

1 STATE OF NEW HAMPSHIRE

2 PUBLIC UTILITIES COMMISSION

3
4 January 13, 2011 - 10:15 a.m.
5 Concord, New Hampshire

6 RE: DG 10-017
7 ENERGYNORTH NATURAL GAS, INC.
8 D/B/A NATIONAL GRID NH:
9 Notice of Intent to File Rate Schedules
10 (Settlement Agreement Hearing)

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

14 Sandy Deno, Clerk

15 APPEARANCES: Reptg. EnergyNorth Natural Gas, Inc.:
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I N D E X

WITNESS PANEL: ANN LEARY
STEPHEN FRINK

PAGE

Direct Examination by Mr. Camerino 11
Cross-Examination by Mr. Linder 23
Cross-Examination by Mr. Peress 26
Interrogatories by Cmsr. Below 35

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WITNESS PANEL: ANN LEARY
STEPHEN FRINK
GARY AHERN

Direct Examination by Mr. Camerino 38
Interrogatories by Cmsr. Below 38
Interrogatories by Cmsr. Ignatius 48

* * * * *

WITNESS: SHANNA CLEVELAND

Direct Examination by Mr. Peress 61
Cross-Examination by Mr. Feltes 68
Interrogatories by Cmsr. Below 70
Interrogatories by Cmsr. Ignatius 77
Interrogatories by Chairman Getz 79

CLOSING STATEMENTS BY:

Mr. Peress 85

Mr. Feltes 88

Ms. Hollenberg 90

Mr. Fossum 90

Mr. Camerino 93

E X H I B I T S

EXHIBITS	PAGE
18 Settlement Agreement-Permanent Rates	(premarked)
19 National Grid's Comparison of Present and Proposed Rules	(premarked)
20 Confidential Supplemental Testimony of Frank Lombardo, filed September 13, 2010	(premarked)
21 Rebuttal Testimony of Robert B. Hevert filed December 7, 2010	(premarked)
22 Rebuttal Testimony of Frank Lombardo filed December 7, 2010	(premarked)
23 Rebuttal Testimony of Paul M. Normand filed December 7, 2010	(premarked)
24 Rebuttal Testimony of Ann E. Leary filed December 7, 2010	(premarked)
25 Rebuttal Testimony of Susan Fleck filed December 7, 2010	(premarked)
26 Rebuttal Testimony of Tracey B. McCarthy and Mark U. Hirschey filed December 7, 2010	(premarked)
27 Rebuttal Testimony of Susan F. Tierney filed December 7, 2010	(premarked)
28 Direct Testimony and Exhibits of Roger D. Colton on behalf of Pamela Locke, filed October 22, 2010	60
29 Direct Testimony of James J. Cunningham filed October 22, 2010	59
30 Direct Testimony of Stephen P. Frink filed October 22, 2010	59
31 Direct Testimony of Randall S. Knepper filed October 22, 2010	59

1	EXHIBITS (Continued)	PAGE
2	32 Direct Testimony of Thomas C. Frantz and	59
3	Mark A. Naylor, filed October 22, 2010	
4	33 Direct Testimony of Dr. John W. Wilson	59
5	filed October 22, 2010	
6	34 Direct Testimony of Robert J. Wyatt	59
7	filed October 22, 2010	
8	35 Direct Testimony of Bruce A. Gay	59
9	filed October 22, 2010	
10	36 Prefiled Direct Testimony of Kenneth Traum	61
11	filed October 22, 2010	
12	37 Prefiled Direct Testimony of Lee Smith	61
13	filed October 22, 2010	
14	38 Prefiled Direct Testimony of George Briden	61
15	filed October 22, 2010	
16	39 Prefiled Testimony of Shanna Cleveland	63
17	filed October 22, 2010	
18		
19		
20		
21		
22		
23		
24		

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-10-017.

On February 26, 2010, National Grid made a delivery rate filing request to implement new rates effective with service after June 1, 2010. The Commission issued an order suspending the tariff on March 10, scheduling a prehearing conference. Subsequent to the prehearing conference, a secretary letter was issued on April 16 setting a hearing on the merits this week. And we also have a settlement agreement that was filed by National Grid, Commission Staff and New Hampshire Legal Assistance on January 11th. So, with that, let's take appearances, please.

MR. CAMERINO: Good morning, Commissioners. On behalf of National Grid NH, Steve Camerino and Patrick Taylor from McLane, Graf, Raulerson & Middleton, and Celia O'Brien, assistant general counsel for National Grid.

CHAIRMAN GETZ: Good morning.

MR. FELTES: Dan Feltes from New

1 Hampshire Legal Assistance. With me at counsel table
2 is Attorney Alan Linder. We're here on behalf of
3 Intervenor, Pamela Locke.

4 CHAIRMAN GETZ: Good morning.

5 MR. PERESS: Good morning,
6 Commissioners. Jonathan Peress, on behalf of the
7 Conservation Law Foundation. And with me is Shanna
8 Cleveland of the Conservation, who is our witness in
9 this proceeding.

10 CHAIRMAN GETZ: Good morning.

11 MS. HOLLENBERG: Good morning. Rorie
12 Hollenberg, Meredith Hatfield, Kenneth Traum. And
13 with us today is Daniel Appelson, who is a student
14 intern with the Office of Consumer Advocate.

15 CHAIRMAN GETZ: Good morning.

16 MR. FOSSUM: And good morning.
17 Matthew Fossum for the Staff of the Commission. And
18 with me this morning are Stephen Frink, Edward Damon,
19 and Robert Wyatt from Commission Staff.

20 CHAIRMAN GETZ: Good morning. Are
21 there any procedural issues we need to address? Is
22 there an agreement on how to proceed? Mr. Camerino?

23 MR. CAMERINO: Yes. The Company and
24 Staff are going to present Ann Leary and Stephen

1 Frink as a panel to present the settlement initially.

2 CHAIRMAN GETZ: And then what happens
3 after that?

4 MR. LINDER: Mr. Chairman, each party,
5 I believe, is going to submit their premarked
6 testimony, which, under the settlement agreement, all
7 the testimony would be going in, would not be
8 cross-examined, other than if a non-settling party
9 wishes to cross-examine. Our expert witness, Mr.
10 Colton, is not present today. No party expressed a
11 desire to cross-examine him. And so when it's our
12 turn, we'll submit two copies of Mr. Colton's
13 testimony to be marked; one for the clerk and one for
14 the stenographer.

15 CHAIRMAN GETZ: Okay. Thank you.
16 Anything else I should be aware of?

17 MR. PERESS: May I, Mr. Chair? Thank
18 you, Mr. Chairman.

19 The Conservation Law Foundation is not
20 a signatory to the settlement proposal, does intend
21 to cross-examine witnesses on the panel on the
22 settlement proposal and does intend to put a witness
23 on, Ms. Cleveland, as it relates to the proposed
24 revenue decoupling mechanism that was in the petition

1 in this proceeding.

2 CHAIRMAN GETZ: Thank you.

3 MS. HOLLENBERG: I would only say, on
4 behalf of the OCA, that we do intend to mark our
5 testimony for identification.

6 CHAIRMAN GETZ: Thank you. All right.
7 Then, Mr. Camerino, please proceed.

8 MR. CAMERINO: The Company, as well as
9 on behalf of Staff, calls Ann Leary and Stephen
10 Frink.

11 (WHEREUPON the witnesses were duly
12 sworn and cautioned by the Court Reporter.)

13 ANN LEARY, SWORN

14 STEPHEN FRINK, SWORN

15 MR. CAMERINO: Before I question the
16 witnesses, if I can just indicate for the record, we
17 have premarked for identification the settlement
18 agreement as Exhibit 18, and the witnesses will be
19 referring to that. And Exhibit 19 is the bill impact
20 schedules. And then after that, all of the rest of
21 the Company's testimony that was not marked at the
22 temporary rate hearing has also been marked for
23 identification. I don't have those numbers. But if
24 you want them read into the record, I know that the

1 clerk has exhibit numbers for those already.

2 CHAIRMAN GETZ: Well, if we can just
3 get a copy of that at a break, that's fine.

4 MR. CAMERINO: Okay. So those are all
5 testimonies that were filed with the Commission, and
6 we've given the Clerk additional copies.

7 DIRECT EXAMINATION

8 BY MR. CAMERINO:

9 Q. So, with that, Ms. Leary, would you state your name
10 and business address for the record, please.

11 A. (Ms. Leary) Yes. My name is Ann Leary. My business
12 address is 40 Sylvan Road, Waltham, Mass., 02451.

13 Q. And what is your position with National Grid, and
14 what are your responsibilities in that regard?

15 A. (Ms. Leary) My position with National Grid is I am
16 the manager of gas pricing for Massachusetts and New
17 Hampshire, and I am responsible for various
18 regulatory filings made on behalf of National Grid in
19 both Massachusetts and New Hampshire.

20 Q. And were you involved in the settlement discussions
21 in this case, and are you familiar with the
22 settlement agreement that was premarked as Exhibit 18
23 for identification?

24 A. (Ms. Leary) Yes, I am.

1 Q. Mr. Frink, let me ask you similar questions. What's
2 your name and business address?

3 A. (Mr. Frink) Stephen Frink. And the address is
4 21 South Fruit Street, Concord, New Hampshire.

5 Q. And by whom are you employed, and in what capacity?

6 A. (Mr. Frink) I'm employed by the Public Utilities
7 Commission as the assistant director of the Gas &
8 Water Division.

9 Q. And are you familiar with the terms of the settlement
10 agreement, and were you involved in the negotiations
11 of the agreement?

12 A. (Mr. Frink) Yes and yes.

13 Q. Thank you.

14 Ms. Leary, let me ask you to summarize the basic
15 terms of the agreement, if you would.

16 And Mr. Frink, as we go through each item, if
17 you have something to add to Ms. Leary's description,
18 I'd ask you to provide that as well.

19 Ms. Leary, would you first just summarize the
20 key financial terms with regard to revenue
21 requirement, rate of return, rate base.

22 A. (Ms. Leary) Yes. This settlement stipulates a total
23 revenue increase for the Company of \$6,809,370. This
24 is -- it also includes a rate of return of

1 8.33 percent and an overall rate base of
2 \$164,302,838.

3 Q. In the rate base section of the settlement there's
4 discussion of a deferred-rate tax issue. Could you
5 summarize that issue and explain the adjustment
6 mechanism that's been set out.

7 A. (Ms. Leary) Yes. The rate base that I just
8 discussed, the \$164.3 million, includes credits for
9 deferred taxes. In 2009, the Company made a change
10 to its method of accounting for certain repair costs
11 that are deductible under IRS regulations. They had
12 previously considered these repair costs as capital
13 costs, and they are now considering them as expenses.
14 As a result, in its 2009 tax return, the Company
15 could take a huge deduction, which, because of
16 rate-making principles, was able to return to
17 ratepayers through this rate settlement. However,
18 this accounting figure that the Company took on its
19 2009 tax return is currently under review by the IRS;
20 so, in this settlement, the Company has put in an
21 adjustment mechanism for a potential in the future to
22 adjust the deferred taxes if the IRS comes out with a
23 different determination than what was submitted in
24 its 2009 tax return.

1 A. (Mr. Frink) I'd like to add one thing on that.

2 Q. Please.

3 A. (Mr. Frink) On the -- there is a limit. There is
4 no -- the settlement calls for no penalties to be
5 included in rates. If the IRS were to determine and
6 fine the Company, that wouldn't be passed on to
7 ratepayers. And there's a limit on the interest that
8 could be recovered if the IRS comes in with an
9 unfavorable finding. So the interest limit is the
10 overall rate of cost to capital. So, even though the
11 IRS interest rates are lower than that, in the event
12 that it should be above that, ratepayers are only
13 asked to reimburse the Company up to the overall cost
14 of capital. I just wanted to mention that.

15 A. (Ms. Leary) And I'd further just say that what we
16 decided is, for that interest-related cost, we would
17 pass that through our LDAC factor. And for any
18 adjustment, because of the variance in deferred
19 taxes, the Company would make, on a going-forward
20 basis, an adjustment to its base rates.

21 Q. Ms. Leary, the revenue requirement figure that you
22 identified is then allocated, to some extent, between
23 base delivery rates and amounts that are collected
24 through cost of gas; is that correct?

1 A. (Ms. Leary) That is correct.

2 Q. Could you explain that split, why it's done, and just
3 sort of give the basic breakdown between the two.

4 A. (Ms. Leary) Yes. If we look at Appendix 1, what we
5 have provided is we have shown the calculation of our
6 total revenue requirements, and we break that down
7 into delivery, which are our base rates. And we also
8 break it down into gas costs. In the gas costs are
9 certain factors we considered indirect gas costs.
10 That would be our gas costs related to working
11 capital, our gas costs related to bad debts,
12 miscellaneous administration fees associated with
13 gas-applied functions, and finally, the production
14 and storage costs. Those are all specified in
15 Appendix 2 -- excuse me -- Appendix 1.

16 In Appendix 2, what we do is we take the actual
17 revenue requirements for our delivery rates, and now
18 we show how we went about coming up with the rates
19 that we're going to charge our different customers.

20 Q. And with regard to depreciation, what does the
21 settlement agreement provide?

22 A. (Ms. Leary) It authorizes the Company to continue to
23 use the rates that are currently in effect.

24 Q. The agreement provides a separate section related to

1 the calculation of commodity-related bad debt. Can
2 you explain how that mechanism works and, again, why
3 commodity-related bad debt is collected separately?

4 A. (Ms. Leary) Okay. As we said, the commodity-related
5 bad debt has to do with, as I said, just the gas
6 cost-related portion of the bad debt. We are allowed
7 to collect that through our cost-of-gas factor right
8 now. However, in this settlement, as you can note
9 for the last few years, the entire issue of bad debt
10 has been an issue for both the Company and the Staff,
11 and we feel that this settlement now will establish a
12 mechanism that will kind of address the concerns that
13 both the Staff had, from a point of view our
14 collection processes, and from the Company's
15 perspective having to do with able to collect the
16 commodity-related bad debt, which is a gas cost that
17 the Company does not make any money on.

18 So what we've done now is we've basically kind
19 of had a change to the approach for this
20 commodity-related bad debt that will eventually allow
21 the Company to collect its actual commodity-related
22 bad debt portion from its ratepayers. However, to
23 incent -- to give the Company an incentive to improve
24 its collection performance, the parties in this

1 agreement have set out over the next three years a
2 target that the Company must meet in order to collect
3 all of its commodity-related bad debt. If the
4 Company does not meet those targets, there will be
5 limited disallowances for the Company. This
6 mechanism also states that, if at any point during
7 the period the Company is able to obtain a
8 2.5 percent bad debt rate, the Company will then be,
9 going forward, able to collect its actual
10 commodity-related bad debt.

11 Q. Mr. Frink, just because that was -- that's a fairly
12 complex part of the settlement, I want to just check
13 whether you have anything you want to add to that
14 description.

15 A. (Mr. Frink) This settlement is similar to what was
16 set out in the settlement in the last rate case,
17 whereby for the commodity side we set a declining
18 percentage for bad debt to get down to a target. In
19 essence, this one simply sets the target, and we may
20 never have to hit those. But the intent here is that
21 there is a target that's actually based on the
22 Company's estimates as to what's likely to be
23 achieved once they implement all their enhancements
24 that they have started to undertake and that was in

1 their testimony. So that's where the target comes
2 from, and that's what the goal is.

3 I would say that the first piece calls for
4 actual bad debt for this year, and it's assumed 3.02
5 in this settlement. So when you look at the 6.8
6 million revenue increase, that's assuming bad debt
7 recovery of approximately 3 percent, and that may be
8 something slightly different. The 3 percent was
9 based on the most recent bad debt experience. So it
10 could be that or it could be a little lower or a
11 little higher.

12 Q. Ms. Leary, what does the settlement provide with
13 regard to the Company's cast iron/bare steel main
14 replacement program?

15 A. (Ms. Leary) The settlement provides that we're going
16 to continue the existing program as is.

17 Q. The rate design coming out of this settlement is set
18 forth in Appendix 2. Could you summarize the basic
19 principles that were used in setting that rate
20 design?

21 A. (Ms. Leary) Yes. The first stipulation was that the
22 class revenue targets would be capped at 112-1/2
23 percent of the overall delivery rate increase, which
24 was 14.5 percent. So, in effect, no rate class could

1 go higher than approximately 16 percent for its base
2 rate delivery part only.

3 The settlement also stipulated that we were
4 going to reduce the volumetric difference for the
5 residential rate classes between our head blocks and
6 our tail blocks and to flatten those -- that variance
7 out. And again, this is continuing from a trend that
8 we had for the prior rate case.

9 Regarding the customer charges, we've agreed
10 that the residential customer charges will be capped
11 at 21.2 percent overall. And specifically for the
12 R-3 customers, we capped -- the customer charges will
13 be \$17, and for the R-4 low-income customers, the
14 customer charge will be \$6.80. And finally, we
15 capped the commercial and industrial charges to
16 25 percent, again, over the current customer charge
17 in effect to date.

18 Q. Thank you. Mr. Frink, anything you'd like to add
19 with regard to rate design?

20 A. (Mr. Frink) No.

21 Q. Okay. Ms. Leary, can you then move to bill impacts
22 in Exhibit 19 and just summarize the overall bill
23 impacts for the case?

24 A. (Ms. Leary) Yes. If we first look at the bill

1 impacts, looking at the distribution portion of the
2 customer's bill only -- so this represents less than
3 30 percent of the customer's bill -- for a typical
4 residential heating customer, they should experience
5 about an increase of \$4.78 per month, or around \$57
6 per year. And again, that's base rates only, and
7 that equates to approximately 16 percent.

8 However, I just want to note here that currently
9 in effect are our temporary rates. So, those rates
10 were in effect as of June of 2010. So when I'm
11 talking about the increases for the base rates, I'm
12 really talking about how it compares to the rates
13 from the prior rate case, not the rates from the
14 temporary rate case, because in the temporary rate
15 case we had already increased the rates by about
16 11 percent, and we've been billing those customers
17 since June of 2010, so that right now the customers
18 will only see the increase from the 16 percent versus
19 the 11, maybe an incremental 5 percent on the base
20 rate portion. But as I started out, this is only for
21 the base rate portion.

22 If we now look at the customer's total bill, the
23 base rate portion is approximately 30 percent of
24 that. The residential heating customers will only

1 get -- that will only equate to about a 5.7 percent
2 increase for residential heating. And for the
3 low-income customers, on average, it will result in
4 about 3.7 percent.

5 Q. Can you summarize how the settlement addresses issues
6 with regard to low-income customers?

7 A. (Ms. Leary) Yes. The Company and the parties have
8 agreed that we will meet on a semi-annual basis to
9 discuss outreach programs and collections activities
10 twice a year.

11 Q. And you discussed the outreach programs. But is it
12 fair to say that the rate design and other aspects of
13 the settlement, there was input from low-income
14 customers as well? In other words, the outreach is
15 one aspect in which concerns of low-income customers
16 were taken into account, but there were other places
17 where -- for example, rate design -- where the issues
18 raised by the low-income group were taken into
19 account? The low-income -- I apologize. The
20 low-income customers had input into the rate design
21 resolution of this case; is that correct?

22 A. (Ms. Leary) That is correct.

23 Q. Thank you. And then, finally, the settlement
24 discusses recoupment with regard to temporary rates

1 and with regard to rate case expense. How does it
2 deal with those?

3 A. (Ms. Leary) Yes. The Company will be actually
4 following the same process in terms of recoupment for
5 both rate case expense and for the true-up of the
6 temporary rates as it had in its prior rate case. We
7 will be calculating the difference between the
8 temporary rates and the actual rates and be flowing
9 that back through the LDAC on a volumetric basis to
10 all customers. We'll be looking at that or refunding
11 -- oh, excuse me. In this case, it will not be a
12 refund. It will be a charge to customers over a
13 12-month period.

