revenues.
Q. But you previously, I think, testified that that shortfall would be about $88,000 --
A. (Boucher) Right, which is what I'm showing here.
Q. But it looks to me like that 88,000 shows that, okay, it's showing the 0.98 that you would derive by using the Keene data, --
A. (Boucher) Yes.
Q. -- applied to, assuming you actually had the Concord -- assuming you had the actual Concord-type experience,

that's the difference that you're showing on Line 31, when you apply that --

A. (Boucher) Yes.

Q. -- cast-off rate, is the 0.98, is that what that's called?

A. (Boucher) Yes. You're exactly right.

Q. Okay.

A. (Boucher) What we're proposing is that we would like to design our rates using the Concord normal billing determinants. That using those would provide us with the proper cast-off rate to collect our allowed revenues.

Q. But, in fact, if the actual heating degree-days in Keene, in your test year, were actually greater than Concord's, for 2008, then you would still have a revenue shortfall compared to your design revenues, but it would be less than if you used the Keene assumption?

A. (Boucher) I would look at it a different way. And, I would say that, when I'm looking at the Concord billing determinants, and I use the Concord weather normalization, I used the actual Concord heating degree-days experienced in the test year with the 30-year average Concord database. And, so, the normalization takes that disparity out of the -- the

locational disparity out of it.
Q. Okay. Okay. So, what you're saying is, you're assuming that, in Keene, the difference between actual heating degree-days, compared to normal, was in the same ratio as it was for Concord?
A. (Boucher) Exactly.
Q. Which is only a 0.07 percent difference. So that, to the extent there's a deviation from your design revenues -- or, let me clarify. To the extent that Keene was somewhat -- the actual in Keene was maybe a little different than Concord, it's not a big deal because -- no, that's probably not saying it correctly either. You had found this big difference, this 14 percent difference, which would lead to a large -- if, in fact, the heating degree-days in Keene were very close to the normal heating degree-days for 2008, then you'll come out about right. Because the 14 percent is much larger, 14.07 percent is obviously much larger than 0.07 percent.
A. (Boucher) Exactly. And, that disparity was not only seen comparing Keene to Concord, it was seen comparing Keene to Pittsfield, Keene to Portsmouth, and Keene to other areas. We feel that the data in Keene is the issue. So, we want to correct that in designing our

cast-off rates.

Q. So, it's still sort of a mystery why, starting in 2004, there appears to be this significant drop in your measured heating degree-days. Did you look at that whole period, whether, back to 2004, there was a similar kind of discrepancy compared to normal, looking at Keene or Pittsfield? Is Pittsfield where the Berkshire heating degree-days are measured?

A. (Boucher) Uh-huh. I didn't actually do a comparison year-to-year going back. But I will say Berkshire's heating degree-days are lower, but they aren't to the disparity of losing thousands of degree-days on a year-to-year basis. Our "20-year normal" continues to be lower as we experience warmer temperatures. But the disparity, like we see here, isn't there.

Q. Okay. And, what's the approximate distance from Pittsfield to Keene?

A. (Boucher) I think it's about 50 or 60 miles. It takes us an hour, an hour and 15 minutes driving.

Q. It's a little further south, but it's higher elevation and it's further west?

A. (Boucher) That's right.

Q. And, did you -- is there heating degree data collected at Keene Airport? Did you look at that?

A. (Boucher) I did look at that. Unfortunately, the Keene Airport is not an official weather station. So, data is sporadically available at that airport, but it's not published regularly, and days are missing during the month. So, I did look at that.

Q. Okay. Did you look at the Lebanon data, which I think is at the Lebanon Airport, but it's available in the National Weather Service site, I believe?

A. (Boucher) I did not look at Lebanon.

CMSR. BELOW: Okay. Thank you.

CHAIRMAN GETZ: Commissioner Ignatius.

CMSR. IGNATIUS: Thank you. Commissioner Below covered a lot of my confusion on that exhibit. So, I have just a couple of other questions.

BY CMSR. IGNATIUS:

Q. One is a very basic threshold question. I don't know what a "cast-off rate" is. What does that refer to?

A. (Boucher) A "cast-off rate" is your initial delivery rates immediately proceeding a rate agreement or a rate case. It's the rate that you initially charge your customers based on your approved revenues and your approved billing determinants. It's the rate that will be charged to customers immediately following the proceeding.

Q. All right. I would call that "the rate". I guess I'm not really getting the difference between that or why some special category.

A. (Boucher) Okay.

Q. As a result of the use of the Concord heating degree-days, you've said you don't have a change in your revenue requirement, but you have a change in your rate.

A. (Boucher) Yes.

Q. And, is Mr. Frink able to address that or are you planning on addressing that? I assume, before and after the modification on heating degree-days, we have a change in the rates being proposed in the Settlement?

MR. FRINK: We didn't propose rates in the Settlement. We proposed a revenue requirement. And, so, there's not a change in the rates. But, effectively, looking at Jen's schedule that shows a point -- whatever the rate is using the Keene degree-days, if you were to do that saying "the revenue requirement is 1.3 million", and if you divide by Keene normalized sales, you wind up with a 0.98 rate. If you use the Concord degree-day sales, you wind up with a $1.05 rate. So, the rate will be different. It will still only achieve the revenue requirement that's proposed in the Settlement.

CMSR. IGNATIUS: All right. And, you'll testify more to that when you take the stand?

MR. FRINK: Yes.

CMSR. IGNATIUS: Thank you.

BY CMSR. IGNATIUS:

Q. On a going-forward basis, will you be gathering heating degree-day data in Keene? It doesn't sound like we still have identified why it's coming out in a way that questions the veracity of the data.

A. (Boucher) Right. We're still gathering, we're still collecting the data from the weather instrument, but we will be using Concord as our basis for weather-normalization purposes. Until -- it's true, we can't determine exactly what took place, or if anything took place to change, to make that much of a change in degree-days, because the weather instrument is testing out properly. And, the calculation was reviewed, and the calculation is being made properly. So, for the time being, until we have a better comfort level, we'll be using Concord as our basis for our normalization?

MS. IGNATIUS: Thank you. Nothing else.

BY CMSR. BELOW:

Q. Just to pick up on that point, you'll be using Concord both in terms of assuming their normal heating degree-days, and looking at that relative to what's actually measured for heating degree-days there, is that correct?

A. (Boucher) That's exactly right.

Q. So, the significance of using Concord, you're assuming that the actual, as it deviates from normal, that it's really that ratio that comes into play, not so much the absolute heating degree-days?

A. (Boucher) It's the percentage from normal that we'll be using.

Q. Okay. And, just also to clarify, part of what you're referring to as the "cast-off rate" is this -- it's how this ratio, based on the test year, deviates from a weather-normal year, so that sort of reflects how you might adjust the revenue requirement based on that ratio of deviation?

A. (Boucher) We won't adjust the revenue requirement, right?

Q. Right, the rate. That's what I meant. Right.

A. (Boucher) Yes. But that the rates will be properly set to collect the approved revenues.

Q. And in a weather-normal year?

A. (Boucher) Exactly. Yes.

BY CHAIRMAN GETZ:

Q. Ms. Zink, I have one question, in Exhibit 3, Section 5.1, under "Capital Expenditures". And, you noted earlier that the annual capital expenditures would be used from $275,000 to $200,000 for the next three years. But the last sentence says "During that period, NHGC shall continue to replace cast iron and bare steel mains, services and related equipment in conjunction with municipal and state projects that afford NHGC the opportunity to do so at a reduced cost." And, I'm wondering what the intent of that sentence is, following the previous sentence noting the annual reduction. Does that mean that you'll only replace within the $200,000 capital expenditure limit or, if there are opportunities to replace bare steel services when other projects are going on, that you may go above the $200,000?

A. (Zink) Correct. We look at the fact that where -- we look at our capital budget on a year-to-year basis. We look at what projects are going on in the city. And, if there are things going on in the city, specifically, right now, the City of Keene is doing a lot of street work, because of Stimulus money, and so we've had the opportunity to go in and replace cast iron and bare steel while the road is already open, because it's more cost-effective to do that. Then, you don't have to go back in later on and rip up a road that was already ripped up, those kind of things. So, we have been spending much more in our capital expenditures over the last few years, specifically because of those projects.