14 Q. Mr. Frink, do you have anything to add?

15 A. (By Mr. Frink) I don't.

16 Q. Okay.

17 MR. CAMERINO: Thank you. That
18 completes the direct examination.

19 CHAIRMAN GETZ: Okay. Thank you, Mr.
20 Camarino. Off the record for a second.

21 (Discussion off the record)

22 CHAIRMAN GETZ: Mr. Feltes.

23 MR. FELTES: Mr. Linder has a few
24 questions for the Panel.

1 MR. LINDER: I have two questions for
2 clarification.

3 CROSS-EXAMINATION

4 BY MR. LINDER:

5 Q. I may have misheard something that you said, Ms.
6 Leary, on the overall rate increase for the R-4
7 class. Could I just ask you to turn to the very last
8 page of the settlement agreement, which is
9 Appendix 3.

10 A. (Ms. Leary) You are correct. Thank you for pointing
11 that out. I had a typo in my notes. It is
12 3.09 percent, not 3.7. Thank you.

13 Q. Thank you. And one other question I have for
14 clarification purposes. If I could ask you to look
15 at the section of the settlement agreement on
16 conditions, which starts on Page 12. And I actually
17 want to direct your attention to Page 13. And I'll
18 tell you where I'm at when you get to that page. It
19 would be actually the -- although the lines are not
20 numbered, it would be Line 8. I'll read you the
21 sentence and then I'll ask for the clarification.

22 The sentence reads, and tell me if I'm not
23 reading it correctly, "The Staff and settling parties
24 recognize that the testimonies submitted in this

1 proceeding included various proposed rate-making
2 mechanisms and accept, as specifically set forth in
3 this agreement, such proposals shall be deemed to
4 have been withdrawn." Do you see that?

5 A. (Ms. Leary) Yes, I do.

6 Q. Okay. And if you know the answer to this: Would one
7 of the types of proposed rate-making mechanisms
8 that's referred to in this sentence include the
9 original decoupling proposal that was submitted by
10 the Company as part of its original filing in
11 February of this year?

12 A. (Ms. Leary) Yes, it would.

13 Q. So, essentially, the decoupling proposal has been
14 withdrawn?

15 A. (Ms. Leary) For the purposes of this settlement, the
16 Company has withdrawn it.

17 Q. Okay. Thank you for the clarification.

18 MR. LINDER: That's all I have.

19 CHAIRMAN GETZ: Thank you. Actually,
20 Mr. Fossum, did you have anything for the witnesses?

21 MR. FOSSUM: I did not.

22 CHAIRMAN GETZ: Mr. Peress.

23 MR. PERESS: Thank you, Mr. Chair.

24 Before I begin, just so I understand

1 the record and the documents that have been prefiled,
2 Steve -- Mr. Camerino, can you let me know what
3 exhibit Sue Tierney's testimony would be in this
4 proceeding?

5 MR. CAMERINO: Yeah, it was marked at
6 the temporary rate hearing. Maybe the clerk could
7 give us that number. And then there was a
8 supplemental that was marked today.

9 MR. TAYLOR: Seven.

10 CHAIRMAN GETZ: Well, let's go off the
11 record.

12 (Discussion off the record.)

13 MR. CAMERINO: Sue Tierney's direct
14 testimony was Exhibit 7, and the rebuttal testimony
15 will be Exhibit 27. And maybe at some point, once
16 I've had a chance to confer with the clerk, it might
17 even be helpful if I just read those numbers, the new
18 ones, into the record. Would you like me to do that
19 now or later or --

20 CHAIRMAN GETZ: Well, the only inquiry
21 from Mr. Peress is about Dr. Tierney's testimony?

22 MR. PERESS: Yes, Mr. Chair. We will
23 make reference to Dr. Tierney's testimony in my
24 cross-examination.

1 CHAIRMAN GETZ: We have that on the
2 record for now, so let's proceed.

3 MR. PERESS: Thank you, Mr. Chair.

4 Just to make this go a little
5 smoother, do you have copies of Ms. Tierney's
6 testimony marked as Exhibit 7? That's a question to
7 the witnesses.

8 A. (Ms. Leary) No, I do not.

9 A. (Mr. Frink) No.

10 MR. PERESS: Can you please provide
11 one?

12 (Discussion among counsel.)

13 MR. PERESS: Also to make this a
14 little bit easier, I'm going to be referring to the
15 Commission's order in Docket 07-064, which was the
16 investigation regarding energy efficiency rate
17 mechanisms. And I am going to provide one copy to
18 the panel for them to refer to.

19 I'm going to direct the initial
20 questions to Ms. Leary, please.

21 CROSS-EXAMINATION

22 BY MR. PERESS:

23 Q. Referring to the order in Docket DE 07-064, Order
24 No. 24,934, issued on January 16, 2009, Ms. Leary,

1 would you please turn to Page 19 of that order, and
2 would you please read into the record that provision
3 of the order that I've marked in this copy, starting
4 with the words "Having" and ending with the words
5 "customer class," please?

6 A. (Ms. Leary) Sure. "Having considered the expert
7 presentations, the utility baseline presentations and
8 the discovery and comments by the parties, we
9 conclude that existing rate design and mechanisms, as
10 a conceptual matter, can pose an obstacle to
11 investment in energy efficiency. We conclude as well
12 that there are different rate mechanisms that could
13 be employed to further promote such investment. We
14 also acknowledge that, as indicated by various
15 parties, there are numerous details that would need
16 to be addressed in order to fashion a rate mechanism
17 that appropriately balances risks and benefits among
18 customers and utilities while pursuing legislative
19 policy goals. We find, therefore, that the best
20 approach to implementing such rate mechanisms is on a
21 company-by-company basis in the context of an
22 examination of company-specific costs and revenues,
23 inasmuch as each utility has a unique service
24 territory and customer mix, as well as

1 company-specific operating costs and rate base
2 investment. Energy-efficiency rate mechanisms will
3 need to be tailored to the energy-efficiency load
4 loss and fixed and variable cost structure of each
5 company. Incentives will need to fit the potential
6 level of investment for each service territory and
7 customer class."

8 Q. Thank you. I would also ask, Ms. Leary, to turn to
9 Page 6 of that order where the Commission in its
10 order characterizes the positions that were submitted
11 and asserted by National Grid. And I'm going to ask,
12 and this will be brief, can you read into the record,
13 please, that portion of this order that addresses
14 National Grid's position in this docket as marked?

15 A. (Ms. Leary) Yes. "National Grid observed that
16 existing rate treatment poses an obstacle to
17 investment in energy efficiency because a utility
18 that aggressively pursues energy efficiency may
19 jeopardize its ability to provide excellent service
20 to customers, and the Company would be working
21 against itself financially. National Grid asserts
22 that rate-making should be reformed to decouple the
23 revenues that a utility needs to serve its customers
24 from the volume of natural gas or electricity it

1 delivers.

2 "National Grid stated that it believes a
3 different rate-making [sic] treatment would promote
4 energy-efficiency investment without eroding the
5 revenues that utilities need to provide excellent
6 customer service. National Grid contended that the
7 link between utility sales and revenues must be
8 broken in order to encourage investment in energy
9 efficiency.

10 "National Grid stated that decoupling utility
11 revenues from sales is critical to the expansion of
12 cost-effective energy-efficiency opportunities in New
13 Hampshire. National Grid indicated that decoupling
14 should be employed at the time of a ramp-up in
15 energy-efficiency [sic] programs, or when the utility
16 files its next base rate case."

17 Q. Thank you, Ms. Leary. Would you agree that the
18 Commission's order that you just referenced supports
19 and encourages utilities such as National Grid to
20 propose revenue decoupling mechanisms with their rate
21 case --

22 A. (Ms. Leary) Yes, I would.

23 Q. -- filings?

24 And did -- in this instance, did National Grid

1 come forward with a revenue decoupling mechanism
2 proposal in its petition in this proceeding?

3 A. (Ms. Leary) Yes, we did.

4 Q. And is that contained in the testimony of Dr. Susan
5 Tierney that's been marked as Exhibit 7?

6 A. (Ms. Leary) Yes, it is.

7 Q. Referring to that testimony, would you please turn to
8 Page 43 of 69 of Dr. Tierney's testimony.

9 (Discussion between Atty. Peress and
10 Witness Leary.)

11 BY MR. PERESS:

12 Q. Can you just read into the record that portion of the
13 testimony beginning on Page 43, Line 5, and ending on
14 Page 43, Line 12, starting with the word
15 "decoupling."

16 A. (Ms. Leary) Yes. "Decoupling has been proposed as
17 the best approach to eliminating the tension that
18 inherently exists within the utility when its
19 revenues increase with the volume of sales of its
20 product, but is also bound to implement programs that
21 by design lead to a reduction in sales. Decoupling
22 focuses on mitigating this tension by eliminating the
23 so-called 'throughput incentive' which arises when a
24 utility recovers a large portion of its revenue

1 requirements through usage-based charges (i.e. [sic],
2 mills per therm of use) such that total utility
3 revenues rise or fall as total customer usage rise
4 and falls."

5 Q. And would you agree, Ms. Leary, that a substantial
6 portion of Dr. Tierney's testimony is focused on the
7 benefits of eliminating the throughput incentive,
8 both from the standpoint of deployment of energy
9 efficiency, as well as to ratepayers?

10 A. (Ms. Leary) Yes, I would.

11 Q. Could you briefly summarize for the Commission
12 National Grid's position on decoupling for its
13 electric and gas businesses in its Massachusetts
14 franchise territory?

15 MR. FELTES: Mr. Chairman, we object
16 to this. Mr. Camerino.

17 MR. CAMERINO: I just would want to
18 indicate that Ms. Leary would not be the witness to
19 answer a question of that nature. The Company was
20 aware that CLF would want to inquire into some of
21 these areas, and we've indicated that if it's
22 determined that these sorts of questions should be
23 asked and answered, we have Mr. Ahern available to
24 answer what I would call company policy questions.

1 But that would not be Ms. Leary.

2 CHAIRMAN GETZ: Mr. Feltes, what did
3 you have?

4 MR. FELTES: Mr. Chairman, quite
5 simply, company policy-type questions and what
6 National Grid's general view of decoupling, its
7 general view of the value of decoupling is not
8 relevant to this settlement agreement. The
9 settlement agreement is a comprehensive settlement
10 agreement resulting in a number of terms. So the
11 inquiry today, we respectfully submit, is whether or
12 not the settlement agreement results in rates that
13 are just and reasonable, and that the settlement
14 agreement is in the public interest. So, National
15 Grid's position generically about decoupling and its
16 position in other jurisdictions and its thinking of
17 the value of decoupling is not relevant we think to
18 this hearing.

19 CHAIRMAN GETZ: Well, I'm going to
20 allow this inquiry. I mean, the original proposal
21 included decoupling. Decoupling is no longer being
22 proposed. And I think it's fair for Mr. Peress to
23 inquire about that topic.

24 But, I mean, how far do you need to

1 go? It seems like Ms. Leary might be able to respond
2 as a general matter. Well, certainly she can answer
3 the question, what does she know about the Company's
4 decoupling policies in Massachusetts. But do you --

5 MR. PERESS: Yeah. Thank you, Mr.
6 Chair. This will not be an extensive inquiry. It
7 will just be geared to draw distinctions between
8 those provisions of the settlement agreement and
9 National Grid's business practices in other
10 jurisdictions, in light of the fact that the
11 decoupling proposal has been withdrawn as part of the
12 settlement agreement.

13 CHAIRMAN GETZ: We'll see how far this
14 goes. And if we think we need to hear more from
15 somebody else, then I guess we can determine whether
16 we want to pursue it.

17 MR. PERESS: Okay. Thank you, Mr.
18 Chair.

19 BY MR. PERESS:

20 Q. Ms. Leary, has National Grid proposed revenue
21 decoupling mechanisms for its Massachusetts business?

22 A. (Ms. Leary) Yes, they have. In fact, they have
23 revenue decoupling mechanisms for both its gas and
24 electric businesses in Massachusetts.

1 Q. And does National Grid have a pending proposal for
2 decoupling before the Rhode Island PUC for its
3 electric and gas businesses?

4 A. (Ms. Leary) Yes, they do.

5 Q. And is National Grid's corporate policy consistent
6 with the characterization -- or I'm sorry --
7 consistent with the position that National Grid put
8 forth in Docket DE 07-064? Is National Grid's
9 current corporate policy to propose revenue
10 decoupling whenever it proposes a rate design or
11 petitions for a change in its rate design?

12 A. (Ms. Leary) Yes, it is.

13 Q. Ms. Leary, can you comment as to -- or can you please
14 explain to the Commission whether the settlement
15 agreement in this proceeding addresses the throughput
16 incentive that Ms. -- that Dr. Tierney made reference
17 to in her testimony?

18 A. (Ms. Leary) Not directly. But indirectly, through
19 this settlement, the parties did agree to allow us to
20 increase some of our customer charge revenues which
21 allow -- which is a flat fee. So that does allow us
22 to reduce some of the volatility resulting from the
23 through-put issue that Dr. Tierney addressed.

24 Q. And do those provisions effectively disconnect the

1 Company's revenue from its amount of sales?

2 A. (Ms. Leary) No, not totally.

3 MR. PERESS: I have no further
4 questions. Thank you, Mr. Chair.

5 CHAIRMAN GETZ: Thank you.

6 Ms. Hollenberg.

7 MS. HOLLENBERG: Thank you. We have
8 no questions. Thank you.

9 CHAIRMAN GETZ: Commissioner Below.

10 INTERROGATORIES BY CMSR. BELOW:

11 Q. I don't know what exhibit number it is. Maybe six.
12 But the original testimony of Nicholas Stavropoulos,
13 do you have that in front of you, Ms. Leary?

14 A. (Ms. Leary) I don't have it in front of me.

15 MS. HOLLENBERG: Do you want this?

16 MR. CAMERINO: Yeah.

17 (Attorney Camerino hands document to
18 witness.)

19 BY CMSR. BELOW:

20 Q. On Page 26 of 30, at Line 18 there's a sentence that
21 begins with the word "the" and continues through the
22 bottom of the page and onto the next page. Could you
23 please read that.

24 A. (Ms. Leary) Yes. "The proposed rate-making framework

1 is absolutely necessary to provide the Company with
2 sufficient revenues to conduct its business for the
3 benefit of customers, maintain safe and reliable
4 service, and meet public policy obligations, while
5 allowing the Company to earn a reasonable rate of
6 return and ensuring that its natural gas business
7 remains vibrant and secure for the future."

8 Q. And that proposed rate-making framework that was
9 described in the original filing included a number of
10 elements, correct, some of which are reflected and
11 some of which are not; correct?

12 A. (Ms. Leary) That's correct.

13 Q. And some of what's not in the settlement is the
14 revenue decoupling mechanism, inclusion of public
15 works in the first half million, and CIBS investment
16 and rate base, as a matter of course, or on a
17 reconciliation basis, as well as certain inflation
18 and other adjustment mechanisms; is that correct?

19 A. (Ms. Leary) That is correct. In addition to the
20 pension mechanism also.

21 Q. Right. And is it -- does the Company have a
22 different position than it did at the filing, that
23 those were absolutely necessary? Seems like a pretty
24 strong turn. Is that not the case anymore?

1 MR. CAMERINO: Commissioner Below, I
2 think if the Company could -- we have Mr. Ahern here.
3 We recognize there might be questions from the Bench,
4 some policy-nature questions with regard to the
5 Company's view. And I think our preference would be
6 to offer Mr. Ahern to answer those, rather than Ms.
7 Leary, who is a revenue requirements witness. So
8 either now or at an appropriate point, I think what
9 we would like to do, with the Commission's and the
10 other parties' leave, is to have him sworn to answer
11 these types of questions.

12 (Chairman and Commissioners
13 conferring.)

14 CHAIRMAN GETZ: Why don't we bring Mr.
15 Ahern up then and swear him in.

16 MR. CAMERINO: Great. Thank you.

17 We apologize, but we didn't want word
18 to get back to the Company that Ms. Leary
19 had changed anything that Mr. Stravopoulos
20 had said.

21 (WHEREUPON, GARY AHERN was duly sworn
22 and cautioned by the Court Reporter.)

23 GARY AHERN, SWORN

24 MR. CAMERINO: With leave of the

1 Commission, I'm just going to do a brief introductory
2 questioning.

3 DIRECT EXAMINATION

4 BY MR. CAMERINO:

5 Q. Mr. Ahern, would you state your name and business
6 address for the record, please.

7 A. (Mr. Ahern) Sure. My name is Gary Ahern. My
8 business address is One MetroTech Center, Brooklyn,
9 New York.

10 Q. And what is your position with National Grid, and
11 what are your responsibilities in that regard?

12 A. (Mr. Ahern) My position is I am the vice-president of
13 gas regulation for the U.S. business, and I'm
14 responsible for rate filings and rate cases across
15 the gas businesses.

16 Q. And what has your role been with regard to this case
17 that's pending before the Commission today?

18 A. (Mr. Ahern) I have been the lead of this case.

19 Q. Okay.

20 MR. CAMERINO: Thank you.

21 INTERROGATORIES BY CMSR. BELOW:

22 Q. Did you hear the question --

23 A. (Mr. Ahern) Yes, I did.

24 Q. -- that I had? I'm trying to reconcile the proposed

1 settlement and the witnesses' assertion that it's in
2 the public interest and just and reasonable with the
3 initial position of the Company that changes that are
4 not included in the settlement were absolutely
5 necessary to achieve these objectives.

6 A. (Mr. Ahern) And in light of the total settlement, the
7 Company reached -- in light of the overall settlement
8 package, the Company did reach a settlement. The
9 Company still really feels strongly about its
10 regulatory principles. But in light of this current
11 settlement and the potential sale of the business,
12 the Company reached a settlement in this case.

13 Q. Okay. So this settlement doesn't necessarily reflect
14 a change in the initial position or testimony of Mr.
15 Stravopoulos, as far as you know?

16 A. (Mr. Ahern) No. The Company still feels strongly
17 about our different regulatory principles.

18 Q. In the settlement, on Page 6, it refers to operating
19 income. As reflected in the settlement, the
20 expectation that an increase in the base delivery
21 rates to result in a \$13.38 million operating income
22 after taxes -- after federal and state taxes; is that
23 correct? Either Ms. Leary or --

24 A. (Mr. Ahern) Yes, it is. That is correct.

1 Q. And how much of that operating income goes towards --
2 is considered earnings or reflects return on equity?
3 Is that all of that figure or a portion of that
4 figure?

5 A. (Mr. Ahern) The majority of that would help go
6 towards --

7 Q. Okay. And so the operating revenues that the
8 settlement rates are designed to achieve are
9 approximately 51.7 million; correct?

10 A. (Mr. Ahern) Correct.

11 Q. And is that -- what is the total annual revenues,
12 sort of gross revenues, excluding the cost of gas,
13 that is assumed that the rates would yield?

14 A. (Mr. Ahern) That is for the same number, the 51.7
15 million. That excludes the cost of gas.

16 Q. So, on Page 5 of the agreement, the first sentence
17 that says the rates are designed to yield annual
18 revenues of 171.466 million, that includes both
19 delivery and supply, the cost of gas.

20 A. (Mr. Ahern) Correct.

21 Q. Okay. So, the cost of gas is fully reconciled;
22 correct?

23 A. (Mr. Ahern) Under the new mechanism going forward,
24 yes, everything is reconciled. And this portion will

1 allow us in the future to get to a point where we can
2 reconcile the bad debt portion of the commodity
3 gas -- of the commodity bad debt.

4 Q. Okay. So if there were a 10-percent reduction in
5 sales, for instance, for whatever reasons -- the
6 economy, the weather, energy-efficiency measures,
7 loss of customers -- a 10-percent reduction in sales
8 would tend to decrease from operating revenue by
9 something approaching 10 percent, maybe less than
10 10 percent, because some of it's fixed, and that
11 would reduce primarily the variable, unless it was
12 due to loss of customers; is that correct?