What we didn't want to have happen was that, once those projects ceased, we were concerned with what has been going on in the capital markets, as far as trying to manage your expenses as a business, putting capital dollars in that you need to do to make sure your system is safe and reliable, but not being required to spend that amount of capital on a year-to-year basis. It's difficult, especially the size of our company and what our earnings have been. So, what we looked at was, "What have we spent over the last three to five years? How much was related to city projects? How much was related to infrastructure investments, maybe for new load? What was related to if you had to replace a vehicle, those kinds of things? And, we came up with what looked like a typical year. And, then, we added on top of that the city projects. And, we said "what do we feel is a more acceptable level that we should be spending on a year-to-year basis?" And, we reviewed it with Staff. And, we all agreed that we shouldn't be required to spend 275 a year, if there's not $275,000 worth of projects. But that, at a minimum, 200,000 would still allow us to provide a safe and reliable system, and still do this city work when it appears. And, we could spend more than 200,000, that may happen. But we didn't feel it was fair to have the requirement to spend that kind of capital as those projects cease to exist.

CHAIRMAN GETZ: Okay. Thank you. I think you got to my question at the very end. And, it was probably my fault for posing the question as an "either/or". But I think we have on the record what's intended. Is there any redirect?

MS. PURCELL: Can I confer for one second?

CHAIRMAN GETZ: Certainly.

(Atty. Purcell conferring with the witnesses.)

MS. PURCELL: I have nothing. Thank you.

CHAIRMAN GETZ: Okay. Then, the witnesses are excused. Thank you.

All right. Mr. Fossum, do you have a witness?

MR. FOSSUM: Yes. I would call Stephen Frink to the stand please.

(Whereupon Stephen P. Frink was duly sworn and cautioned by the Court Reporter.)

STEPHEN P. FRINK, SWORN

DIRECT EXAMINATION

BY MR. FOSSUM:

Q. Could you state your name and business address for the record please.

A. My name is Stephen Frink. And, my business address is 21 South Fruit Street, at the Commission.

Q. And, what is your position and generally your responsibilities with the Commission?

A. I'm the Assistant Director of the Gas and Water Division. And, I primarily regulate the New Hampshire gas and steam utilities.

Q. Now, you've submitted prefiled testimony in this matter?

A. Yes, I did.

Q. And, look at this, and is that a copy of your testimony?

A. Yes, it is.

Q. Do you have any changes or additions to your testimony?

A. I do not.

Q. And, if I were to ask you the questions contained in this testimony today, would your answers be the same as they were?

A. Yes, they would be.

MR. FOSSUM: I would like to mark this testimony as the next exhibit.

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

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

BY MR. FOSSUM:

Q. Could you briefly summarize your testimony for us please.

A. Yes. My testimony recommended approval of the Settlement Agreement, and it explained how the Settlement Agreement satisfied Staff's concerns. Staff's greatest concern was the Company's ability to compete in the Keene energy market, and whether it would price itself out of the market with the proposed increase. And, as the Company testified to, they did a market analysis that indicates that, even at the original revenue requirement increase of 425,000 that they requested, they would remain competitive and would be able to maintain their customers. The Settlement establishes a revenue requirement of 288,000. So, there's some comfort in that that there's a pretty good reduction in the rate impact that was envisioned in the market analysis. Also, the rates are phased in. So, the initial increase is 173,000. So, we feel that the Settlement does address that concern.

The Settlement also limits rate case expenses to just those paid for outside consultants and legal fees. And, originally, in the filing, the Company had estimated rate case expenses could be 95,000. So, based on the recent filing of the proposed rate case expenses, those are less than 30,000. So, that will serve to reduce the rate impact as the surcharge is implemented in the first year.

Also, the Settlement calls for the reconciliation of permanent and temporary rates to be a reconciliation between the year one rates, which are a $173,000 increase in the revenue requirement, versus the approved revenue requirement of 288. So, again, that lessens the impact of that first year surcharge.

And, another concern Staff had is that it appeared that New Hampshire Gas's depreciation rates didn't necessarily reflect the expected life of certain plants. The biggest one being the mains, which is a good deal of their rate base. And, they were depreciating mains over 20 years, and that we reduced that down to from a rate of 5 percent to 3 percent as part of this Settlement, along with adjusting the other rates. And, we feel that will more appropriately allocate those expenses and service lives. It's also in line with what New Hampshire's other natural gas utilities are using for depreciation rates.

Let's see. The Settlement also reduces the capital investment required by the Company. And, in answer to Chairman Getz's question, it doesn't limit the capital investment. We look at municipal projects as being nondiscretionary spending. When you have the opportunity to replace bare steel and cast iron, which you're required to do by law, then, if you can do it at a discounted rate, meaning you don't have to pay the paving if the city is in the streets, and you need to be doing it. And, the Settlement allows for that. So, if Keene, they have a sewer project that is supposed to run through 2014, and, so, based on that, it shouldn't be a problem spending the minimum of 200,000. But we also don't want them spending money that they wouldn't otherwise do simply to achieve the minimum level. And, this gives them the flexibility. They will still do -- they're required to take care of cost-effective opportunities to replace bare steel and cast iron, but anything above that, this, assuming it is beyond 200,000, they wouldn't have to do. Which, in the long run, means it will reduce the pressures on future -- for a future rate case.

And, also, the Settlement calls for recovery of deferred, deferred revenues, because of the phase-in of year one is 173,000, versus an allowed increase of 288. And, again, with concerns regarding their competitive position within the community, the parties felt it made sense to phase in the increase. But, as part of that agreement, the Company will get to -- has the opportunity to recover that underrecovery, if you will, by not implementing full rates initially. And, that also serves as an incentive to the Company to stay out an extra couple of years, because that additional revenue in years four and five, assuming they don't come in for a rate case, would help their cash flows and help them meet their operating needs and investment requirements, and save the cost of a rate case that might come earlier than it would.

So, with all those things in mind, we feel the -- Staff feels the Settlement Agreement is in the public interest.

Q. Now, have you had a chance to review the supplemental testimony filed by Ms. Boucher yesterday?

A. Staff reviewed the supplemental testimony. We had had discussions with the Company prior to the filing of that. And, jointly, we met with the Company, and the OCA was involved as well, we discussed the problem that she identified, analyzed it, kicked around some different scenarios as to how best to address it. And, we reached an agreement that using a Concord degree-days, a 30-year average for weather normalization was the best way to address that issue.

Q. And, so, then Staff does support use of the Concord heating degree-day for weather normalization?

A. Yes. For some of the reasons that were cited in the Company's testimony: One, the information is collected from an independent source; it's publicly available; it's representative of temperatures throughout southern New Hampshire. Concord and Keene seem to -- temperatures seem to track each other. It's how we do weatherization normalization for New Hampshire's other gas utilities and for Concord Steam we use Concord degree-days.

And, we do have one suggestion that wasn't in the testimony. That being that Keene continues to record their degree-day information and collect that information, as they have always done, and report that annually to the Commission, perhaps in the summer cost of gas proceeding. So, we can compare it to what the Concord degree-days are over a longer period of time, and we'll see if they do actually track each other, continue to track each other. So, that's one recommendation I'm making now that we'd like to see done.

Q. Now, the use of these different weather normalization numbers, will that have any -- I know we've addressed this a little bit already, but will that have any impact on the Company's revenue requirement?

A. As was previously discussed, it does not have an impact on the revenue requirement contained in the Settlement Agreement. Now, if the Company had used Concord degree-days to weather-normalize the test year, there would have been a different revenue requirement request by the Company. They did a weather normalization adjustment that increased revenues by approximately $56,000, and that was based on what we believe now to be a faulty average that overstated the -- what sales should have been for the test year. And, the Company has not requested to adjust the revenue requirement agreed to in the Settlement. What they have requested is that, going forward, when they calculate the rate, they get to use a sales forecast based on Concord degree-day normal weather. And, that will -- that will impact the rate customers are paying. But our calculation of the rate impacts, when we look at the revenue requirement increase, we compare it to the test year revenues that were not -- were not weather-normalized. So, when we look at the impacts, customers are still now going to pay the -- in the first year, the $173,000 increase in revenues that is called for in the Settlement, assuming it's approved. And, if they don't implement, don't utilize Concord degree-days for their weather normalization adjustment and implement the lower forecasted sales, then what is most likely to happen is that they won't be able to achieve the agreed upon revenue requirement. Because, as I already explained, in looking at the Company's testimony and that exhibit, they calculate a rate on using the sales, weather-normalized sales using Keene degree-days, that calls for a rate of 98 cents. The sales using the Concord degree-days for normal weather results in a rate of $1.05. But that $1.05 the customer is paying as a result of using the Concord degree-days will still only generate an extra 173,000 in revenues, compared to what customers paid during the test year. So, there is no -- there is an impact on the rate on the bill, but what actually -- what customers are actually paying, there is no increase in what the customers will be paying, compared to what they paid in the test year and is reflected, is the rate impact in the -- the increase in the revenue requirement reflected in the Settlement.