13 A. (Mr. Ahern) That is correct.

14 Q. Can you give me a sense of how much -- let's say it
15 was just sales, not a loss of customers. How much
16 would a 10-percent loss or reduction in sales result
17 in reduction from operating revenues?

18 A. (Mr. Ahern) It would probably be in the 3 to
19 4 million-dollar range, I would assume.

20 Ann, could you --

21 A. (Ms. Leary) Yeah, I'm trying to remember if we -- see
22 if we have the numbers in front of us today. I
23 thought 30 to 40 percent, somewhere in that range, is
24 fixed, in terms of our total, out of the 51.7 million

1 that we collect through our customer charges. But I
2 would need to, subject to check, check that number.
3 And the remaining, say it was 60 to 70 percent, was
4 variable. So it might be 60 to 70 percent out of
5 10 percent or --

6 A. (Mr. Ahern) So let's assume \$3 million, because
7 that's about the 60-percent mark, roughly.

8 Q. Okay.

9 A. (Mr. Frink) I was going to say the number is
10 44 percent with the fixed charges.

11 Q. Forty percent fixed.

12 A. (Mr. Frink) Forty-four.

13 Q. Forty-four percent fixed. So a 10-percent reduction
14 in revenue -- let's just do the math here -- would be
15 a 5 -- well, it wouldn't be -- it would be 56 percent
16 of about 5.17 million. Does that sound right?

17 A. (Mr. Ahern) Correct.

18 Q. Which is about 2.9 million, close to the 3 million
19 you estimated. Okay.

20 So, all other things being equal, in terms of
21 your debt expense, depreciation, operating expenses,
22 property taxes and such, would that tend to translate
23 into a \$2.9 million reduction in your operating
24 income? Maybe before taxes, you know, there would be

1 adjustment for the federal and state taxes? Is
2 that --

3 A. (Mr. Ahern) Exactly right. Pre-tax, that would be
4 the effect. Yes, it would.

5 Q. So, be a little less after tax. But what's the total
6 tax --

7 A. (Mr. Ahern) Assume 35- to 40-percent tax rate. So,
8 assume about \$2 million, roughly.

9 Q. So that would tend to lower your operating income by
10 a couple of million dollars, which is about a
11 15-percent reduction in operating income?

12 A. (Mr. Ahern) That is correct.

13 Q. Okay. There's no provision in the settlement
14 agreement with regard to bad debt in the distribution
15 portion of the rates. It's just assumed that it's
16 3.02 in the first year. So, how that and all the
17 other expenses work out, if you do better than a
18 3.02 percent of bad debt rate, that just improves
19 your earnings?

20 A. (Mr. Ahern) No, that's not how that's working.

21 Q. Okay.

22 A. (Mr. Ahern) What you have described is really not how
23 the commodity piece of bad debt will work. The
24 delivery portion of the bad debt is set at

1 2.3 percent.

2 MR. CAMERINO: Could I just note for
3 the record? Actually, what is behind the revenue
4 requirement is a matter of compromise by the parties.
5 And there are different views on the different
6 elements, and so the parties work with different
7 numbers. I don't think there is any agreement on
8 what the individual components of the delivery
9 revenue requirement would be.

10 CMSR. BELOW: Okay. I see.

11 By Cmsr. Below:

12 Q. So there is no -- it is whatever it is. It's the
13 total revenue requirement covers whatever expenses
14 you have, and any improvements you have in bad debt
15 collection just flows through to your bottom line; is
16 that correct?

17 A. (Mr. Ahern) That's correct.

18 Q. Okay. And likewise, any increase in bad debt just
19 flows through to the bottom line as well.

20 A. (Mr. Ahern) Exactly right.

21 Q. The current CIBS program remains the same under the
22 settlement agreement. What is the consequence of
23 the -- if the Company exceeds a half-million dollars
24 investment per year? That just accumulates and has

1 to be addressed in the next rate case; is that
2 correct?

3 A. (Mr. Ahern) No. The first -- after the first
4 \$500,000?

5 Q. I'm saying the first \$500,000.

6 A. (Mr. Ahern) Absolutely right. You are correct.

7 Q. And same case with public works projects. Those
8 would come up at a rate case, and Staff would look at
9 whether they were prudently incurred and all the
10 usual process.

11 A. (Mr. Ahern) That is correct.

12 Q. And on the rate design, from what I gather, without
13 really analyzing the numbers because we haven't had
14 this settlement for very long, it represents some
15 kind of compromise in between the positions of the
16 various testimony. The Company sought to shift
17 somewhat more based on its marginal costs setting
18 both between classes and to fixed costs. Some of the
19 other testimony that was filed argued against that to
20 varying degrees. And this is a compromise somewhere
21 in between; is that correct?

22 A. (Mr. Frink) Not exactly sure what the question is,
23 but...

24 Q. Well, let me -- I'm just trying to get a sense of how

1 far this goes in the Company's position versus, I
2 believe, Legal Assistance.

3 Mr. Colton's testimony argued against perhaps --
4 argued for flat rates on the volumetric component and
5 not really increasing the customer charge -- the
6 amount of the increase that goes to the customer
7 charge relative to the volumetric component. This
8 does shift some from volumetric to fixed, and it does
9 retain something of a declining block differential,
10 but reduces it; is that correct?

11 A. (Mr. Frink) That's correct.

12 A. (Mr. Ahern) Yes, that is correct.

13 Q. I'd still like to get some characteristic --
14 characterization of where this settlement position is
15 relative to the position of the parties, because I --
16 Staff's testimony was sort of in between Mr. Colton's
17 testimony and the Company's testimony on how rates
18 should shift; is that correct, in terms of moving
19 towards marginal cost? And OCA's testimony was more
20 towards looking at embedded cost and arguing against
21 using the marginal cost; is that correct?

22 A. (Mr. Ahern) That's correct.

23 Q. And so is anybody willing to characterize, not in
24 terms of how you got to it or, but what this actual

1 settlement looks like relative to the four different
2 parties that took positions on rate design? Where
3 does this kind of come out in between all those four
4 different positions?

5 A. (Mr. Frink) It's a compromised position. It moved,
6 obviously, somewhere towards the middle. And there's
7 a -- it's hard to say because there are so many
8 moving pieces. It's a flatter variable rate. It's
9 less of an increase in the customer charge. The
10 original current rate design recovers 41 percent for
11 the fixed charge. The Company had asked to move to
12 46 percent. In essence, we wound up at 44. The
13 flattening of the variable charge, obviously, that's
14 a comprised position. But to the extent there was
15 something for everybody, as far as whether to use
16 marginal or embedded, I mean, that's designed to come
17 up with reasonable rates. And I think that's where
18 we wound up here, regardless of what the basis was
19 for getting there. And the fact that three of the
20 parties signed on to this I think is indicative that
21 the design itself is acceptable.

22 Q. And that's why you conclude the settlement results in
23 just and reasonable rates? Is that part of --

24 A. (Mr. Frink) Yes, that's definitely a part of it.

1 Q. And does the Company share that view?

2 A. (Mr. Ahern) The Company does.

3 CMSR. BELOW: Okay. I guess with the
4 witnesses available, that's all the questions I have.

5 CHAIRMAN GETZ: Commissioner Ignatius.

6 CMSR. IGNATIUS: Thank you.

7 INTERROGATORIES BY CMSR. IGNATIUS:

8 Q. Mr. Frink, you were the one who walked us through the
9 bad debt provisions in the settlement agreement on
10 Page 9, the chart. If you can go back to that, and
11 let me just be sure I know that I'm reading this
12 correctly on how it would play out over the next few
13 years.

14 During the period May 2010 through April 2011,
15 there's no cap imposed on the bad debt allowed
16 recovery for -- this is for the commodity bad debt;
17 correct?

18 A. (Mr. Frink) That's correct.

19 Q. So, whatever it is, is what it is to be recovered.

20 A. (Mr. Frink) Yes.

21 Q. And without this settlement, if it's approved, what
22 would be the allowed recovery for the commodity
23 portion of bad debt?

24 A. (Mr. Frink) Without this settlement? You mean under

1 current rates?

2 Q. Yes. And then with the current structure, how would
3 the bad debt, the commodity bad debt be treated?

4 A. (Mr. Frink) Well, the Company proposal was that the
5 actual rate be recovered. So, in essence, it would
6 be the same under this as what we're doing here for
7 the first year.

8 Q. So, business as usual before this rate filing was
9 made, how was bad debt --

10 A. (Mr. Frink) Oh, that's a -- in the last settlement,
11 there was a step-down. We had a target that we
12 thought the Company should be at for a bad debt
13 number. And so allowing time for the Company to
14 implement its collections enhancement practices, we
15 stepped it down. So, wherever we are on that at that
16 point in time, we might be... 2.4 percent is what
17 they would recover under current rates.

18 Q. And so, depending on where that number comes out, if
19 this were approved during that period of May 2010
20 through April 2011, it could be higher or lower than
21 the 2.4.

22 A. (Mr. Frink) Yes.

23 Q. Then, in the following year there's no cap imposed,
24 but the highest it would be, would be the actual

1 amount reduced by .4?

2 A. (Mr. Frink) Yes.

3 Q. And in the year after that, beginning in May of 2012,
4 and I guess running thereafter, the settlement
5 provides for, again, no cap. But the highest it
6 could go would be the actual amount reduced by .8?

7 A. (Mr. Frink) Correct.

8 Q. Then, in the following paragraph, still on Page 9,
9 there's a description of how things work,
10 notwithstanding that chart. When you're calculating
11 losses on a rolling 12-month period rather than the
12 calendar period set out in the chart, there is a
13 different -- it allows for a different level of
14 recovery; correct?

15 A. (Mr. Frink) Correct. The objective is that the
16 Company should be at 2.5 percent. And if they can
17 get there, the concern is that there are factors
18 outside the Company's control -- the economy, you
19 know, things that could impact recovery, write-offs
20 and recoveries. And so if we can get to that target
21 rate, the assumption is that the Company has improved
22 their collections practices and what they're doing is
23 prudent. And at that point, it is what it is.

24 But at this point in time, in Staff's testimony,

1 it felt that the Company could have and should have
2 been doing more to control their bad debt. And this
3 was the compromise position, that, okay, we don't --
4 the commodity piece is in electric. That's fully
5 reconcilable. And Staff accepts that. But to the
6 extent that part of it is due to the Company's
7 management, then we didn't feel that was appropriate
8 to allow for recovery. This essentially sets a
9 number that we agree the Company -- the Company and
10 Staff agree could be achieved or should be achieved.
11 And once we get there, then we feel that reflects
12 prudent practices.

13 Q. So, at the point the Company reaches 2.5 percent
14 during any 12-month period, the structure laid out in
15 the chart goes away, and you simply go to an actual
16 recovery, wherever it may fall.

17 A. (Mr. Frink) That's correct.

18 Q. Thank you.

19 This is a question, I'm not sure if it's to Ms.
20 Leary or, actually, to any of the three of you. The
21 cost of equity was the subject of quite a lot of
22 testimony. It's not stated as a term in the
23 settlement agreement. Is there a cost of equity that
24 has been calculated as a component? Or is it, as Mr.

1 Camerino described in another context; simply,
2 they're total numbers, and one can pick the
3 components they want on their own? They're not
4 agreed upon?

5 A. (Mr. Ahern) It was part of a Black Box settlement.
6 Right.

7 Q. I'd like to ask a few questions about decoupling. I
8 understand that, for purposes of settlement, that
9 proposal has been withdrawn. But there was a
10 considerable amount of testimony from all parties on
11 decoupling structures, pros and cons, and, as Mr.
12 Peress points out, prior statements by the Commission
13 about decoupling.

14 I guess, looking to Mr. Frink, if you can
15 comment on your view about decoupling. It seems to
16 me that there is the decoupling is never a good idea
17 point of view and there's decoupling may be a good
18 idea, but not this particular proposal. And I'm
19 wondering, in Staff's opposition to the decoupling
20 proposal that was originally filed, does it fall into
21 Category 1 or Category 2?

22 A. (Mr. Frink) I think this is more Company-specific.
23 As I stated in my testimony, the Company's IRP filing
24 calls for -- has identified an annual growth rate of

1 2.6 percent. So this isn't really a situation where
2 we see stagnant sales. And, again, this is Staff's
3 position. The capital investments that have been
4 made, Staff's position was that that could be scaled
5 back. And so -- and also, the economy turning
6 around.

7 So the feeling is that, in this particular
8 instance, there is not a need for decoupling. And I
9 think, generally, if there were going to be a
10 decoupling mechanism, that it should be tied to
11 energy efficiency and not just decoupling to cover
12 everything, whether -- all sorts of factors. So,
13 that's... that's Staff's position.

14 Q. Has Staff evaluated any decoupling mechanisms used in
15 other parts of the country that it thinks is a better
16 approach?

17 A. (Mr. Frink) I have not done that. In the generic
18 proceeding on decoupling, I believe other mechanisms
19 were looked at. But I personally didn't. Actually,
20 the OCA's witness in this docket suggested a
21 decoupling mechanism that would be more appropriate
22 than what the Company had proposed. So there are
23 definitely specifics out there.

24 Q. You're right. That laid out a few possible ways to

1 condition a decoupling structure that was different
2 than what had been proposed by the Company.

3 Does the Staff have a view on those terms that
4 the OCA witness suggested?

5 A. (Mr. Frink) Well, as I stated, my position and
6 Staff's position is that, in this instance, we don't
7 feel a decoupling mechanism is appropriate. We move
8 towards recovery more than fixed charges. And the
9 circumstances for National Grid New Hampshire is such
10 that we don't feel decoupling is necessary or
11 appropriate.

12 CMSR. IGNATIUS: Thank you. Nothing
13 else.

14 CHAIRMAN GETZ: Mr. Camerino or Mr.
15 Fossum, any redirect?

16 MR. CAMERINO: I have a few questions.

17 REDIRECT EXAMINATION

18 BY MR. CAMERINO:

19 Q. Ms. Leary or Mr. Frink, Commissioner Ignatius asked
20 about the prior bad debt, the commodity bad debt
21 recovery mechanism. And I just wanted to clarify a
22 couple things in that regard.

23 The mechanism that was put in place in the last
24 rate case, that had a re-opener provision, did it

1 not, that allowed re-examination of that in the next
2 case?

3 A. (Mr. Frink) Yes, it did.

4 Q. Okay. Prior to that settlement, was there a bad debt
5 reconciliation mechanism in place?

6 A. (Mr. Frink) Sort of. There's a percentage that was
7 set and didn't change, regardless of what the
8 uncollectible experience was. But that percentage
9 was reconciled to the actual gas costs. So, in the
10 cost of gas proceeding, that would be an estimated
11 bad debt expense based on forecasted cost, which
12 would then get reconciled to actual cost using that
13 same percentage. So it was reconciled to that
14 extent, but there was no reconciliation for what the
15 actual write-offs were.

16 Q. So it was reconciled, but not to the actual. Is that
17 a fair statement?

18 A. (Mr. Frink) Yes, it is.

19 Q. You said it was reconciled to a percentage. Where
20 did that percentage come from?

21 A. (Mr. Frink) That percentage was established in the
22 last rate case as part of that settlement. And
23 again, it came down to there was a target number that
24 Staff believed the Company should get to. And as

1 part of settlement, the Company agreed to those
2 numbers.

3 Q. Sorry to interrupt, but I think maybe I wasn't clear.

4 Before this last rate case, before DG-08-009 --

5 A. (Mr. Frink) Okay.

6 Q. -- there was a bad debt reconciliation mechanism that
7 you had, I think, described.

8 A. (Mr. Frink) Yes.

9 Q. And it reconciled to a percentage of gas cost
10 revenues; is that correct?

11 A. (Mr. Frink) Yes.

12 Q. And had there not been the last settlement in
13 DG-08-009, that mechanism would have remained in
14 place; is that correct?

15 A. (Mr. Frink) Yes.

16 Q. And where did that percentage come from? What was
17 contemplated as to how that would be determined?

18 A. (Mr. Frink) That percentage was based on write-offs,
19 bad debt percentage in the test year. So, when
20 delivery rates were set, that percentage was used in
21 the revenue requirement for both delivery rates and
22 commodity cost. So, with the cost of gas from that
23 point on until the next rate case, that was the
24 percentage we used.

1 Q. And is it fair to say -- well, let me ask one more
2 background question about that.

3 If that mechanism, the historical mechanism had
4 been used in this case, so that the test year bad
5 debt ratio were used for reconciling purposes, what
6 would the bad debt rate have been as filed by the
7 Company?

8 A. (Mr. Frink) Test year bad debt percentage was 3.36.

9 Q. So, under the historical mechanism, the bad debt
10 would have been reconciled to 3.36, even if the bad
11 debt experience went down?

12 A. (Mr. Frink) Correct.

13 Q. Okay. And then the last rate case came along, and
14 this intervening settlement was reached; is that
15 fair?

16 A. (Mr. Frink) Yes, it is.

17 Q. And it was contemplated by the words of that, that
18 that could be revisited if a party could show that
19 that was appropriate?

20 A. (Mr. Frink) Yes.

21 Q. Okay. Thank you.

22 And then, Mr. Ahern, Commissioner Below asked
23 you about that sentence from Mr. Stravopoulos's
24 testimony. And I want to be a little more specific

1 here with regard to how I ask you this question.

2 Is it your position that the revenues that this
3 settlement provides for are sufficient for the
4 Company, on a current basis as we sit here today, to
5 operate the Company safely and reliably and to
6 fulfill all of its regulatory obligations?

7 A. (Mr. Ahern) Yes, it is.

8 Q. But I understand from your answer that it is also
9 your position that the Company still believes that
10 the rate-making mechanisms that it proposed are
11 necessary -- I would characterize and ask you if you
12 agree -- over the long run for the Company.

13 A. (Mr. Ahern) Yes, it is. It's the Company's position
14 that these are the long-run mechanisms that the
15 Company would like in every one of its regulatory
16 jurisdictions.

17 Q. But they're not necessary -- or are they necessary at
18 this time for this revenue requirement and this
19 settlement to be found to be in the public interest
20 and in the Company's interest?

21 A. (Mr. Ahern) For this settlement, they are not
22 necessary at this point.

23 Q. Thank you.

24 CHAIRMAN GETZ: Mr. Fossum, anything?

1 MR. FOSSUM: I don't have any direct
2 questions, no. But I did want -- I didn't know if
3 this was the proper opportunity. I wanted to offer
4 copies of Staff's testimony to be marked for
5 inclusion in the record, as contemplated by the
6 agreement, which I -- looks like I think it would be
7 appropriate to do at this time.

8 CHAIRMAN GETZ: Any objection?

9 (No verbal response)

10 MR. FOSSUM: So I'm not sure what
11 number we're at. But sequentially following that
12 would be one, two, three, four, five, six, seven
13 pieces of testimony, including, just for the record,
14 Mr. Gay's testimony as it was re-filed, not his
15 original testimony. So, 29 through 36 [sic], then.

16 (The documents, as described, were
17 herewith marked as Exhibit 29 through 35
18 for identification.)

19 CHAIRMAN GETZ: Okay. Thank you.

20 All right. Then it doesn't appear
21 that there's anything further for the witnesses, so
22 the panel is excused. Thank you.

23 (WHEREUPON the Panel was excused.)

24 CHAIRMAN GETZ: Mr. Linder.

1 MR. LINDER: Would it be appropriate
2 at this time to offer Mr. Colton's testimony for
3 identification?

4 CHAIRMAN GETZ: Please.

5 MR. LINDER: Okay. Mr. Chairman, I
6 provided one copy of Mr. Colton's testimony to the
7 stenographer and one copy to the clerk at the
8 beginning of this proceeding. I don't know what
9 number, exhibit number applied?

10 CHAIRMAN GETZ: I believe 28 would be
11 the next exhibit number.

12 MR. LINDER: Thank you.

13 (The document, as described, was
14 herewith marked as Exhibit 28 for
15 identification.)