Q. Now, given what you've said about rate impacts and everything, have you prepared a spreadsheet that explains the rate impacts of all of the proposed changes?

A. Funny you should ask. As a matter of fact, this morning I did prepare a schedule that takes into account the surcharge that was filed yesterday, the proposed surcharge for the reconciliation of temporary and permanent rates, for the rate case expenses. It also looks at the change in the cost of gas, a revised cost of gas filing was submitted yesterday. And, so, taking all that into account, I prepared a schedule that shows what the impact -- what the increase in the revenue requirement is for delivery rates, and both delivery and commodity rates. So, the overall impact and the impact on delivery rates.

Q. And, is this the schedule that you prepared that you just described?

A. Yes.

MR. FOSSUM: I'd like to submit this schedule as the next exhibit.

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

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

BY THE WITNESS:

A. Now, the schedule, the first block is simply the increase in the revenue requirement under the Settlement Agreement that are being phased in years one, two and three. The next block shows the revenue requirement under the phase-in. It shows the surcharges in the first year, it's a one year surcharge for temporary rate and permanent rate reconciliation and rate case expenses. And, it shows the surcharge for years four and five related to deferred revenues.

Those combined give you your revenue increase for that year, compared to the prior year. And, then, the cumulative increase, and compared to the -- compared to the test year revenue requirement. And, what you'll see is, on the delivery rates, the second block is just for delivery rates. And, you'll see that delivery rates will go up in year one by 7.28. And, then, in year two, because the surcharge drops off and the phase-in is less than the surcharge, there's a light decrease. And, then, in year three, when the full revenue increase is implemented of 288,732, that's the 8.54 percent that's reflected in the Settlement Agreement. That's the increase in the revenue requirement for base rates.

Then, the last block is the delivery and commodity combined. And, so, I've added in the change in the winter cost of gas. So, -- excuse me. And, in the lower right-hand corner, you can see that, in the 2008-2009 winter cost of gas last winter, the Company recovered approximately 1.8 million from customers. And, in this winter, the projected costs are 1.3 million. So, there's a significant decrease in commodity rates. And, combined, what you'll find is that the ratepayers will actually see a -- about a

7.4 percent decrease in overall rates on November 1, and then it runs on through for everything else. And, with that decrease in the winter cost of gas, and that winter cost of gas is a decrease for six months, it assumes that the test year summer cost of gas rates remain the same, which they're actually probably going to go down. But, over the course of the five years that we expect the plan and the deferred revenues to be recovered, that the customers will be paying less than in the test year in year five, based primarily on the change in the commodity rates.

MR. FOSSUM: Thank you. I have nothing further at this time.

CHAIRMAN GETZ: Mr. Traum.

MR. TRAUM: Thank you, sir. Just a couple of things, Mr. Frink.

CROSS-EXAMINATION

BY MR. TRAUM:

Q. When I look at your original testimony, Exhibit 7, Page 13, you had used for a surcharge a number of $47,000. And, now, in Exhibit 8, you're using a $73,000 surcharge number. And, could you just explain why the difference?

A. Well, there is -- the Company filed the updated estimate as to what the reconciliation will be, and they also filed a revised estimate as to the rate case expenses. They have both gone up. I'm not sure -- I'm trying to think if the change in the billing determinants had any impact, but I wouldn't think so. I think it's just that the original estimates at the time I made my testimony was something less than what has now been filed.

Q. But, in either case, the surcharge is only regarding the difference between temporary and permanent rates and rate case expenses that's agreed upon?

A. Yes.

Q. In terms of percentage increases as we've been talking about, the same percentage increases were applied whether it's a residential or a commercial customer?

A. That's correct. The original filing for rate design said that it would, whatever the approved revenue requirement was, what they were proposing for an increase in the revenue requirement would be assigned to the classes on a proportional basis. So, the Company simply is increasing the customer charge of each class by the same percentage and the volumetric charges by the same percentage. So, it will not -- right now, in going forward, the commercial and industrial volumetric charges are identical to the residential volumetric charges, and will continue to be that way.