16 CHAIRMAN GETZ: And then, just for
17 purposes of making sure we've got the numbers
18 correct, during the break, let's just ask the clerk
19 to work with the parties. And let's get it printed
20 up and distributed, including a copy to the court
21 reporter, so we have it all in the record what the
22 actual exhibit numbers for identification are.

23 MS. HOLLENBERG: Excuse me, Mr.
24 Chairman. If I might also do the same with the OCA's

1 testimony of Ken Traum, Dr. George Briden and Lee
2 Smith and Art Freitas. I have a copy for the clerk
3 and a copy for the stenographer. And we will work
4 with the parties to get the numbers organized.

5 (The document, as described, was
6 herewith marked as Exhibits 36 through 38
7 for identification.)

8 CHAIRMAN GETZ: Okay. Let's move on
9 to Mr. Peress. Your witness, please.

10 MR. PERESS: Thank you, Mr. Chair.
11 I'd like to call to the stand Shanna Cleveland.

12 (WHEREUPON, SHANNA CLEVELAND was duly
13 sworn and cautioned by the Court Reporter.)

14 SHANNA CLEVELAND, SWORN

15 DIRECT EXAMINATION

16 BY MR. PERESS:

17 Q. For the record, would you please state your name and
18 your business address.

19 A. My name is Shanna Cleveland. My business address is
20 62 Summer Street, Boston, Massachusetts, 02110.

21 Q. Can you please provide a summary of your professional
22 background and your education.

23 A. Yes. I have been an attorney admitted to the Bar
24 since 2001. I have practiced in private law firms,

1 working in litigation areas, including anti-trust,
2 bankruptcy, real estate litigation. After that I
3 went to Vermont Law School to complete an LL.M. in
4 environmental law, and then worked for a period of
5 time with the Regulatory Assistance Project before
6 moving to the Conservation Law Foundation, where I
7 focus on energy efficiency, renewable portfolio
8 standards, clean energy and Clean Air Act.

9 Q. Ms. Cleveland, have you testified before this or any
10 other public utility commission on the subject of
11 revenue decoupling?

12 A. I testified in a proceeding in Rhode Island last year
13 where there was an actual rate case taking place. I
14 also testified in a generic docket in Massachusetts,
15 Docket 07-50, in which the commission was considering
16 whether or not it should adopt revenue decoupling.

17 Q. Ms. Cleveland, did you prepare testimony, or was
18 testimony prepared at your direction that was filed
19 in this proceeding?

20 A. Yes.

21 MR. PERESS: I'm not sure what exhibit
22 number we're on, but I'd like to...

23 CLERK DENO: Just a minute, please.
24 Thirty-nine.

1 MR. PERESS: I'd like to move Ms.
2 Cleveland's testimony into evidence in this
3 proceeding.

4 CHAIRMAN GETZ: That will be marked
5 for identification as Exhibit 39. We'll deal with
6 the issue of admitting evidence -- exhibits into
7 evidence at the end of the hearing today.

8 (The document, as described, was
9 herewith marked as Exhibit 39 for
10 identification.)

11 MR. PERESS: Thank you, Mr. Chair.

12 BY MR. PERESS:

13 Q. Ms. Cleveland, would you briefly summarize your
14 testimony to this Commission.

15 MR. FELTES: Objection. Just as a
16 matter of administrative efficiency, the testimony
17 says what it does say. I don't think there's a need
18 for a summary.

19 CHAIRMAN GETZ: Well, I tend to agree
20 that there's really no need for a summary of the
21 testimony. But I think, given the -- if you want to
22 inquire of your witness of any positions about the
23 settlement that's been filed, then, since that is
24 newly filed, I'll permit that type of inquiry. We've

1 read the testimony.

2 MR. PERESS: Thank you, Mr. Chair.

3 The only reason I suggested we might do that is
4 because, since, as we know, revenue decoupling has
5 not been proposed as part of the settlement, it might
6 benefit the Commission to have some discussion about
7 that issue more broadly. But we can characterize
8 that in the context of the settlement proposal.

9 That's fine.

10 BY MR. PERESS:

11 Q. So, Ms. Cleveland, you submitted testimony in support
12 of National Grid's revenue decoupling proposal; is
13 that correct?

14 A. Yes.

15 Q. And does the settlement agreement contain any of the
16 revenue decoupling mechanism provisions proposed by
17 National Grid in their testimony and petition in this
18 proceeding?

19 A. No, it does not. As I think Ms. Leary alluded to,
20 the only aspect in which the settlement agreement
21 addresses lost revenues from reduced sales at all is
22 possibly through increasing the customer charge. And
23 what's ironic is that one of the reasons that revenue
24 decoupling is often chosen or preferred to increasing

1 customer charges or a single fixed variable rate is
2 because that increase of the customer charge can
3 actually have a negative impact on consumers'
4 incentives to reduce their consumption. If you're
5 increasing the amount that's fixed in their customer
6 charge and then reducing, therefore, the amount that
7 is based on volume, then you're actually reducing
8 their incentive, while not reducing the Company's
9 incentive to increase sales at all.

10 Q. Ms. Cleveland, certain parties in this proceeding
11 opposed the revenue decoupling mechanism proposed by
12 National Grid and generally were adverse to the
13 shifting of risk as between utility and ratepayers
14 that was alleged to result from decoupling. Is this
15 an issue that can be addressed and has been addressed
16 in the past in other proceedings?

17 A. Yes. First, let me say that I disagree that revenue
18 decoupling is a mechanism that shifts risks from the
19 utility to the customers. It is actually a mechanism
20 that reduces risk and reduces rate volatility for
21 both customers and for the utility. To the extent
22 that commissions have been concerned about risk
23 shifting based on specific portions of a revenue
24 decoupling mechanism, there are changes that can be

1 made in revenue decoupling proposals to ensure that
2 risk shifting does not occur. For example: If a
3 commission were to determine, based on a revenue
4 decoupling proposal, that the utility would see as a
5 result of revenue decoupling mechanism a reduction in
6 its cost of capital, the commission could then reduce
7 the return on equity that was approved for the
8 utility. For example: In another case, commissions
9 are often concerned about whether or not allowing a
10 revenue per customer mechanism, as opposed to an
11 annual target revenue mechanism, can cause problems.
12 So, instead of having a revenue per customer
13 mechanism, you might set a revenue per rate class
14 mechanism. There are also options for putting a
15 collar or a limit on the amount of adjustment that
16 can be made in any particular year. There are also
17 the possibility of using earning sharings mechanisms.
18 I could go on. But the idea that decoupling, per se,
19 shifts risks from the utility to ratepayers is not
20 borne out by the evidence. And I attached to my
21 testimony the Pamela Lesh report as Tab A -- and that
22 was also referred to in Ms. Tierney's testimony, and
23 I believe in Mr. Briden's testimony -- that actually
24 conducted a study on the real-world impacts on

1 customers' rates and on utility revenue, and
2 determined that the revenue decoupling adjustments go
3 both ways. There are surcharges made to customers,
4 but there are also refunds made to customers, and
5 that overall it reduces risk without necessarily
6 shifting risk from one to the other.

7 MR. FELTES: Mr. Chairman, the last
8 couple minutes I think was a summary of her prefiled
9 testimony. I would just respectfully request that
10 summaries of the prefiled testimony, in the interest
11 of administrative efficiency, they're unnecessary.
12 It doesn't seem to be necessary for this discussion
13 of the settlement agreement to summarize her
14 testimony. Thank you.

15 MR. PERESS: I just have one further
16 question.

17 BY MR. PERESS:

18 Q. In light of the precedent of this Commission, and in
19 light of the testimony that's been submitted in this
20 proceeding, do you believe that the settlement
21 agreement is in the best interest of the ratepayers?

22 A. To the extent that energy efficiency is in the best
23 interest of the ratepayers, and having a utility that
24 promotes to the full extent energy efficiency is in

1 the best interest of the ratepayers, then I disagree
2 that this settlement agreement as a whole is in the
3 best interest of ratepayers; but more importantly, I
4 think it is at odds with this Commission's precedent,
5 as established in DE 07-064, and also, in general,
6 this Commission's precedent of promoting and
7 supporting energy efficiency.

8 MR. PERESS: Thank you. No further
9 questions.

10 CHAIRMAN GETZ: Thank you.

11 Ms. Hollenberg, questions of the witness --

12 MS. HOLLENBERG: No questions. Thank
13 you.

14 CHAIRMAN GETZ: Mr. Feltes.

15 CROSS-EXAMINATION

16 BY MR. FELTES:

17 MR. FELTES: Just a couple questions,
18 Ms. Cleveland. Do you have your testimony in front
19 of you?

20 A. I don't have it in front of me.

21 (Document handed to witness.)

22 Q. Ms. Cleveland, earlier you mentioned the customer
23 charge in your testimony in response to questions
24 from Mr. Peress; did you not?

1 A. Yes.

2 Q. I'd draw your attention to Page 3 of your testimony,
3 specifically Line 7. Let me know when you've made it
4 there.

5 A. Yes.

6 Q. I'm going to read, and correct me if I'm wrong.

7 "Neither CLF nor I take any position on other
8 issues presented in this docket." Did I read that
9 correctly?

10 A. Yes, that's correct.

11 Q. And would you accept, subject to check, that you do
12 not mention or provide any evaluation of customer
13 charges in the rest of your testimony?

14 A. Well, here's the distinction that I would make here,
15 which is --

16 Q. Ms. Cleveland --

17 A. -- that single fixed variable rates are one method,
18 one alternative to decoupling. So that was one of
19 the alternatives that was considered by the
20 Commission in DE 07-064. So, to the extent that that
21 is an alternative presented to decoupling, then I
22 take -- I take a stance on that. That's within the
23 scope of my testimony.

24 Q. Ms. Cleveland, my question was, would you accept,

1 subject to check, that you do not mention customer
2 charges in your testimony?

3 A. I would have to check.

4 Q. Would you accept, subject to check, that that's
5 correct?

6 A. Yes.

7 Q. Thank you.

8 CHAIRMAN GETZ: Is that all,
9 Mr. Feltes?

10 MR. FELTES: Oh, sorry. That is all.
11 Thank you.

12 CHAIRMAN GETZ: Mr. Fossum.

13 MR. FOSSUM: I have nothing.

14 CHAIRMAN GETZ: Mr. Camerino.

15 MR. CAMERINO: No questions.

16 CHAIRMAN GETZ: Commissioner Below.

17 CMSR. BELOW: Yes. Thank you.

18 INTERROGATORIES BY CMSR. BELOW:

19 Q. I think Mr. Frink just provided oral testimony to the
20 effect that in National Grid's IRP for EnergyNorth's
21 recent filing, that they projected 2.6 percent
22 increase in sales. I don't know if that's sales per
23 customer or total sales or what.

24 But presuming that was sales per customer, for

1 instance, over some period of time, what would be the
2 effect of the revenue decoupling mechanism that was
3 proposed in this case?

4 A. So, in terms of the increase in sales, I did hear Mr.
5 Frink refer to it. I think it was a 2.9 percent
6 growth in sales per customer.

7 MR. CAMERINO: I'm just concerned
8 about this witness characterizing -- I know this a
9 question from the Bench. But this witness is
10 characterizing something that another witness
11 characterized about the Company's filing. And I
12 don't know what the process would be for then
13 correcting those characterizations and not heading
14 down a road that's based on information that isn't
15 actually what the filing says.

16 CHAIRMAN GETZ: Well, I mean, the
17 witness is responding on what she has heard. And to
18 the extent it's supported or not supported in the
19 record, then that's something we'll deal with. I
20 don't think she's offering that statement as a fact.
21 She's just offering it as that's what she understood
22 previous testimony to be. So we'll give it whatever
23 weight it's due.

24 MR. CAMERINO: Okay.

1 A. So, in terms of how decoupling could affect the sales
2 growth, I think that's what you're asking --

3 BY CMSR. BELOW:

4 Q. No. How would it affect the distribution rate that
5 customers pay based on the mechanism described by Dr.
6 Tierney in her proposal.

7 A. Right. So, decoupling should change the way that the
8 revenues are calculated. So what that would mean is,
9 if they were going to be getting a 2.9 percent growth
10 in sales, and then they therefore collected, let's
11 say 2.9 percent more in revenues than the target
12 revenue that had been set by Commission, then
13 whatever they received in excess of the target
14 revenue would be returned to the customers in the
15 form of a credit.

16 Q. So does Mr. Frink's argument, that a reason to oppose
17 decoupling is that the Company is projecting sales
18 growth per customer, does that make sense to you, in
19 supporting an argument that it's in the public
20 interest not to have revenue decoupling?

21 A. That doesn't make sense to me, in that the purpose of
22 decoupling is not solely to ensure that the Company
23 has a stable revenue, but it's to actually ensure
24 that the Company isn't having an internal conflict as

1 to whether or not to support energy efficiency. So,
2 the fact that it's actually increasing its sales, to
3 my mind, shows that they are currently functioning in
4 concord with the way that rates are set and the way
5 that the revenue requirement is met, which is to say
6 they are -- they do have an throughput incentive.
7 And one of the ways that they increase revenues, they
8 increase ROE, is by increasing sales. And so they're
9 continuing to do that. That doesn't have anything to
10 do with what their incentives or disincentives are
11 with respect to efficiency based on the current rate
12 plan.

13 Q. What does the term "revenue requirement" mean to you?

14 A. Revenue requirement is basically the amount of money
15 that is required to operate the system safely. So,
16 it's basically cost of service. Rate-making requires
17 the utility to be able to recover its costs in
18 operating so that it can operate the system safely
19 and reliably.

20 Q. And does that include an opportunity to have a
21 reasonable return on the equity that's used and
22 useful and prudently incurred in the operation of --

23 A. Yes, it does.

24 Q. Would you agree or disagree with the statement in Mr.

1 Frantz's and Naylor's testimony on Page 5 at Line 11
2 that says, "It is inappropriate and potentially
3 harmful to customers to assure a utility of its
4 revenue requirement following a rate case"? Do you
5 agree or disagree with that?

6 A. I was struck by that. I disagreed with that, because
7 the revenue requirement is set by the Commission to
8 cover the costs necessary to operate the system
9 safely and reliably. What they are not guaranteed is
10 their rate of return or their return on equity. And
11 the way that they achieve that is based on their
12 ability to manage costs, and under the current
13 regime, based on their ability to increase sales.
14 Decoupling would take away that incentive to increase
15 sales.

16 Q. Does decoupling take away the incentive to control
17 costs in the operation of the business?

18 A. It should not if done properly, because, again, your
19 key to a revenue requirement that the Commission has
20 determined is -- actually represents the cost of
21 service and reasonable -- just and reasonable rates.
22 So, if you exceed the amount of revenue that the
23 Commission determined was necessary to operate and
24 run the system, then you actually return that back to

1 customers.

2 Q. I don't recall that your testimony spent too much
3 time or looked at the issue of the cost trackers.
4 Others -- I think other testimony observed that it
5 seemed to duplicate the effort, the part of the
6 effect of revenue decoupling mechanism.

7 To the extent that the settlement agreement, for
8 instance, removes most cost trackers -- the pension,
9 OPEB, inflation adjustment and so forth -- and also
10 removes some of the mechanisms to add investments to
11 a rate base, short of a full rate case, how do those
12 affect the sort of value of revenue decoupling, to
13 the extent you remove those ways to cover costs were
14 what might be linked to an incentive to try to grow
15 sales and not reduce sales? How does that play, from
16 your point of view, with the proposed revenue
17 decoupling mechanism?

18 A. Well, in other rate cases where I've been involved,
19 we have been very careful to separate revenue
20 decoupling from any other types of automatic
21 trackers, especially capital trackers, OPEB trackers
22 and that type of thing, because revenue decoupling
23 can be implemented without those in place.

24 Now, you raise an interesting point, which is:

1 If those automatic trackers that the Company is
2 seeking to have included in order to deal with the
3 lag time, regulatory lag between rate cases, then
4 causes them to have difficulty meeting their return
5 on equity or their rate of return that they were
6 hoping to meet, then, without a revenue decoupling
7 mechanism, one way for them to deal with that would
8 be to increase sales, and therefore increase --
9 sorry -- increase ROE and ROR.

10 Q. And without those cost trackers, if they had revenue
11 decoupling, would the absence of those cost trackers
12 give them more or less incentive to try to control
13 costs, even though there's a revenue decoupling
14 mechanism in place?

15 A. It would give them more incentive to control costs.

16 Q. And that would be because?

17 A. Because they wouldn't be able to make up for lost --
18 or they wouldn't be able to make up for their
19 inability or their lack of -- they wouldn't be able
20 to make up for their lack of ability to control costs
21 by simply increasing sales. They would actually have
22 to look at each of the costs and figure out whether
23 there was a better way to manage the Company to
24 contain those costs, instead of just thinking of how

1 can we increase sales.

2 Q. Okay. Thank you. That's all.

3 CHAIRMAN GETZ: Commissioner Ignatius.

4 CMSR. IGNATIUS: Thank you.

5 INTERROGATORIES BY CMSR. IGNATIUS:

6 Q. Ms. Cleveland, in your experience studying decoupling
7 mechanisms in other states, and mindful of the
8 concerns that you know parties in this case have
9 raised about where decoupling can take you, and some
10 of the ways people are concerned takes you in the
11 wrong direction, do you have -- do you turn to any
12 particular state as a model with a mechanism that you
13 think does the best job of balancing the different
14 concerns that people have and gets the incentives
15 right?

16 A. Right. There are a lot of states out there that have
17 had good experience with decoupling. Of course, the
18 one that I'm most familiar with is Massachusetts,
19 where I felt that the final decoupling order did a
20 good job of addressing similar issues to those that
21 have been raised here, which primarily deal with, as
22 far as my understanding goes, the issue of dealing
23 fairly with low-income and low-usage residential
24 customers specifically, and also the concern about

1 the potential for the adjustment in any one year to
2 be really large because of an economic crisis or
3 something unrelated to efficiency measures.

4 And so, for example, in the Massachusetts
5 proceedings, in both the electric and gas side, the
6 Commission set a cap on the percentage of rates that
7 the adjustment could meet in any one year. And if
8 that cap was exceeded, then the adjustment would be
9 deferred into the next year. So, setting a cap can
10 be an effective measure. Either excluding low-income
11 customers from the decoupling mechanism or combining
12 them into the residential rate class can be -- you
13 know, using a rate-class adjustment can be one way to
14 deal with it.

15 Actually, I should have brought with me, and I
16 didn't think to. Bay State Gas, which is the Company
17 who received the first revenue decoupling order in
18 Massachusetts, just submitted their first revenue
19 decoupling adjustment filing in, I want to say
20 November. And so you can actually see what the
21 impacts of a decoupling mechanism, like
22 Massachusetts, that included a cap, that included --
23 actually allowed for inclining block rates as opposed
24 to the type of declining block rates that have been

1 proposed here, so that customer incentives were not
2 changed at all. And so there wasn't a risk that
3 there would be large adjustments that could put
4 low-income customers into financial distress.

5 CMSR. IGNATIUS: Thank you. That's
6 all.

7 INTERROGATORIES BY CHAIRMAN GETZ:

8 Q. Good morning.

9 A. Good morning.

10 Q. Just a couple of questions. So, I take it as a
11 general matter, you support decoupling mechanisms as
12 a way to optimize utility investment in energy
13 efficiency; is that fair?

14 A. Yes.

15 Q. And in this case, you specifically support the
16 original proposal by National Grid.

17 A. Yes.

18 Q. In Dr. Briden's testimony, he concluded -- or
19 recommended that the Company's proposal be rejected,
20 but he proposed some other refinements. I guess,
21 what's your reaction to his testimony? Do you think
22 that it was unnecessary to do those other types of
23 refinements? Do you think those other refinements
24 could have made it a better mechanism? I just want

1 your general reaction to his alternative proposals
2 and whether they were necessary or helpful.

3 A. I don't remember his specific recommendations. If
4 you could refresh my memory on -- I think there were
5 two or three, one of which may have been excluding
6 the low-income class altogether. But one of -- I
7 can't remember if he was calling for an increase in
8 customer charges or what the specifics of his...

9 (Mr. Peress hands document to the
10 witness.)

11 BY CHAIRMAN GETZ:

12 Q. This is basically on Page 28 of Dr. Briden's
13 testimony, at the bottom.

14 (Witness reviews document.)

15 A. Oh, so he was talking about the potential for
16 reducing the Company's allowed ROE. That's
17 definitely a type of change that can be made,
18 especially if you see that the Company is going to be
19 evaluated as less risky.

20 For example: The Regulatory Assistance Project
21 has actually proposed in a couple of its
22 presentations that one other possibility, as opposed
23 to just reducing ROE, would be to change the
24 debt-to-equity ratio, that that would also have a

1 similar impact. So, I think that it is perfectly
2 reasonable to consider whether or not the ROE should
3 be adjusted due to a decoupling proposal being
4 approved.

5 Q. So your position was not necessarily in opposition to
6 some of the refinements, but really were not
7 necessary because you thought that the Company's
8 original proposal was adequate.

9 A. Yes, exactly. I think that's one of the
10 disadvantages of not dealing with decoupling at all
11 in this proceeding, is that there are some
12 refinements that generally need to be made in any
13 revenue decoupling proposal once the entire rate case
14 has been put forward, and that really can only be
15 made once you have all the information in a rate
16 case. And so --

17 Q. Now, maybe that goes to the point, I guess. Would
18 you agree that all decoupling mechanisms are not
19 created equal?

20 A. Exactly. Definitely. And, you know, there are
21 definitely states that have brought companies back in
22 if a decoupling mechanism doesn't seem to be
23 operating in the way that they had hoped, or if, for
24 example, the Company isn't increasing

1 energy-efficiency programs in the wake of decoupling.

2 Q. All right.

3 CHAIRMAN GETZ: Any redirect, Mr.
4 Peress?

5 MR. PERESS: No. Thank you, Mr.
6 Chair.

7 CHAIRMAN GETZ: Then the --

8 MR. CAMERINO: I just wanted to see if
9 through an offer of proof, if this would satisfy the
10 Commission and the parties, that could address the
11 issue I had raised a little earlier.

12 CHAIRMAN GETZ: The 2.9?

13 MR. CAMERINO: Yes, and then let the
14 Commission or anyone else decide if they would rather
15 have a witness do it. And I think Mr. Frink's
16 testimony, if I recall, simply referred to a growth
17 rate in load forecast and didn't characterize it as
18 being "per customer." And obviously, low growth can
19 occur from increase in numbers of customers or in
20 usage per customer. And the IRP just refers to a low
21 growth. It does not refer to increase in use per
22 customer. But if there are follow-up questions, the
23 Company could provide a witness with respect to that.

24 CMSR. IGNATIUS: In your offer of

1 proof, Mr. Camerino, can you clarify? We've heard
2 both 2.6 percent and 2.9 percent.

3 MR. CAMERINO: I'm informed that the
4 2.6 is the correct figure.

5 CMSR. IGNATIUS: Thank you.

6 CHAIRMAN GETZ: All right. Anything
7 further?

8 (No verbal response)

9 CHAIRMAN GETZ: All right. Hearing
10 nothing, then the witness is excused. Thank you.

11 THE WITNESS: Thank you.

12 (WHEREUPON the Witness was excused.)

13 CHAIRMAN GETZ: All right. Off the
14 record.

15 (Discussion off the record)

16 CHAIRMAN GETZ: Back on the record.
17 Let's take a recess.

18 (Whereupon a recess was taken at 12:07
19 p.m. and the hearing resumed at 12:23 p.m.)

20 CHAIRMAN GETZ: We're back on the
21 record. And I'll note we have a listing of all of
22 the exhibits that have been submitted for
23 identification and marked in the proceeding.

24 And turning to Ms. Hollenberg, I guess

1 back to the point of did you want to make Mr. Traum
2 available to express an opinion on this settlement,
3 or do you want to just handle that in the closing
4 arguments?

5 MS. HOLLENBERG: That was our
6 intention, was to handle it in closing argument.

7 CHAIRMAN GETZ: Well, then, is there
8 any objection to striking identifications and
9 admitting exhibits into evidence?

10 MS. HOLLENBERG: Mr. Chairman, if I
11 might just mention that we do not oppose the
12 acceptance into evidence of Ms. Cleveland's
13 testimony, but we would ask that the Commission give
14 it the weight that it deserves, in light of the
15 testimony filed by the other decoupling experts,
16 including Dr. George Briden. Thank you.

17 CHAIRMAN GETZ: Okay. Thank you. All
18 right. Hearing no objection to striking the
19 identification, all the exhibits will be moved into
20 evidence.

21 (WHEREUPON all exhibits marked into
22 evidence.)

23 CHAIRMAN GETZ: Anything else, then,
24 before opportunity for closings?

1 (No verbal response)

2 CHAIRMAN GETZ: Hearing nothing, then
3 we'll begin with Mr. Peress.

4 MR. PERESS: Thank you, Mr. Chair.
5 This Commission, as discussed at today's hearing, has
6 established that utilities can and should propose on
7 a company-by-company basis, rate designs that promote
8 investment in energy efficiency through revenue
9 decoupling. And the Commission, as well as the
10 Conservation Law Foundation, acknowledge that
11 numerous details need to be addressed so that rate
12 mechanisms appropriately balance risks and benefits
13 among customers and utilities.

14 The testimony in this proceeding
15 suggest that there are some key parties that through
16 their testimony lean more towards rejecting the
17 propriety of decoupling as a rate-making tool in the
18 first instance and appear to assert that any
19 decoupling design tends to be contrary to the
20 interest of ratepayers.

21 And just to pull a couple of quotes
22 out of testimony in this proceeding, Staff testified,
23 quote, that traditional cost of service rate-making
24 has been in place for decades and is based on the

1 actual cost a utility incurs to provide service.
2 Contrary to the assertions of National Grid, it is
3 not a system that is broken. And that's in the
4 Frantz/Naylor testimony at Page 4, Lines 14 through
5 16.

6 When asked in that testimony, quote,
7 whether or not the argument that decoupling revenues
8 from sales eliminates the disincentive on the part of
9 the utility to aggressively promote energy
10 conservation, Staff replied that if decoupling
11 de-links revenues from sales, then decoupling
12 de-links the consumer from making his or her own
13 decision about energy consumption. And just because
14 an action may reduce the Company's disincentive to
15 promote conservation, it does not necessarily make
16 that action desirable in a broader context. That's
17 from Page 7, Lines 14 through 21.

18 Broadly speaking, we interpret that as
19 opposition to decoupling in general, as opposed to a
20 willingness to engage, as this Commission essentially
21 required in its prior orders, on methodologies to
22 structure decoupling in a way that meets the needs
23 and concerns of the various stakeholders.

24 In essence, we believe that some of

1 the witnesses in this proceeding have collaterally
2 attacked the Commission's prior decoupling order in
3 that '07 docket, and they should not be afforded
4 significant weight. We are not moving to strike that
5 testimony. We're just suggesting that it's directly
6 contrary to the Commission's precedent.

7 The Office of Consumer Advocate's
8 witness testified, quote, That it is just as clear
9 that ratepayers are worse off with decoupling than
10 without it. They stated, in short, the use of
11 decoupling as a rate-making device is suboptimal.
12 That's on Page 13, Lines 13 through 14 of the Briden
13 testimony, as well as Page 12, Line 17 of the Briden
14 testimony.

15 We suggest that, in the course of this
16 docket, the effect of these positions has essentially
17 been to diminish, if not nullify the Commission's
18 prior order resolving the investigation into
19 energy-efficiency rate mechanisms. Rather than the
20 process that was envisioned by that order -- that is,
21 a good-faith utility proposal to decouple, followed
22 by a process among the parties through technical
23 conferences and otherwise to appropriately balance
24 risks and benefits among utilities and ratepayers --

1 the parties to this proceeding have generally, with
2 the exception of the Conservation Law Foundation,
3 rejected as out of hand any benefit whatsoever to
4 revenue decoupling.

5 Our position is that the parties have
6 strayed from this Commission's precedent, and perhaps
7 have either rejected it or ignored it. As a
8 consequence, the Conservation Law Foundation opposes
9 the settlement, and we respectfully request that in
10 its order in this proceeding, the Commission provide
11 further direction that compels parties in a
12 rate-making proceeding to abide by the Commission's
13 precedent and proceed in good faith to allow
14 utilities and other parties to engage in a meaningful
15 effort to derive a rate decoupling mechanism that
16 decouples revenues from sales. Thank you.

17 CHAIRMAN GETZ: Thank you.

18 Mr. Feltes.

19 MR. FELTES: Thank you, Mr. Chairman.
20 Mr. Chairman, Members of the Commission, this case
21 involved a number of very tough and difficult issues.
22 And throughout the course of extensive discovery and
23 review of a number of different scenarios and a
24 number of different issues, the parties, Staff, New

1 Hampshire Legal Assistance, on behalf of Pamela
2 Locke, and the Company have reached a comprehensive
3 settlement agreement of all the elements and all the
4 issues embedded in the agreement. One issue that was
5 present at the beginning which was correctly noted is
6 a proposal for revenue decoupling, which was
7 withdrawn. And that's viewed in the context of a
8 comprehensive settlement agreement and in the context
9 of the rate case as a whole.

10 Now, we respectfully disagree with Mr. Peress's
11 interpretation of the order in 07-064. One thing
12 that is clear perhaps about the order is that, it
13 being reviewed, the decoupling mechanism in the
14 context of a rate as a whole -- rate case as a whole,
15 which we think the parties have done in this
16 settlement agreement, and without getting into
17 details about the settlement discussions themselves.

18 Mr. Chairman, we think that the rates resulting
19 from the settlement agreement result in rates that
20 are just and reasonable. We think the rate design is
21 just and reasonable. And we think the settlement
22 agreement is in the public interest, and we
23 respectfully request that the Commission approve the
24 settlement agreement in this case. Thank you.

1 CHAIRMAN GETZ: Thank you.

2 Ms. Hollenberg.

3 MS. HOLLENBERG: Thank you. The
4 Office of Consumer Advocate neither supports nor
5 opposes the proposed settlement agreement. We take
6 no position on it.

7 In terms of the decoupling issue, we
8 disagree with some of the statements made by Ms.
9 Cleveland on the stand today, and I would
10 respectfully direct the Commission to Dr. George
11 Briden's testimony, which represents the OCA's
12 position on that issue.

13 I believe that we engaged in good
14 faith in responding to the Company's proposal for
15 decoupling as well as which was filed in response to
16 the Commission's generic decoupling order.

17 Lastly, I would like to thank the
18 parties for their collaborative, cooperative efforts
19 throughout this lengthy and extensive proceeding, and
20 particularly like to thank the Company for its
21 efforts. Thank you.

22 CHAIRMAN GETZ: Thank you. Mr.
23 Fossum.

24 MR. FOSSUM: Thank you. Staff is

1 obviously a participant and supporter of the
2 settlement agreement in this case and also believes
3 that this agreement results in rates that are just
4 and reasonable, and that the agreement itself is
5 otherwise just and reasonable and in the public
6 interest.

7 Originally, the Company sought an
8 increase of approximately \$11.4 million, along with
9 various and, in some cases, substantial changes to
10 traditional rate-making methods. Staff's
11 recommendations, as pointed out in its prefiled
12 testimony, was for an increase of approximately \$3
13 million and for the retention of traditional
14 rate-making methods, particularly -- such as
15 rejection of a decoupling proposal, where, as Mr.
16 Frink testified in this instance, Staff did not
17 believe such a proposal was justified.

18 From those initial positions, both
19 Staff and the Company, as well as with the input of
20 others, moved significantly in order to reach the
21 result that we believe is fair to the Company and
22 customers, and balances the interest and needs of
23 both.

24 Of particular interest to Staff in

1 this agreement is the provision governing the
2 Company's bad debt, as pointed out by Mr. Frink.
3 Staff believes that it is appropriate for the Company
4 to recover the commodity portion of its bad debt
5 since the Company is not supposed to be earning a
6 profit on the commodity it sells. That recovery,
7 however, should appropriately be limited to that bad
8 debt outside of the Company's control. Mr. Frink's
9 testimony notes that the Company has begun or will
10 begin certain improvements or enhancements to its
11 collections, aimed to controlling the overall amount
12 of bad debt. Staff does believe the mechanisms
13 contain in the agreement gives the Company proper
14 incentive to control bad debt in a relatively short
15 time. Once the Company has been able to control its
16 bad debt levels, the mechanism permits the Company to
17 recover commodity-related bad debt on a reconciling
18 basis, since it's presumed at that point that any bad
19 debt is, for the most part, beyond the Company's
20 control. And tied to the improvements in the
21 Company's bad debt and collection practice is an
22 increase in outreach efforts concerning the R-4
23 discount rate, as well as the Company engaging in
24 further discussions about -- with Staff and others

1 about collection activities. It is hoped that these
2 efforts will allow the Company to improve bad debt
3 numbers without, in the process, creating any
4 additional hardships.

5 Lastly, on the issue of rate design,
6 the agreement does cap increases. So it avoids any
7 excess increase in any particular class, and in this
8 manner, fair to all the classes. Further, Staff
9 would note, as stated in the agreement, that the
10 rates are designed to more closely approximate the
11 marginal cost, which Staff believes is in line with
12 longstanding Commission precedent and Commission
13 preference.

14 In sum, the settlement reflects
15 creative solutions to the issues raised by the
16 Company's filing and a willingness to reach an
17 agreement that all signatories believe is just and
18 reasonable. And as such, Staff requests the
19 Commission approve this agreement as has been filed.

20 CHAIRMAN GETZ: Thank you. Mr.
21 Camerino.

22 MR. CAMERINO: Thank you, Mr.
23 Chairman.

24 In many ways, the history of this case

1 goes back to even before the case was filed. And
2 it's apparent from the number of witnesses and the
3 extent of their testimony that the case involved many
4 complex moving parts and proposals. And the Company
5 was really suggesting some fairly significant changes
6 to the overall regulatory framework in order to get
7 it to where it felt it needed to be. The other
8 parties in this case equally felt very strongly about
9 their positions and engaged consultants and put
10 forward fairly comprehensive testimony and proposals.
11 The regulatory process in this case worked, I believe
12 the way the Commission would want it to work, which
13 is with extensive presentations by the parties,
14 extensive detailed discovery process and technical
15 sessions, and ultimately, and not easily, a
16 comprehensive settlement. And I think you all are
17 aware that not every case settles. And this one
18 certainly didn't need to settle, and it wasn't a
19 foregone conclusion that it would. And when you
20 begin to peel back a settlement and an ultimate
21 outcome that parties can live with, I think that's
22 where you can get into trouble, because parties have
23 different reasons for arriving at the endpoint that
24 they are at, but what they can agree upon is that

1 that is a fair endpoint.

2 In this case, the Company withdrew a
3 number of proposals that were important to it, and
4 frankly, as Mr. Ahern indicated, remain important to
5 it. But part of the regulatory process is there's
6 another case in the future. And based on the
7 circumstances at the time, some of those proposals
8 are likely to come forward. And by the same token,
9 the other parties withdrew some of their positions,
10 and they may take those positions in the future. But
11 as to the outcome in this case, the one thing that
12 we're agreed upon is that it results in rates that
13 are just and reasonable and that are sufficient for
14 the Company to operate its business. Add to that,
15 that there was the somewhat unique circumstance that
16 the Company has announced a proposed sale, and some
17 of the mechanisms that are being proposed would have
18 obligated a buyer to changes in the regulatory
19 process that maybe should be undertaken by that buyer
20 and not this Company on its behalf.

21 So all of those considerations mixed
22 allowed the parties to reach a settlement which we
23 believe to be in the public interest. We believe --
24 and we understand the concern about the statement

1 that Commissioner Below referred to in Mr.
2 Stravopoulos' testimony. And maybe standing here
3 today we would have adjusted that slightly. But if
4 you read it in the total context, I think Mr.
5 Stravopoulos is talking about the need for rate
6 relief and an appropriate level and an overall
7 approach that meets the Company's concerns; and in
8 this case, it does that at this time. Obviously,
9 that does not mean that there wouldn't be future rate
10 filings by the Company where some of those proposals
11 are revisited.

12 With regard to revenue decoupling
13 which we heard about today, and in particular -- and
14 obviously, this is an unusual circumstance where you
15 take testimony on a proposal that is not before the
16 Commission. I think the Company's position is clear.
17 But I would say two things: The first is that in
18 good faith as a settling party, I don't think it's
19 appropriate for the Company to begin to advocate for
20 something that it is not including in the settlement.
21 And so we're at somewhat of a disadvantage, because
22 it's apparent from Dr. Tierney's testimony how the
23 Company feels and what it believes. And it hasn't
24 withdrawn those beliefs, just as the other parties

1 haven't withdrawn their beliefs. But we are equally
2 concerned that we could end up in a situation where
3 the Commission begins to make findings and an order
4 on a settlement based on partial testimony from one
5 witness. And while obviously the Company is -- many
6 of its views are consistent with those of CLF, they
7 are not all consistent. One in particular was that
8 there was some discussion about how we might be
9 affected by a revenue decoupling proposal. The
10 Company has made clear its view on that, and the
11 return on equity analytical basis for its view.
12 Staff has another view.

13 And so our concern is that, in
14 entertaining discussion about that issue, something
15 which you might think the Company would welcome,
16 given its position, we are concerned that an order in
17 this case could say things that are not based on a
18 full and fair discussion. And so we would hope the
19 Commission would consider that in terms of any
20 guidance that it provides or any findings of fact
21 that it arrives at.

22 Having said all of that, with regard
23 to decoupling, I would simply say that I would not
24 think it would be appropriate for the Commission to

1 reject a settlement, a comprehensive settlement of a
2 rate case, because that settlement did not include a
3 mechanism that this Commission has never approved for
4 another utility in the state and hasn't said outright
5 is a requirement of a rate case. Obviously, the
6 Company supports decoupling, but that's an issue for
7 another day. In the meantime, the Company needs rate
8 relief, and that's what this settlement provides.

9 So I would just finish where I began,
10 which was: This was a long case with a lot of
11 issues. We second the sentiment of the consumer
12 advocate and very much appreciate the constructive
13 role that all of the parties played, and recognize
14 that there were many times when one easily could have
15 let rhetoric get in the way, and at no time did that
16 happen. We think that is a very positive statement
17 about the way this Commission and its Staff and the
18 Consumer Advocate and others conduct business, and we
19 very much appreciate that.

20 CHAIRMAN GETZ: Thank you.

21 All right. Then we will close the
22 hearing and take the matter under advisement.

23 (WHEREUPON, the hearing in this matter
24 was adjourned at 12:42 p.m.)

C E R T I F I C A T E

I, Susan J. Robidas, a Licensed
Shorthand Court Reporter and Notary Public of
the State of New Hampshire, do hereby
certify that the foregoing is a true and
accurate transcript of my stenographic notes
of these proceedings taken at the place and
on the date hereinbefore set forth, to the
best of my skill and ability under the
conditions present at the time.

I further certify that I am neither
attorney or counsel for, nor related to or
employed by any of the parties to the action;
and further, that I am not a relative or
employee of any attorney or counsel employed
in this case, nor am I financially interested
in this action.