Q. And, the amounts the Company is agreeing to defer until recovery in years two and three, would have amounted to an additional $115,000 in year one, if there was no deferral?

A. That's correct.

Q. The discussion about the Keene heating degree-days being inaccurate with regards to an historical perspective, even if on a going-forward basis the Company were to start getting more accurate or accurate data for Keene, in terms of trying to do a weather normalization, there would still be a problem using Keene, because you wouldn't have the reliability of the past years, is that correct?

A. That's correct. The problem really isn't with the last six years of the Keene -- or, it's 2004, it appears that Keene degree-day information is consistent with the Concord degree-day information. When you use a 30-year average, it's the other 26 years that are in question. And, eventually, Keene would, if they continue to report results similar to Concord, would be -- that would be comparable to Concord, would be -- we would consider it accurate. But, you're right. The problem isn't with what they're reading at the current time, it's with the past data that's been collected.

Q. Okay. And, hopefully, one final question. From a customer perspective, if a customer last year used X number of therms, and this coming year uses the same number of therms, would I be correct to assume that their total bill for the winter period will decrease by 7.39 percent?

A. Not if they use -- if they use the exact same therms, yes, that is correct.

MR. TRAUM: Okay. Thank you. I have nothing else.

CHAIRMAN GETZ: Ms. Purcell.

MS. PURCELL: Sorry, I was listening to two answers.

BY MS. PURCELL:

Q. I have just one clarifying question, referring to one of Mr. Traum's questions. Comparing the surcharge on your Exhibit 8 of 7351 -- $73,051 to the first sort of estimation of the surcharge in your prefiled testimony of 47,000.

A. Right.

Q. Isn't it that that figure, am I correct, that, when you

filed your testimony, the 47,300 number was based on looser information? The Company hadn't sort of finalized its calculations?
A. Right. That was a --
Q. That was a back-of-the-envelope?
A. Yes.
Q. And, is the difference between the two numbers primarily related to the difference in the temporary rates component, not the rate case expense?
A. True. The rate case expense, in my testimony I believe may have been an estimate of 25,000, and I think it came in at 27,000. So, there's a minor difference there. I mean, it may be that the reconciliation of temporary and permanent rates, just based on weather, the actual weather. And, what I did in the original estimate was I looked at sales, annual sales, and looked at the normalized summer sales, and said "okay, the percentage of revenues collected in the summer period is, say, 30 percent of annual sales", and then I looked at the revenue increase of 173,000, which is -- temporary rates were about 70,000. So, I said "30 percent of 100,000 is roughly", whatever it came to. So, it was very general.
Q. Right.

A. And, this uses actual sales.
Q. Correct. And, it's possible that the billing determinant issue also impacted the fact that the temporary rates --
A. Yes.
Q. -- was higher in the final number, yes?
A. Uh-huh.

MS. PURCELL: Okay. Thank you. I don't have anything further.

CHAIRMAN GETZ: Commissioner Below.

BY CMSR. BELOW:
Q. At the risk of getting bogged down in heating degree-days again, let me just try to clarify something. In your Exhibit 7, Page 17, which is Attachment SPF-2, in the second data column you show some "NHGC Adjustments".
A. Right.
Q. And, you show a total of "55,977" in adjustments to the operating revenues, which you referred to earlier I think as about 56,000.
A. Right.
Q. Which was an adjustment from actual test year revenues for residential and commercial sales, excluding cost of gas, to create a proforma test year assumed revenue.

Which is sort of -- which the footnote suggests that's a weatherization-normal adjustment, such that this is what the revenue would have been if it had been a normal year.

A. (Witness nodding affirmatively).

Q. If, in fact, it was sort of a normal year, which is what the Concord data and the Pittsfield data indicates, you know, one is a little plus, one's a little minus, but they indicate that within less than half a percent it was actually a fairly normal year. Then, the revenue deficiency would have actually been about another 56,000 than what is actually assumed?

A. That's correct.

Q. But is it fair to say either -- or, can you explain it, is either the Company sort of forgoing that or, in fact, is, by moving to the Concord-based determinants correcting for that, so they'll still end up with about the correct revenue -- revenue in a normal year, assuming that, in fact, 2008 was about a normal year?