Susan J. Robidas, LCR/RPR
Licensed Shorthand Court Reporter
Registered Professional Reporter
N.H. LCR No. 44 (RSA 310-A:173)

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

	12 (3) 23:16;30:14;87:13	19:16 26 (2) 7:6;35:20	40:9,14;41:24 56 (1) 42:15	accept (4) 24:2;69:11,24;70:4
\$	12:07 (1) 83:18	27 (1) 25:15	6	acceptable (1) 47:21
\$11.4 (1) 91:8	12:23 (1) 83:19	28 (3) 60:10,14;80:12	6 (2) 28:9;39:18	acceptance (1) 84:12
\$13.38 (1) 39:21	12:42 (1) 98:24	29 (2) 59:15,17	6.8 (1) 18:5	accepts (1) 51:5
\$164,302,838 (1) 13:2	12-month (3) 22:13;50:11;51:14	3	60 (2) 42:3,4	account (2) 21:16,19
\$164.3 (1) 13:8	13 (3) 23:17;87:12,12	3 (6) 18:7,8;23:9;41:18; 42:18;69:2	60-percent (1) 42:7	accounting (2) 13:10,18
\$17 (1) 19:13	14 (3) 86:4,17;87:12	3.02 (3) 18:4;43:16,18	62 (1) 61:20	accumulates (1) 44:24
\$2 (1) 43:8	14.5 (1) 18:24	3.09 (1) 23:12	69 (1) 30:8	achieve (3) 39:5;40:8;74:11
\$2.9 (1) 42:23	15-percent (1) 43:11	3.36 (2) 57:8,10	7	achieved (3) 17:23;51:10,10
\$3 (2) 42:6;91:12	16 (6) 7:12;19:1;20:7,18; 26:24;86:5	3.7 (2) 21:4;23:12	7 (5) 25:14;26:6;30:5;69:3; 86:17	acknowledge (2) 27:14;85:10
\$4.78 (1) 20:5	17 (1) 87:13	30 (4) 20:3,23;35:20;41:23	70 (2) 42:3,4	across (1) 38:14
\$500,000 (2) 45:4,5	171.466 (1) 40:18	35 (1) 59:17	8	Act (1) 62:8
\$57 (1) 20:5	18 (3) 10:18;11:22;35:20	35- (1) 43:7	8 (2) 23:20;50:6	action (2) 86:14,16
\$6,809,370 (1) 12:23	19 (3) 10:19;19:22;27:1	36 (2) 59:15;61:6	8.33 (1) 13:1	activities (2) 21:9;93:1
\$6.80 (1) 19:14	2	38 (1) 61:6	85 (1) 4:2	actual (17) 15:16;16:21;17:9; 18:4;22:8;46:24;49:5, 24;50:6;51:15;55:9,12, 15,16;60:22;62:13;86:1
[2 (4) 15:15,16;18:18;52:21	39 (2) 63:5,9	88 (1) 4:3	actually (22) 17:21;22:3;23:16,19; 24:19;44:3;51:20;53:19; 65:3,7,19;66:23;71:15; 72:23;73:2;74:20,24; 76:21;78:15,20,23;80:21
[sic] (4) 29:3,15;31:1;59:15	2.3 (1) 44:1	4	9	add (7) 12:17;14:1;17:13; 19:18;22:14;75:10; 95:14
0	2.4 (2) 49:16,21	4 (3) 41:19;50:1;86:4	9 (2) 48:10;50:8	addition (1) 36:19
02110 (1) 61:20	2.5 (3) 17:8;50:16;51:13	40 (2) 11:12;41:23	90 (2) 4:4,5	additional (2) 11:6;93:4
02451 (1) 11:12	2.6 (4) 53:1;70:21;83:2,4	40-percent (1) 43:7	93 (1) 4:6	address (11) 8:21;11:10,12;12:2,3; 16:12;38:6,8;61:18,19; 82:10
07 (1) 87:3	2.9 (6) 42:18;71:5;72:9,11; 82:12;83:2	41 (1) 47:10	A	addressed (6) 27:16;34:23;45:1; 65:15,15;85:11
07-064 (6) 26:15,23;34:8;68:5; 69:20;89:11	2001 (1) 61:24	43 (3) 30:8,13,14	abide (1) 88:12	addresses (4) 21:5;28:13;34:15; 64:21
07-50 (1) 62:15	2009 (5) 13:9,14,19,24;26:24	44 (2) 42:10;47:12	ability (4) 28:19;74:12,13;76:20	addressing (1) 77:20
1	2010 (6) 7:6,8;20:10,17;48:14; 49:19	46 (1) 47:12	able (10) 13:16;16:15;17:7,9; 33:1;73:17;76:17,18,19; 92:15	adequate (1) 81:8
1 (4) 7:8;15:4,15;52:21	2011 (2) 48:14;49:20	5	above (1) 14:12	adjourned (1) 98:24
10 (4) 7:10;41:9,10;42:5	2012 (1) 50:3	5 (5) 20:19;30:13;40:16; 42:15;74:1	absence (1) 76:11	
10-percent (4) 41:4,7,16;42:13	21 (2) 12:4;86:17	5.17 (1) 42:16	absolutely (4) 36:1,23;39:4;45:6	
11 (3) 20:16,19;74:1	21.2 (1) 19:11	5.7 (1) 21:1		
112-1/2 (1) 18:22	24,934 (1) 26:24	51.7 (3)		
11th (1) 7:16	25 (1)			

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

adjust (1) 13:22	38:5,7,7,12,18,23;39:6; 16,24;40:5,10,14,20,23;	anymore (1) 36:24	aspect (2) 21:15;64:20	57:2;61:22
adjusted (2) 81:3;96:3	41:13,18;42:6,17;43:3,7; 12,20,22;44:17,20;45:3;	apologize (2) 21:19;37:17	aspects (1) 21:12	bad (54) 15:11;16:1,3,5,6,9,16, 20,22;17:3,8,10,18;18:4, 6,9;41:2,3;43:14,18,23, 24;44:14,18;48:9,15,16, 23;49:3,3,9,12;51:2; 54:20,20;55:4,11;56:6, 19;57:4,6,8,9,10;92:2,4, 7,12,14,16,17,18,21;93:2
adjustment (13) 13:5,21;14:18,20; 36:18;43:1;66:15;75:9; 78:1,7,8,13,19	6,11;46:12,22;48:2; 52:5;57:22;58:7,13,21; 95:4	apparent (2) 94:2;96:22	assert (1) 85:18	
adjustments (2) 67:2;79:3	aimed (1) 92:11	appear (2) 59:20;85:18	asserted (1) 28:11	
administration (1) 15:12	Air (1) 62:8	appearances (1) 7:16	assertion (1) 39:1	
administrative (2) 63:16;67:11	Alan (1) 8:2	Appelson (1) 8:13	assertions (1) 86:2	balance (2) 85:12;87:23
admitted (1) 61:23	alleged (1) 65:14	Appendix (6) 15:4,15,15,16;18:18; 23:9	asserts (1) 28:21	balances (2) 27:17;91:22
admitting (2) 63:6;84:9	allocated (1) 14:22	applied (1) 60:9	Assistance (6) 7:15;8:1;46:2;62:5; 80:20;89:1	balancing (1) 77:13
adopt (1) 62:16	allow (9) 16:20;32:20;34:19,21, 21;41:1;51:8;88:13;93:2	appreciate (2) 98:12,19	assistant (2) 7:21;12:7	bankruptcy (1) 62:2
adverse (1) 65:12	allowed (7) 16:6;48:15,22;55:1; 78:23;80:16;95:22	approach (5) 16:19;27:20;30:17; 53:16;96:7	associated (1) 15:12	Bar (1) 61:23
advisement (1) 98:22	allowing (3) 36:5;49:13;66:9	approaching (1) 41:9	assume (4) 41:19;42:6;43:7,8	base (18) 12:21;13:1,3,7;14:20, 23;15:7;19:1;20:6,11,19, 21,23;28:1;29:16;36:16; 39:20;75:11
Advocate (5) 8:14;90:4;96:19; 98:12,18	allows (1) 50:13	appropriate (12) 37:8;51:7;53:21;54:7, 11;57:19;59:7;60:1; 92:3;96:6,19;97:24	assumed (3) 18:4;40:13;43:15	based (17) 17:21;18:9;45:17; 55:11;56:18;65:7,23; 66:3;71:14;72:5;73:11; 74:11,13;85:24;95:6; 97:4,17
Advocate's (1) 87:7	alluded (1) 64:19	appropriately (4) 27:17;85:12;87:23; 92:7	assuming (1) 18:6	
affect (3) 72:1,4;75:12	along (2) 57:13;91:8	approve (2) 89:23;93:19	assumption (1) 50:21	
affected (1) 97:9	alternative (3) 69:18,21;80:1	approved (5) 48:21;49:19;66:7; 81:4;98:3	assure (1) 74:3	baseline (1) 27:7
afforded (1) 87:3	alternatives (1) 69:19	approximate (1) 93:10	attached (1) 66:20	basic (3) 12:14;15:3;18:18
again (8) 16:2;19:7,16;20:6; 50:5;53:2;55:23;74:18	although (1) 23:19	approximately (7) 18:7;19:1;20:7,23; 40:9;91:8,12	attacked (1) 87:2	basically (4) 16:18;73:14,16;80:12
against (4) 28:21;45:19;46:3,20	altogether (1) 80:6	April (3) 7:12;48:14;49:20	attention (2) 23:17;69:2	basis (10) 14:20;21:8;22:9; 27:21;36:17;47:18;58:4; 85:7;92:18;97:11
aggressively (2) 28:18;86:9	among (5) 26:12;27:17;85:13; 87:22,24	areas (2) 31:21;62:1	Attorney (3) 8:2;35:17;61:23	Bay (1) 78:16
agree (11) 29:17;31:5;34:19; 51:9,10;58:12;63:19; 73:24;74:5;81:18;94:24	amount (11) 35:1;46:6;50:1,6; 52:10;65:5,6;66:15; 73:14;74:22;92:11	argued (3) 45:19;46:3,4	Atty (1) 30:9	began (1) 98:9
agreed (5) 19:9;21:8;52:4;56:1; 95:12	amounts (1) 14:23	arguing (1) 46:20	authorizes (1) 15:22	begin (5) 24:24;85:3;92:10; 94:20;96:19
agreement (52) 7:14;8:22;9:6;10:18; 11:22;12:10,11,15; 15:21,24;17:1;23:8,15; 24:3;32:8,9,10,12,14; 33:8,12;34:15;40:16; 43:14;44:7,22;48:9; 51:23;59:6;64:15,20; 67:13,21;68:2;75:7; 89:3,4,8,16,19,22,24; 90:5;91:2,3,4;92:1,13; 93:6,9,17,19	analytical (1) 97:11	argument (4) 72:16,19;84:6;86:7	average (1) 21:3	beginning (4) 30:13;50:3;60:8;89:5
	analyzing (1) 45:13	arguments (1) 84:4	avoids (1) 93:6	begins (2) 35:21;97:3
	Ann (5) 8:24;10:9,13;11:11; 41:20	arises (1) 30:23	aware (3) 9:16;31:20;94:17	begun (1) 92:9
	announced (1) 95:16	around (2) 20:5;53:6	away (3) 51:15;74:14,16	behalf (8) 7:19;8:2,6;10:4,9; 11:18;89:1;95:20
	annual (4) 40:11,17;52:24;66:11	arrives (1) 97:21	B	behind (1) 44:3
	answered (1) 31:23	arriving (1) 94:23	back (11) 22:9;37:18;48:10; 53:5;74:24;81:21;83:16, 20;84:1;94:1,20	beliefs (2) 96:24;97:1
Ahern (43) 31:23;37:2,6,15,21,23;	anti-trust (1) 62:1	Art (1) 61:2	background (2)	believes (6) 29:2;58:9;91:2;92:3;

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

93:11;96:23 Below (14) 35:9,10,19;37:1; 38:21;44:10,11;48:3; 57:22;70:16,17,18;72:3; 96:1 Bench (2) 37:3;71:9 benefit (3) 36:3;64:6;88:3 benefits (4) 27:17;31:7;85:12; 87:24 best (7) 27:19;30:17;67:21,22; 68:1,3;77:13 better (4) 43:17;53:15;76:23; 79:24 beyond (1) 92:19 bill (7) 10:19;19:21,22,24; 20:2,3,22 billing (1) 20:16 bit (1) 26:14 Black (1) 52:5 block (3) 46:9;78:23,24 blocks (2) 19:5,6 borne (1) 66:20 Boston (1) 61:20 both (15) 11:19;16:10,13;22:5; 31:8;33:23;40:18;45:18; 56:21;65:21;67:3;78:5; 83:2;91:18,23 bottom (4) 35:22;44:15,19;80:13 bound (1) 30:20 Box (1) 52:5 break (4) 11:3;15:6,8;60:18 breakdown (1) 15:3 Briden (4) 61:1;84:16;87:12,13 Briden's (4) 66:23;79:18;80:12; 90:11 brief (2) 28:12;38:1 briefly (2) 31:11;63:13 bring (1)	37:14 broader (1) 86:16 broadly (2) 64:7;86:18 broken (2) 29:8;86:3 Brooklyn (1) 38:8 brought (2) 78:15;81:21 business (17) 11:10,11;12:2;33:9; 21:36;2,6;38:5,8,13; 39:11;49:8;61:18,19; 74:17;95:14;98:18 businesses (4) 31:13;33:24;34:3; 38:15 buyer (2) 95:18,19 C calculated (2) 51:24;72:8 calculating (2) 22:7;50:10 calculation (2) 15:5;16:1 calendar (1) 50:12 call (2) 31:24;61:11 calling (1) 80:7 calls (4) 10:9;14:4;18:3;52:24 Camarino (1) 22:20 came (2) 55:23;57:13 Camerino (38) 4:6;7:18,20;8:22,23; 10:7,8,15;11:4,8;22:17; 25:2,5,13;31:16,17; 35:16,17;37:1,16,24; 38:4,20;44:2,52:1; 54:14,16,18;70:14,15; 71:7,24;82:8,13;83:1,3; 93:21,22 can (45) 10:16;11:2;16:1,8; 19:21;21:5;25:2;26:10; 27:10;28:12;30:12;33:2; 15;34:13,13;41:1,14; 48:10;50:16,20;52:2,14; 61:21;64:7;65:2,15,24; 66:11,16;73:18;75:23; 77:1,9;78:9,12,13,20; 80:17;81:14;82:18;83:1; 85:6;94:21,22,24 cap (8)	48:15;49:23;50:5; 78:6,8,9,22;93:6 capacity (1) 12:5 capital (7) 13:12;14:10,14;15:11; 53:3;66:6;75:21 capped (4) 18:22;19:10,12,15 careful (1) 75:19 case (56) 11:21;17:16;19:8,23; 20:13,14,15;21:21;22:1, 5,6,11;29:16,21;36:24; 38:16,18;39:12;45:1,7,8; 54:24;55:2,22;56:4,23; 57:4,13;62:13;66:8; 71:3;74:4;75:11;77:8; 79:15;81:13,16;88:20; 89:9,14,24;91:2;93:24; 94:1,3,8,11,17;95:2,6, 11;96:8;97:17;98:2,5,10 cases (4) 38:14;75:18;76:3;91:9 cast (1) 18:13 Category (2) 52:21,21 cause (1) 66:11 causes (1) 76:4 cautioned (3) 10:12;37:22;61:13 Celia (1) 7:21 Center (1) 38:8 certain (5) 13:10;15:9;36:17; 65:10;92:10 certainly (2) 33:2;94:18 Chair (12) 9:17;24:23;25:22; 26:3;33:6,18;35:4; 61:10;63:11;64:2;82:6; 85:4 CHAIRMAN (76) 7:3,23;8:4,10,15,20; 9:2,4,15,18;10:2,6;11:2; 22:19,22;24:19,22; 25:10,20;26:1;31:15; 32:2,4,19;33:13;35:5,9; 37:12,14;48:5;54:14; 58:24;59:8,19,24;60:4,5, 10,16,24;61:8;63:4,19; 67:7;68:10,14;70:8,12, 14,16;71:16;77:3;79:7; 80:11;82:3,7,12;83:6,9, 13,16,20;84:7,10,17,23; 85:2;88:17,19,20;89:18;	90:1,22;93:20,23;98:20 chance (1) 25:16 change (8) 13:9;16:19;34:11; 39:14;55:7;72:7;80:17, 23 changed (2) 37:19;79:2 changes (5) 39:3;65:24;91:9;94:5; 95:18 characteristic (1) 46:13 characterization (2) 34:6;46:14 characterizations (1) 71:13 characterize (4) 46:23;58:11;64:7; 82:17 characterized (1) 71:11 characterizes (1) 28:10 characterizing (2) 71:8,10 charge (14) 15:19;19:14,16;22:12; 34:20;46:5,7;47:9,11,13; 64:22;65:2,6;68:23 charges (12) 19:9,10,12,15;31:1; 42:1,10;54:8;65:1; 69:13;70:2;80:8 chart (4) 48:10;50:10,12;51:15 check (7) 17:12;42:2,2;69:11; 70:1,3,4 chosen (1) 64:24 CIBS (2) 36:15;44:21 circumstance (2) 95:15;96:14 circumstances (2) 54:9;95:7 clarification (4) 23:2,14,21;24:17 clarify (2) 54:21;83:1 class (9) 18:22,24;23:7;27:5; 28:7;66:13;78:12;80:6; 93:7 classes (3) 19:5;45:18;93:8 clean (2) 62:8,8 clear (5) 56:3;87:8;89:12; 96:16;97:10	clerk (9) 9:13;11:1,6;25:6,16; 60:7,18;61:2;62:23 Cleveland (17) 8:8;9:23;61:11,12,14, 19;62:9,17;63:13;64:11; 65:10;68:18,22;69:16, 24;77:6;90:9 Cleveland's (2) 63:2;84:12 CLF (3) 31:20;69:7;97:6 close (2) 42:18;98:21 closely (1) 93:10 CLOSING (3) 4:1;84:3,6 closings (1) 84:24 CMSR (17) 35:10,19;38:21;44:10, 11;48:3,6,7;54:12;70:17, 18;72:3;77:4,5;79:5; 82:24;83:5 collaborative (1) 90:18 collar (1) 66:15 collaterally (1) 87:1 collect (6) 16:7,15,21;17:2,9; 42:1 collected (3) 14:23;16:3;72:10 collection (5) 16:14,24;44:15;92:21; 93:1 collections (4) 21:9;49:14;50:22; 92:11 Colton (1) 9:10 Colton's (5) 9:12;46:3,16;60:2,6 combining (1) 78:11 coming (2) 15:18;18:17 comment (2) 34:13;52:15 comments (1) 27:8 commercial (1) 19:15 Commission (45) 7:9,14;8:17,19;11:5; 12:7;28:9;31:11;34:14; 38:1,17;52:12;62:10,15; 63:14;64:6;66:3,6; 67:18;69:20;72:12;74:7, 19,23;78:6;82:10,14;
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**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

84:13;85:5,9;86:20; 88:10,20;89:23;90:10; 93:12,12,19;94:12; 96:16;97:3,19,24;98:3, 17 Commissioner (8) 35:9;37:1;48:5;54:19; 57:22;70:16;77:3;96:1 Commissioners (3) 7:19;8:6;37:12 commissions (2) 65:22;66:8 Commission's (11) 26:15;29:18;37:9; 68:4,6;87:2,6,17;88:6, 12;90:16 commodity (12) 17:17;41:2,3;43:23; 48:16,22;49:3;51:4; 54:20;56:22;92:4,6 commodity-related (9) 16:1,3,4,16,20,21; 17:3,10;92:17 companies (1) 81:21 Company (99) 8:23;10:8;12:23;13:9, 14,18,20;14:6,13,19; 15:22;16:10,17,21,23; 17:2,4,5,7,8;21:7;22:3; 24:10,16;28:5,20;31:19, 24;32:5;36:1,5,21;37:2, 18;39:3,7,8,9,12,16; 44:23;45:16;47:11;48:1, 2;49:4,12,13;50:16,21; 51:1,9,9,13;53:22;54:2; 55:24;56:1;57:7;58:4,5, 9,12,15;72:17,22,24; 76:1,23;78:16;80:18; 81:24;82:23;89:2;90:20; 91:7,19,21;92:3,5,9,13, 15,16,23;93:2;94:4;95:2, 14,16,20;96:10,19,23; 97:5,10,15;98:6,7 company-by-company (2) 27:21;85:7 Company's (28) 10:21;16:14;17:22; 18:13;33:3;35:1;37:5; 46:1,17;50:18;51:6; 52:23;58:13,20;65:8; 71:11;79:19;80:16;81:7; 86:14;90:14;92:2,8,19, 21;93:16;96:7,16 company-specific (3) 27:22;28:1;52:22 compares (1) 20:12 compels (1) 88:11 complete (1) 62:3 completes (1)	22:18 complex (2) 17:12;94:4 component (3) 46:4,7;51:24 components (2) 44:8;52:3 comprehensive (6) 32:9;89:2,8;94:10,16; 98:1 comprised (1) 47:14 compromise (4) 44:4;45:15,20;51:3 compromised (1) 47:5 conceptual (1) 27:10 concern (4) 50:17;77:24;95:24; 97:13 concerned (6) 65:22;66:9;71:7; 77:10;97:2,16 concerning (1) 92:22 concerns (6) 16:12;21:15;77:8,14; 86:23;96:7 conclude (3) 27:9,11;47:22 context (1) 79:18 conclusion (1) 94:19 Concord (2) 12:4;73:4 condition (1) 54:1 conditions (1) 23:16 conduct (2) 36:2;98:18 conducted (1) 66:24 confer (1) 25:16 conference (2) 7:10,11 conferences (1) 87:23 conferring (1) 37:13 conflict (1) 72:24 cons (1) 52:11 consequence (2) 44:22;88:8 Conservation (9) 8:7,8;9:19;62:6;85:10; 86:10,15;88:2,8 consider (2)	81:2;97:19 considerable (1) 52:10 considerations (1) 95:21 considered (5) 13:12;15:9;27:6;40:2; 69:19 considering (2) 13:13;62:15 consistent (4) 34:5,7;97:6,7 constructive (1) 98:12 consultants (1) 94:9 Consumer (6) 8:14;86:12;87:7;90:4; 98:11,18 consumers' (1) 65:3 consumption (2) 65:4;86:13 contain (3) 64:15;76:24;92:13 contained (1) 30:4 contemplated (3) 56:17;57:17;59:5 contended (1) 29:6 context (8) 27:21;52:1;64:8; 86:16;89:7,8,14;96:4 continue (2) 15:22;18:16 continues (1) 35:21 continuing (2) 19:7;73:9 contrary (3) 85:19;86:2;87:6 control (10) 50:18;51:2;74:16; 76:12,15,20;92:8,14,15, 20 controlling (1) 92:11 cooperative (1) 90:18 copies (4) 9:12;11:6;26:5;59:4 copy (8) 11:3;26:17;27:3;60:6, 7,20;61:2,3 corporate (2) 34:5,9 correcting (1) 71:13 correctly (4) 23:23;48:12;69:9;89:5 cost (31) 14:10,13,16,24;16:16;	28:4;40:12,15,19,21; 46:19,20,21;51:21,23; 55:10,11,12;56:9,22,22; 66:6;73:16;74:20;75:3, 8;76:10,11;85:23;86:1; 93:11 cost-effective (1) 29:12 cost-of-gas (1) 16:7 cost-related (1) 16:6 costs (24) 13:10,12,13;15:8,8,9, 10,11,14;27:22;28:1; 45:17,18;55:9;73:17; 74:8,12,17;75:13;76:13, 15,20,22,24 counsel (3) 7:22;8:1;26:12 country (1) 53:15 couple (7) 43:10;54:22;67:8; 68:17;79:10;80:21; 85:21 course (4) 36:16;77:17;87:15; 88:22 Court (4) 10:12;37:22;60:20; 61:13 cover (3) 53:11;74:8;75:13 covers (1) 44:13 created (1) 81:19 creating (1) 93:3 creative (1) 93:15 credit (1) 72:15 credits (1) 13:8 crisis (1) 78:2 critical (1) 29:11 CROSS-EXAMINATION (4) 23:3;25:24;26:21; 68:15 cross-examine (3) 9:9,11,21 cross-examined (1) 9:8 current (11) 19:16;34:9;39:10; 44:21;47:10;49:1,2,17; 58:4;73:11;74:12 currently (4) 13:19;15:23;20:8;73:3	customer (34) 19:9,10,12,14,16;20:4; 27:5,24;28:7;29:6;31:3; 34:20;42:1;46:5,6;47:9; 64:22;65:1,2,5;66:10,12; 68:22;69:12;70:1,23,24; 71:6;72:18;79:1;80:8; 82:18,20,22 customers (34) 15:19;19:12,13;20:16, 17,24;21:3,6,14,15,20; 22:10,12;27:18;28:20, 23;36:3;41:7,12,15; 65:19,21;67:3,4;72:5,14; 74:3;75:1;77:24;78:11; 79:4;82:19;85:13;91:22 customer's (3) 20:2,3,22 customers' (1) 67:1
D				
Damon (1) 8:18 Dan (1) 7:24 Daniel (1) 8:13 date (1) 19:17 day (1) 98:7 DE (4) 26:23;34:8;68:5;69:20 deal (7) 22:2;63:5;71:19;76:2, 7;77:21;78:14 dealing (2) 77:22;81:10 debt (54) 16:1,3,5,6,9,16,20,22; 17:3,8,10,18;18:4,6,9; 41:2,3;42:21;43:14,18, 23,24;44:14,18;48:9,15, 16,23;49:3,3,9,12;51:2; 54:20,20;55:4,11;56:6, 19;57:5,6,8,9,11;92:2,4, 8,12,14,16,17,19,21;93:2 debts (1) 15:11 debt-to-equity (1) 80:24 decades (1) 85:24 decide (1) 82:14 decided (1) 14:16 decision (1) 86:13 declining (3) 17:17;46:9;78:24				

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

decouple (2) 28:22;87:21	72:5	disadvantages (1) 81:10	79:18;80:12;84:16; 90:10;96:22	86:8
decouples (1) 88:16	description (3) 12:17;17:14;50:9	disagree (6) 65:17;68:1;73:24; 74:5;89:10;90:8	draw (2) 33:7;69:2	eliminating (3) 30:17;22;31:7
decoupling (112) 9:24;24:9,13;29:10, 13,20;30:1,15,16,21; 31:12;32:6,7,15,17,21, 21;33:4,11,21,23;34:2, 10;36:14;52:7,11,13,15, 16,17,19;53:8,10,11,14, 18,21;54:1,7,10;62:11, 16;64:4,12,16,24;65:11, 14,18,24;66:1,4,5,18; 67:2;69:18,21;71:2; 72:1,7,17,20,22;74:14, 16;75:6,12,17,20,22; 76:6,11,13;77:6,9,17,19; 78:11,17,19,21;79:11; 81:3,10,13,18,22;82:1; 84:15;85:9,17,19;86:7, 10,11,19,22;87:2,9,11; 88:4,15;89:6,13;90:7,15, 16;91:15;96:12;97:9,23; 98:6	deserves (1) 84:14	disagreed (1) 74:6	41:12;51:6;71:23;81:3	9:16;33:15;54:13; 82:14;84:23
	design (17) 18:17,20;19:19;21:12, 17,20;27:9;30:21;34:10, 11;45:12;47:2,10,21; 85:19;89:20;93:5	disallowances (1) 17:5	duly (3) 10:11;37:21;61:12	embedded (3) 46:20;47:16;89:4
	designed (4) 40:8,17;47:16;93:10	disconnect (1) 34:24	duplicate (1) 75:5	employed (4) 12:5,6;27:13;29:14
	designs (1) 85:7	discount (1) 92:23	during (5) 17:6;48:14;49:19; 51:14;60:18	encourage (1) 29:8
	desirable (1) 86:16	discovery (3) 27:8;88:22;94:14	E	encourages (1) 29:19
	desire (1) 9:11	discuss (1) 21:9	earlier (2) 68:22;82:11	end (2) 63:7;97:2
	detailed (1) 94:14	discussed (3) 13:8;21:11;85:5	earn (1) 36:5	ending (2) 27:4;30:13
	details (3) 27:15;85:11;89:17	discusses (1) 21:24	earning (2) 66:17;92:5	endpoint (2) 94:23;95:1
	determination (1) 13:23	discussion (11) 13:4;22:21;25:12; 26:12;30:9;64:6;67:12; 83:15;97:8,14,18	earnings (2) 40:2;43:19	energy (17) 26:16;27:11;28:17,18; 29:8;31:8;53:11;62:7,8; 67:22,24;68:7;73:1; 79:12;85:8;86:9,13
	determine (3) 14:5;33:15;66:3	discussions (3) 11:20;89:17;92:24	easier (1) 26:14	Energy-efficiency (8) 28:2,3;29:4,12,15; 41:6;82:1;87:19
decrease (1) 41:8	determined (5) 31:22;56:17;67:2; 74:20,23	disincentive (2) 86:8,14	easily (2) 94:15;98:14	EnergyNorth's (1) 70:20
deductible (1) 13:11	device (1) 87:11	disincentives (1) 73:10	economic (1) 78:2	engage (2) 86:20;88:14
deduction (1) 13:15	DG-08-009 (2) 56:4,13	distinction (1) 69:14	economy (3) 41:6;50:18;53:5	engaged (2) 90:13;94:9
deemed (1) 24:3	DG-10-017 (1) 7:5	distinctions (1) 33:7	education (1) 61:22	engaging (1) 92:23
deferred (4) 13:9,22;14:18;78:9	difference (2) 19:4;22:7	distress (1) 79:4	Edward (1) 8:18	enhancement (1) 49:14
deferred-rate (1) 13:4	different (19) 13:23;15:19;18:8; 27:12;29:3;36:22;39:17; 44:5,5,6;47:1,4;50:13, 13;54:1;77:13;88:23,24; 94:23	distributed (1) 60:20	effect (10) 15:23;18:24;19:17; 20:9,10;43:4;70:20; 71:2;75:6;87:16	enhancements (2) 17:23;92:10
definitely (5) 47:24;53:23;80:17; 81:20,21	difficult (1) 88:21	distribution (3) 20:1;43:14;72:4	effective (2) 7:8;78:10	ensure (3) 66:1;72:22,23
degrees (1) 45:20	difficulty (1) 76:4	Division (1) 12:8	effectively (1) 34:24	ensuring (1) 36:6
de-links (2) 86:11,12	diminish (1) 87:17	Docket (11) 7:4;26:15,23;28:14; 34:8;53:20;62:14,15; 69:8;87:3,16	efficiency (18) 26:16;27:11;28:17,18; 29:9;31:9;53:11;62:7; 63:16;67:11,22,24;68:7; 73:1,11;78:3;79:13;85:8	entertaining (1) 97:14
delivers (1) 29:1	DIRECT (9) 11:7;22:18;23:17; 25:13;26:19;38:3;59:1; 61:15;90:10	documents (2) 25:1;59:16	effort (2) 75:5;88:15	entire (2) 16:9;81:13
delivery (12) 7:7;14:23;15:7,17; 18:23;19:2;39:20;40:19; 43:24;44:8;56:20,21	direction (3) 62:18;77:11;88:11	dollars (2) 43:10;44:23	efforts (4) 90:18,21;92:22;93:2	environmental (1) 62:4
DENO (1) 62:23	directly (2) 34:18;87:5	done (5) 15:2;16:18;53:17; 74:18;89:15	either (4) 37:8;39:23;78:10;88:7	envisioned (1) 87:20
depending (1) 49:18	director (1) 12:7	down (7) 15:6,8;17:18;49:15; 55:23;57:11;71:14	electric (5) 31:13;33:24;34:3; 51:4;78:5	equal (2) 42:20;81:19
deployment (1) 31:8	disadvantage (1) 96:21	Dr (14) 25:21,23;30:4,8;31:6; 34:16,23;61:1;72:5;	electricity (1) 28:24	equally (2) 94:8;97:1
depreciation (2) 15:20;42:21			elements (3) 36:10;44:6;89:3	equate (1) 21:1
derive (1) 88:15			eliminates (1)	equates (1) 20:7
described (9) 36:9;43:22;52:1;56:7; 59:16;60:13;61:5;63:8;				equity (8) 40:2;51:21,23;66:7; 73:21;74:10;76:5;97:11

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

eroding (1) 29:4	excuse (3) 15:15;22:11;60:23	88:13;90:14;96:18	finding (1) 14:9	17:9;30:1;40:23; 81:14;94:10;95:8
especially (2) 75:21;80:18	excused (4) 59:22,23;83:10,12	31:3;51:16;52:20	findings (2) 97:3,20	Fossum (13) 4:5;8:16,17;24:20,21; 54:15;58:24;59:1,10; 70:12,13;90:23,24
essence (4) 17:19;47:12;49:5; 86:24	Exhibit (19) 10:18,19;11:1,22; 19:22;25:3,14,15;26:6; 30:5;35:11;59:17;60:9; 11,14,22;62:21;63:5,9	falls (1) 31:4	fine (3) 11:3;14:6;64:9	found (1) 58:19
essentially (4) 24:13;51:8;86:20; 87:16	Exhibits (6) 61:6;63:6;83:22;84:9, 19,21	familiar (3) 11:21;12:9;77:18	finish (1) 98:9	Foundation (6) 8:7;9:19;62:6;85:10; 88:2,8
establish (1) 16:11	existing (3) 18:16;27:9;28:16	far (6) 32:24;33:13;39:15; 46:1;47:15;77:22	firms (1) 61:24	four (3) 47:1,3;59:12
established (3) 55:21;68:5;85:6	exists (1) 30:18	fashion (1) 27:16	first (16) 12:19;18:3,21;19:24; 36:15;40:16;43:16;45:3, 3,5;49:7;65:17;78:17, 18;85:18;96:17	framework (3) 35:24;36:8;94:6
estate (1) 62:2	expansion (1) 29:11	February (2) 7:6;24:11	fit (1) 28:5	franchise (1) 31:14
estimated (2) 42:19;55:10	expectation (1) 39:20	federal (2) 39:22;43:1	five (1) 59:12	frankly (1) 95:4
estimates (1) 17:22	expense (4) 22:1,5;42:21;55:11	fee (1) 34:21	fixed (13) 28:4;41:10,24;42:10, 11,13;45:18;46:8;47:11; 54:8;65:1,5;69:17	Frantz/Naylor (1) 86:4
evaluated (2) 53:14;80:19	expenses (4) 13:13;42:21;43:17; 44:13	feel (5) 16:11;51:7,11;54:7,10	flat (2) 34:21;46:4	Frantz's (1) 74:1
evaluation (1) 69:12	experience (6) 18:9;20:4;55:8;57:11; 77:6,17	feeling (1) 53:7	flatten (1) 19:6	Freitas (1) 61:2
even (5) 14:10;25:17;57:10; 76:13;94:1	expert (2) 9:9;27:6	feels (3) 39:9,16;96:23	flattening (1) 47:13	Frink (58) 8:18;9:1;10:10,14; 12:1,3,3,6,12,16;14:1,3; 17:11,15;19:18,20; 22:14,15;26:9;42:9,12; 45:22;46:11;47:5,24; 48:8,18,20,24;49:4,10, 22;50:2,7,15;51:17; 52:14,22;53:17;54:5,19; 55:3,6,18,21;56:5,8,11, 15,18;57:8,12,16,20; 70:19;71:5,91:16;92:2
event (1) 14:11	experts (1) 84:15	fees (1) 15:12	flatter (1) 47:8	Frink's (3) 72:16;82:15;92:8
eventually (1) 16:20	explain (4) 13:5;15:2;16:2;34:14	felt (4) 51:1;77:19;94:7,8	flowing (1) 22:8	front (5) 35:13,14;41:22;68:18, 20
everybody (1) 47:15	express (1) 84:2	Feltes (17) 4:3;7:24,24;22:22,23; 31:15;32:2,4;63:15; 67:7;68:14,16,17;70:9, 10;88:18,19	flows (2) 44:15,19	Fruit (1) 12:4
everyone (1) 7:4	expressed (1) 9:10	few (6) 16:9;22:23;48:12; 52:7;53:24;54:16	focus (1) 62:7	fulfill (1) 58:6
evidence (8) 63:2,6,7;66:20;84:9, 12,20,22	extensive (5) 33:6;88:22;90:19; 94:13,14	figure (6) 13:18;14:21;40:3,4; 76:22;83:4	focused (1) 31:6	full (3) 67:24;75:11;97:18
Exactly (5) 43:3;44:20;45:22; 81:9,20	extent (12) 14:22;47:14;51:6; 55:14;65:21;67:22,24; 69:20;71:18;75:7,13; 94:3	filed (12) 7:14;11:5;45:19; 52:20;57:6;62:18;63:23, 24;84:15;90:15;93:19; 94:1	focuses (1) 30:22	fully (2) 40:21;51:4
EXAMINATION (6) 11:7;22:18;27:22; 38:3;54:17;61:15		files (1) 29:16	followed (1) 87:21	functioning (1) 73:3
example (6) 21:17;66:2,8;78:4; 80:20;81:24		filing (11) 7:7;24:10;36:9,22; 49:8;52:23;70:21;71:11, 15;78:19;93:16	following (5) 22:4;49:23;50:8; 59:11;74:4	functions (1) 15:13
exceed (1) 74:22		filings (4) 11:18;29:23;38:14; 96:10	follow-up (1) 82:22	further (10) 14:15;27:13;35:3; 59:21;67:15;68:8;83:7; 88:11;92:24;93:8
exceeded (1) 78:8	fact (6) 33:10,22;47:19;71:20; 73:2;97:20	final (1) 77:19	forecast (1) 82:17	future (6) 13:21;36:7;41:1;95:6, 10;96:9
exceeds (1) 44:23	factor (2) 14:17;16:7	finally (3) 15:13;19:14;21:23	forecasted (1) 55:11	
excellent (2) 28:19;29:5	factors (3) 15:9;50:17;53:12	financial (2) 12:20;79:4	foregone (1) 94:19	
exception (1) 88:2	fair (10) 21:12;32:22;55:17; 57:1,15;79:13;91:21; 93:8;95:1;97:18	financially (1) 28:21	form (1) 72:15	
excess (2) 72:13;93:7	fairly (4) 17:11;77:23;94:5,10	find (1) 27:19	forth (4) 18:18;24:2;34:8;75:9	
excludes (1) 40:15	faith (3)		Forty (1) 42:11	
excluding (3) 40:12;78:10;80:5			Forty-four (2) 42:12,13	
			forward (6)	