A. I agree that the 56,000 -- the revenue requirement would have then required an additional 56,000 if they -- if it had been a normal test year. But the rate impacts that I'm -- the rate impacts that are reflected here, when I look at the -- when I took the test year revenue, I did not use the adjusted, the proformed increase. I took the actual revenue. So, my -- on this schedule where you see "Test Year Revenue", Settlement Attachment A, Page 1, of $3.4 million, that does not include the revenues, the 56,000 in revenues that the Company added in after for their calculation of the revenue requirement. So, I don't think it's correct to say that this, the billing -- change in the billing determinants will increase their revenues by the 56,000. I think what it does, it simply allows them to recover the 288 that we said they could have over test year revenues. It's not going to give them an extra 56,000. And, that was a major concern that I had as well, was whether this change in the billing determinants was actually going to increase the -- wind up with the Company earning more revenues than it otherwise would have. And, we had a number of discussions with the Company on that, and we racked our brains on it. And, I'm pretty confident at this point that it does not do that, mainly because I use -- because the rate increase, the increase in the revenue requirement is on a non-proformed test year.

Now, let me, at least on this analysis for the rate impacts, the testimony itself -- right.

When I get down to the percent increase in base revenues, that increase does not -- is not weather-normalized revenue. That is just straight, this is what they earned in the test year, 3.4 million, on a normal year, and now we believe it was a normal year, they collected 3.4 million. Using the Concord degree-day billing determinants will enable them to get an additional 173,000 in revenues in this coming year, and that's -- and that will be above and beyond the 3.4 they collected in the test year. So, it's not an extra -- they're not getting an extra 56,000.

CMSR. BELOW: Okay.

CHAIRMAN GETZ: Commissioner Ignatius. Now that Commissioner Below has cleared that up.

CMSR. IGNATIUS: I'm worried about clarifying anything further.

WITNESS FRINK: We struggled with it as well. And, so, I'll say that's Staff's opinion.

MS. PURCELL: And, the Company.

BY CMSR. IGNATIUS:

Q. I take it you're not concerned that the revenue requirement was calculated with Keene data, and the final settlement and the rates that will result from that will now impose Concord data? First of all, is that even a fair statement? And, if it is, then tell me why that's not a concern.

A. It doesn't -- It's not a fair statement when you're looking at the revenue requirement. The revenue requirement is the Company -- we determined that the Company needs an extra 288,000 in revenue. And, that's -- those costs are the same whether you sell 1.2 or 1.3 million therms. And, if you -- so, the revenue requirement agreed to in the Settlement is in no way goes away or changes as a result of a change in the billing determinants. What does change is that what they're going to recover next year, if we say, "okay, you have to use the Keene billing determinants to design your rates", then what is going to happen is, unless they have sales growth, which is highly unlikely, given the rate increase and what the economy has done, or it's an extremely cold winter, they're not going to achieve that revenue requirement, that increase, the approved revenue requirement.

So, in essence, what would happen is, ratepayers would get a break. They would not be paying, in whole, actually 288,000. They would be paying 56,000 less, or whatever that number might be. And, what this does, using the Concord degree-day billing determinants, simply means that customers will have a higher rate, but they still only be paying what the Company and Staff envisioned and agreed to in the Settlement Agreement, and if you approve it, what's intended for them to, what they should have an opportunity to earn.

Q. Thank you. On a different topic, on the Section 2.1.A of the Settlement Agreement that addresses "Stipulated Rate Base", and it's agreed upon that land held for future use to be removed from rate base. Do you recall that provision?

A. Yes.

Q. Do you know, has that land been in rate base in the past and has been supported by customer revenues? Or, excuse me, rates?

A. It was not -- I'm almost positive it was not in -- and 2003 was the last time they came in for a rate increase, and I forget when they purchased the land, they may not have even purchased it until after that point. But, even if they did, in 2003, when the Company filed their rate request, they asked for a increase that would only -- would allow them to achieve a zero rate of return. In 2003, they just wanted to break even. So, I'm almost positive it was not in there. But, even if it was in there, it would not have -- it wouldn't have really mattered, because, if they had included it, they just would have forgone even more revenues than they did. So, in the last rate case, the rates that were approved were something substantially below what they would have been entitled to under traditional ratemaking. And, whether the land was in there or not, which I don't think it was, it wouldn't have impacted the rate increase.

CMSR. IGNATIUS: Okay. Thank you. And, Ms. Zink may have other information to add to that. But that's all. Thank you. Nothing else.

CHAIRMAN GETZ: Redirect, Mr. Fossum?

(Atty. Fossum conferring with Mr. Wyatt.)

MR. FOSSUM: No.

CHAIRMAN GETZ: Okay. Then, the witness is excused. Thank you, Mr. Frink. Is there any objection to striking identifications and admitting the exhibits into evidence?

MS. PURCELL: No objection.

CHAIRMAN GETZ: They will be admitted into evidence. Is there anything -- I was going to say, "is there anything before we allow opportunity for closing?" And, I guess, do you have anything on the last question asked of Mr. Frink about "land held for future use"?

MS. PURCELL: No. We actually don't. Ms. Zink isn't entirely certain enough to state on the record as to when the land was acquired, but she believes it was -- and, so, I think we need -- we're going to let the record stand with Mr. Frink's statement.

CHAIRMAN GETZ: Or, would you like a record --

CMSR. IGNATIUS: Well, you wouldn't disagree -- you're not aware of any information that would contradict what Mr. Frink just described?

MS. ZINK: No.

MS. PURCELL: No. No, we're not.

CMSR. IGNATIUS: Okay. Thank you.

CHAIRMAN GETZ: Okay. Then, if there's nothing else, then, Mr. Traum.

MR. TRAUM: Thank you, sir. The Office of Consumer Advocate was a signatory to the Settlement Agreement, and we certainly continue to support it. We believe the phase-in concept, as has been structured here, is certainly a plus for consumers, and recognizing the potentially competitive environment the Company operates in, it's actually, I think, something that's a real positive for the Company also. We also, just highlighting a couple of the items of the Settlement, support the floor on capital expenditure commitments, that rate case expenses are excluding affiliate costs and audit-related costs.

On Section 6.1, we view it as a step in the direction of providing more energy efficiency information to customers. And, the OCA will work with the Staff and the Company on developing a brochure for customers.

On the area that raised the most questions, the billing determinants and degree-days, we would agree that it makes sense to move to the Concord degree-day data, as it's a known database that certainly Staff has worked with for many years and has confidence in the numbers included therein. And, we think that the approach being used for raising the rate from the 98 cents to I believe it was $1.05 makes sense, and that it would enable the Company to recover the stipulated revenue requirement in a normal year, and only the stipulated revenue requirement, not something either in excess or below that.

And, I guess, in closing, I'd just

recognize that, in Exhibit 8, as Mr. Frink has put it together, for year one the total percentage change customers will be looking at in their total bills would be a decrease of roughly 7.39 percent. So, with that, I have nothing further. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Fossum.

MR. FOSSUM: Excuse me. Thank you. As with OCA, Staff was a signatory to the Settlement Agreement and continues to support the Agreement. We likewise believe that the Settlement Agreement, including the phase-in in rates and the deferred rates will actually help both the Company and customers; the customers by keeping the rates or rate increases under control, and the Company by stabilizing their cash flow over a period of years. Reviewing the rate case expenses and the reconciliation, as they have been provided by the Company, they appear reasonable so far.

As to the heating degree-day issue, Staff also supports to move the heating degree-day from Keene to Concord, a more reliable source of information, with a long history.

And, I guess, in just closing, we believe that the Settlement Agreement provides for just and reasonable rates for the Company, and balances the interests of the Company and its ratepayers going forward. Thank you.

CHAIRMAN GETZ: Thank you. Ms. Purcell.

MS. PURCELL: Thank you. New Hampshire Gas Corporation initially sought a rate increase of a little over $423,000. And, in the normal course of the give-and-take of the settlement process, working very cooperatively with the Commission Staff and the OCA, the parties have agreed on a rate increase of a little over $288,000 to be phased in over three years. The Company thinks the phase-in structure will help to mitigate the rate impact for customers, and believes that the overall rate increase will result in just and reasonable rates for New Hampshire Gas company.

The Company particularly appreciates the efforts of the Staff and the OCA over the last days of this process to resolve this issue with the Keene degree-day data. And, we just request that the Commission approve the Settlement Agreement and find that it is a just and reasonable result. Thank you.

CHAIRMAN GETZ: Okay. Thank you. Then, we'll close the hearing, take the matter under advisement. And, we'll see you all again shortly.

(Whereupon the hearing ended at 12:56 p.m.)