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

	77:17,20;79:8,9;88:13; 90:13;96:18	74:3	48:5,6,7;54:12,19; 77:3,4,5;79:5;82:24; 83:5	43:9,11
G	good-faith (1) 87:21	Hatfield (1) 8:12		increase (32) 12:23;18:6,23;20:5, 18;21:2;23:6;30:19; 34:20;39:20;44:18;46:6; 47:9;65:2,9;70:22;71:4; 73:7,8;74:13,14;76:8,8, 9;77:1;80:7;82:19,21; 91:8,12;92:22;93:7
GARY (3) 37:21,23;38:7	governing (1) 92:1	head (1) 19:5	ignored (1) 88:7	
gas (28) 11:16;12:7;14:24; 15:8,8,9,10,11;16:5,16; 28:24;31:13;33:23;34:3; 36:6;38:13,15;40:12,15, 19,21;41:3;55:9,10;56:9, 22;78:5,16	Graf (1) 7:20	heading (1) 71:13	impact (4) 10:19;50:19;65:3;81:1	
gas-applied (1) 15:13	Great (1) 37:16	hear (3) 33:14;38:22;71:4	impacts (5) 19:21,23;20:1;66:24; 78:21	
gather (1) 45:12	Grid (25) 7:6,14,19,22;11:13,15, 18;28:11,15,21;29:2,6, 10,13,19,24;33:20;34:1, 7;38:10;54:9;64:17; 65:12;79:16;86:2	heard (3) 71:17;83:1;96:13	implement (4) 7:7;17:23;30:20;49:14	increased (1) 20:15
Gay's (1) 59:14	Grid's (9) 28:14;31:12;32:6,15; 33:9;34:5,8;64:12;70:20	hearing (13) 7:4,12;10:22;25:6; 32:18;63:7;83:9,19; 84:18;85:2,5;98:22,23	implemented (1) 75:23	increases (2) 20:11;93:6
geared (1) 33:7	gross (1) 40:12	heating (3) 20:4,24;21:2	implementing (1) 27:20	increasing (8) 46:5;64:22,24;65:5; 73:2,8;76:21;81:24
general (8) 7:22;32:6,7;33:2;68:5; 79:11;80:1;86:19	group (1) 21:18	help (1) 40:5	important (2) 95:3,4	incremental (1) 20:19
generally (4) 53:9;65:12;81:12;88:1	grow (1) 75:14	helpful (2) 25:17;80:2	importantly (1) 68:3	incurred (2) 45:9;73:22
generic (3) 53:17;62:14;90:16	growth (8) 52:24;71:6;72:2,9,18; 82:16,18,21	here's (1) 69:14	imposed (2) 48:15;49:23	incurs (1) 86:1
generically (1) 32:15	guaranteed (1) 74:9	herewith (4) 59:17;60:14;61:6;63:9	improve (2) 16:23;93:2	indicate (2) 10:16;31:18
George (3) 61:1;84:16;90:10	guess (7) 33:15;48:3;50:4; 52:14;79:20;81:17; 83:24	higher (3) 18:11;19:1;49:20	improved (1) 50:21	indicated (4) 27:14;29:13;31:21; 95:4
gets (1) 77:14	guidance (1) 97:20	highest (2) 49:24;50:5	improvements (3) 44:14;92:10,20	indicative (1) 47:20
GETZ (63) 7:3,23;8:4,10,15,20; 9:2,15;10:2,6;11:2; 22:19,22;24:19,22; 25:10,20;26:1;32:2,19; 33:13;35:5,9;37:14; 48:5;54:14;58:24;59:8, 19,24;60:4,10,16;61:8; 63:4,19;68:10,14;70:8, 12,14,16;71:16;77:3; 79:7;80:11;82:3,7,12; 83:6,9,13,16,20;84:7,17, 23;85:2;88:17;90:1,22; 93:20;98:20		historical (2) 57:3,9	improves (1) 43:18	indirect (1) 15:9
given (3) 11:6;63:21;97:16		history (1) 93:24	inability (1) 76:19	indirectly (1) 34:18
gives (1) 92:13		hit (1) 17:20	inappropriate (1) 74:2	individual (1) 44:8
goal (1) 18:2	half (1) 36:15	Hollenberg (15) 4:4;8:11,12;10:3;35:6, 7,15;60:23;68:11,12; 83:24;84:5,10;90:2,3	inasmuch (1) 27:23	industrial (1) 19:15
goals (1) 27:19	half-million (1) 44:23	hope (1) 97:18	incent (1) 16:23	inflation (2) 36:17;75:9
goes (8) 33:14;40:1;46:1,6; 51:15;77:22;81:17;94:1	Hampshire (8) 7:15;8:1;11:17,19; 12:4;29:13;54:9;89:1	hoped (2) 81:23;93:1	incentive (12) 16:23;31:7;34:16; 65:8,9;73:6;74:14,16; 75:14;76:12,15;92:14	information (2) 71:14;81:15
going-forward (1) 14:19	hand (1) 88:3	hoping (1) 76:6	incentive' (1) 30:23	informed (1) 83:3
Good (19) 7:3,18,23;8:4,5,10,11, 15,16,20;52:16,17;	handed (1) 68:21	huge (1) 13:15	Incentives (5) 28:5;65:4;73:10; 77:14;79:1	inherently (1) 30:18
	handle (2) 84:3,6		inclining (1) 78:23	initial (4) 26:19;39:3,14;91:18
	hands (2) 35:17;80:9	I	include (3) 24:8;73:20;98:2	initially (1) 9:1
	happen (1) 98:16	idea (3) 52:16,18;66:18	included (8) 14:5;24:1;32:21;36:9; 39:4;76:2;78:22,22	input (3) 21:13,20;91:19
	happens (1) 9:2	identification (13) 10:5,17,23;11:23; 59:18;60:3,15,22;61:7; 63:5,10;83:23;84:19	includes (3) 12:24;13:8;40:18	inquire (3) 31:20;32:23;63:22
	hard (1) 47:7	identifications (1) 84:8	including (5) 59:13;60:20;62:1; 84:16;96:20	inquiry (5) 25:20;32:11,20;33:6; 63:24
	hardships (1) 93:4	identified (2) 14:22;52:24	inclusion (2) 36:14;59:5	instance (8) 29:24;41:5;53:8;54:6; 71:1;75:8;85:18;91:16
	harmful (1)	ie (1) 31:1	income (6) 39:19,21;40:1;42:24;	instead (2) 66:12;76:24
		Ignatius (11)		intend (3) 9:20,22;10:4

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

intent (1) 17:20	77:22;82:11;89:4;90:7; 12:93:5;97:14;98:6	30:21;38:18	75:14	60:17;86:12
intention (1) 84:6	issued (3) 7:9;12;26:24	lean (1) 85:16	listing (1) 83:21	manage (2) 74:12;76:23
interest (19) 14:7,9,11;32:14;39:2; 58:19,20;67:10,21,23; 68:1,3;72:20;85:20; 89:22;91:6,22,24;95:23	issues (10) 8:21;21:5,17;69:8; 77:20;88:21,24;89:4; 93:15;98:11	Leary (67) 8:24;10:9,13;11:9,11, 11,15,24;12:14,19,22; 13:7;14:15,21;15:1,4,22; 16:4;18:12,15,21;19:21, 24;21:7,22;22:3;23:6, 10;24:5,12,15;26:8,20, 24;27:6;28:8,15;29:17, 22;30:3,6,10,16;31:5,10, 18;32:1;33:1,20,22;34:4, 12,13,18;35:2,13,14,24; 36:12,19;37:7,18;39:23; 41:21;51:20;54:19; 64:19	litigation (2) 62:1,2	management (1) 51:7
interesting (1) 75:24	item (1) 12:16	11,15,24;12:14,19,22; 13:7;14:15,21;15:1,4,22; 16:4;18:12,15,21;19:21, 24;21:7,22;22:3;23:6, 10;24:5,12,15;26:8,20, 24;27:6;28:8,15;29:17, 22;30:3,6,10,16;31:5,10, 18;32:1;33:1,20,22;34:4, 12,13,18;35:2,13,14,24; 36:12,19;37:7,18;39:23; 41:21;51:20;54:19; 64:19	little (7) 18:10,11;26:4,14; 43:5;57:24;82:11	manager (1) 11:16
interest-related (1) 14:16	J	Leary's (1) 12:17	live (1) 94:21	manner (1) 93:8
intern (1) 8:14	January (2) 7:16;26:24	leave (2) 37:10,24	LLM (1) 62:3	many (5) 47:7;93:24;94:3;97:5; 98:14
internal (1) 72:24	jeopardize (1) 28:19	Lee (1) 61:1	load (2) 28:3;82:17	March (1) 7:10
interpret (1) 86:18	job (2) 77:13,20	Legal (4) 7:15;8:1;46:2;89:1	Locke (2) 8:3;89:2	marginal (5) 45:17;46:19,21;47:16; 93:11
interpretation (1) 89:11	Jonathan (1) 8:6	legislative (1) 27:18	long (3) 45:14;58:12;98:10	mark (2) 10:4;42:7
INTERROGATORIES (6) 35:10;38:21;48:7; 70:18;77:5;79:7	June (3) 7:8;20:10,17	lengthy (1) 90:19	longer (1) 32:21	marked (17) 9:13;10:21,22;25:5,8; 26:6;27:3;28:14;30:5; 59:4,17;60:14;61:6; 63:4,9;83:23;84:21
interrupt (1) 56:3	jurisdictions (3) 32:16;33:10;58:16	less (6) 20:2;41:9;43:5;47:9; 76:12;80:19	long-run (1) 58:14	Mass (1) 11:12
intervening (1) 57:14	justified (1) 91:17	letter (1) 7:12	longstanding (1) 93:12	Massachusetts (12) 11:16,19;31:13;33:4, 21,24;61:20;62:14; 77:18;78:4,18,22
Intervenor (1) 8:3	K	level (3) 28:6;50:13;96:6	look (7) 15:4;18:5;19:24; 20:22;23:14;45:8;76:22	math (1) 42:14
into (25) 10:24;15:7,8;21:16, 18,20;25:18;27:2;28:12; 30:12;31:20;42:23; 52:20;63:2,6;78:9,12; 79:4;84:9,12,19,21; 87:18;89:16;94:22	Ken (1) 61:1	levels (1) 92:16	looked (2) 53:19;75:3	matter (8) 27:10;33:2;36:16; 44:4;63:16;79:11;98:22, 23
introductory (1) 38:1	Kenneth (1) 8:12	light (7) 33:10;39:6,7,10; 67:18,19;84:14	looking (4) 20:1;22:10;46:20; 52:14	Matthew (1) 8:17
investigation (2) 26:16;87:18	key (3) 12:20;74:19;85:15	likely (2) 17:22;95:8	looks (2) 47:1;59:6	May (13) 9:17;17:19;18:7;23:5; 28:18;48:14;49:19;50:3; 51:16;52:17;80:5;86:14; 95:10
investment (11) 27:11,13;28:2,6,17; 29:4,8;36:15;44:24; 79:12;85:8	kind (4) 16:12,18;45:15;47:3	likewise (1) 44:18	loss (5) 28:4;41:7,12,15,16	maybe (10) 20:19;25:6,15;35:11; 41:9;42:24;56:3;81:17; 95:19;96:2
investments (2) 53:3;75:10	L	limit (4) 14:3,7,9;66:15	losses (1) 50:11	McLane (1) 7:20
involved (5) 11:20;12:10;75:18; 88:21;94:3	lack (2) 76:19,20	limited (2) 17:5;92:7	lost (2) 64:21;76:17	mean (8) 32:20,24;47:16;48:24; 71:16;72:8;73:13;96:9
iron/bare (1) 18:13	lag (2) 76:3,3	Linder (10) 8:2;9:4;22:23;23:1,4; 24:18;59:24;60:1,5,12	lot (3) 51:21;77:16;98:10	meaningful (1) 88:14
ironic (1) 64:23	laid (2) 51:14;53:24	Line (10) 23:20;30:13,14;35:20; 44:15,19;69:3;74:1; 87:13;93:11	low (2) 82:18,20	meantime (1) 98:7
IRP (3) 52:23;70:20;82:20	large (3) 30:24;78:2;79:3	lines (4) 23:19;86:4,17;87:12	lower (4) 14:11;18:10;43:9; 49:20	measure (1) 78:10
IRS (6) 13:11,19,22;14:5,8,11	last (11) 16:9;17:16;23:7; 49:10;54:23;55:22;56:4, 12;57:13;62:12;67:7	link (1) 29:7	low-income (12) 19:13;21:3,6,13,15,18, 19,20;77:23;78:10;79:4; 80:6	measures (2) 41:6;78:3
Island (2) 34:2;62:12	Lastly (2) 90:17;93:5	linked (1)	low-usage (1) 77:23	mechanism (47) 9:24;13:6,21;16:2,12; 17:6;27:16;30:1;36:14,
issue (17) 13:4,5;16:9,10;34:23; 63:6;64:7;65:15;75:3;	later (1) 25:19		M	
	Law (9) 8:7;9:19;61:24;62:3,4, 6;85:10;88:2,8		main (1) 18:13	
	LDAC (2) 14:17;22:9		maintain (1) 36:3	
	lead (2)		majority (1) 40:5	
			making (2)	

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

20;40;23;53;10;21;54;7; 21;23;55;5;56;6;13;57;3; 3;9;64;16;65;11;18;19; 24;66;5;10;11;13;14; 71;2;72;5;75;6;17;76;7; 14;77;12;78;11;21; 79;24;81;22;88;15; 89;13;92;16;98;3	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12;15;85:16; 93:10 morning (13) 7:3;18;23;8;4;5;10;11, 15;16;18;20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14;15;75:2; 98:12,19 must (2) 17:2;29:7	28:24;36:6 nature (1) 31:19 Naylor's (1) 74:1 necessarily (4) 39:13;67:5;81:5;86:15 necessary (13) 36:1;23;39:5;54:10; 58:11;17,17,22;67:12; 74:8;23;80:2;81:7 need (15) 8:21;27:15;28:3,5; 29:5;32:24;33:14;42:2; 53:8;63:17,20;81:12; 85:11;94:18;96:5 needed (1) 94:7 needs (4) 28:23;86:22;91:22; 98:7 negative (1) 65:3 negotiations (1) 12:10 Neither (2) 69:7;90:4 new (12) 7:7,15,24;11:16,19; 12:4;25:17;29:12;38:9; 40:23;54:9;88:24 newly (1) 63:24 next (9) 17:1;29:16;35:22; 45:1;48:12;55:1;56:23; 60:11;78:9 NH (1) 7:19 Nicholas (1) 35:12 non-settling (1) 9:8 nor (2) 69:7;90:4 note (5) 16:8;20:8;44:2;83:21; 93:9 noted (1) 89:5 notes (2) 23:11;92:9 notwithstanding (1) 50:10 November (1) 78:20 nullify (1) 87:17 number (21) 25:7;32:10;35:11; 36:9;40:14;42:2,9; 49:13,18;51:9;55:23; 59:11;60:9,9,11;62:22;	88:21,23,24;94:2;95:3 numbered (1) 23:20 numbers (13) 10:23;11:1;25:17; 41:22;44:7;45:13;52:2; 56:2;60:17,22;61:4; 82:19;93:3 numerous (2) 27:15;85:11 O object (1) 31:15 objection (4) 59:8;63:15;84:8,18 objective (1) 50:15 objectives (1) 39:5 obligated (1) 95:18 obligations (2) 36:4;58:6 O'Brien (1) 7:21 observed (2) 28:15;75:4 obstacle (2) 27:10;28:16 obtain (1) 17:7 obviously (8) 47:6,13;82:18;91:1; 96:8,14;97:5;98:5 OCA (2) 10:4;54:4 OCA's (4) 46:19;53:20;60:24; 90:11 occur (2) 66:2;82:19 odds (1) 68:4 Off (7) 22:20,21;25:10,12; 83:13,15;87:9 offer (5) 37:6;59:3;60:2;82:9, 24 offering (2) 71:20,21 Office (3) 8:14;87:7;90:4 often (2) 64:24;66:9 once (6) 17:23;25:15;51:11; 81:13,15;92:15 one (40) 9:13,13;14:1;17:19; 21:15;23:13;24:6;26:11,	17;38;8;48:8;52:2;57:1; 58:15;59:12;60:6,7; 64:23;67:6,15;69:17,18, 18;73:7;76:7;77:18; 78:1,7,13;80:5,6,22; 81:9;89:4,11;94:17; 95:11;97:4,7;98:14 ones (1) 25:18 only (13) 10:3;14:12;19:2;20:2, 6,18,20,24;21:1;25:20; 64:3,20;81:14 onto (1) 35:22 OPEB (2) 75:9,21 open (1) 7:4 operate (6) 58:5;73:15,18;74:8, 23;95:14 operating (13) 28:1;39:18,21;40:1,7; 41:8,17;42:21,23;43:9, 11;73:18;81:23 operation (2) 73:22;74:17 opinion (1) 84:2 opportunities (1) 29:12 opportunity (3) 59:3;73:20;84:24 oppose (2) 72:16;84:11 opposed (5) 65:11;66:10;78:23; 80:22;86:19 opposes (2) 88:8;90:5 opposition (3) 52:19;81:5;86:19 optimize (1) 79:12 options (1) 66:14 oral (1) 70:19 order (27) 7:9;17:2;26:15,23,23; 27:1,3,16;28:9,10,13; 29:8,18;76:2;77:19; 78:17;87:2,18,20;88:10; 89:11,12;90:16;91:20; 94:6;97:3,16 orders (1) 86:21 organized (1) 61:4 original (9) 24:9,10;32:20;35:12; 36:9;47:10;59:15;79:16;								
mechanisms (24) 24:2,7;26:17;27:9,12, 20;28:2;29:20;33:21,23; 36:18;53:14,18;58:10, 14;66:17;75:10;77:7; 79:11;81:18;85:12; 87:19;92:12;95:17 meet (6) 17:2,4;21:8;36:4;76:6; 78:7 meeting (1) 76:4 meets (2) 86:22;96:7 Members (1) 88:20 memory (1) 80:4 mention (4) 14:14;69:12;70:1; 84:11 mentioned (1) 68:22 Meredith (1) 8:12 merits (1) 7:13 met (1) 73:5 method (2) 13:10;69:17 methodologies (1) 86:21 methods (2) 91:10,14 MetroTech (1) 38:8 middle (1) 47:6 Middleton (1) 7:21 might (13) 25:16;33:1;37:3;42:4; 49:16;60:24;64:3,5; 66:13;75:14;84:11;97:8, 15 million (17) 13:8;18:6;36:15; 39:21;40:9,15,18;41:24; 42:6,16,18,18,23;43:8, 10;91:8,13 million-dollar (1) 41:19 mills (1) 31:2	N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14 month (1) 20:5 more (16) 33:14;45:17;46:19; 51:2;52:22;53:21;54:8; 57:1;24;64:7;68:3; 72:11;76:12,15;85:16; 93:10 morning (13) 7:3;18,23;8;4,5,10,11, 15,16,18,20;79:8,9 most (4) 18:9;75:8;77:18;92:19 move (5) 19:21;47:11;54:7; 61:8;63:1 moved (3) 47:5;84:19;91:20 moving (5) 46:18;47:8;62:6;87:4; 94:4 much (6) 40:1;41:14,15;75:2; 98:12,19 must (2) 17:2;29:7 N name (7) 11:9,11;12:2;38:5,7; 61:17,19 National (34) 7:6,14,19,22;11:13,15, 18;28:11,14,15,21;29:2, 6,10,13,19,24;31:12; 32:6,14;33:9,20;34:1,5, 7,8;38:10;54:9;64:12, 17;65:12;70:20;79:16; 86:2 natural (2)	mind (1) 73:3 mindful (1) 77:7 minute (1) 62:23 minutes (1) 67:8 miscellaneous (1) 15:12 misheard (1) 23:5 mitigating (1) 30:22 mix (1) 27:24 mixed (1) 95:21 model (1) 77:12 money (2) 16:17;73:14

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

81:8 originally (2) 52:20;91:7 Others (4) 75:4;91:20;92:24; 98:18 otherwise (2) 87:23;91:5 out (26) 13:6,22;17:1,16; 18:17;19:7;20:20;23:11; 41:24;42:4;43:17;47:3; 48:12;49:18;50:12; 51:14;52:12;53:23,24; 66:20;76:22;77:16; 85:22;88:3;91:11;92:2 outcome (2) 94:21;95:11 outreach (4) 21:9,11,14;92:22 outright (1) 98:4 outside (2) 50:18;92:8 over (6) 17:1;19:16;22:12; 48:12;58:12;71:1 overall (12) 13:1;14:10,13;18:23; 19:11,22;23:6;39:7; 67:5;92:11;94:6;96:6 own (2) 52:3;86:12	97:7 particularly (2) 90:20;91:14 parties (34) 16:24;21:7;23:23; 27:8,15;34:19;44:4,6; 46:15;47:2,20;52:10; 60:19;61:4;65:10;77:8; 82:10;85:15;87:22;88:1; 5,11,14,24;89:15;90:18; 94:8,13,21,22;95:9,22; 96:24;98:13 parties' (1) 37:10 parts (2) 53:15;94:4 party (5) 9:4,8,10;57:18;96:18 pass (1) 14:17 passed (1) 14:6 past (1) 65:16 Patrick (1) 7:20 pay (1) 72:5 peel (1) 94:20 penalties (1) 14:4 pending (2) 34:1;38:17 pension (2) 36:20;75:8 people (2) 77:10,14 per (15) 20:5,6;31:2;44:24; 66:10,12,13,18;70:22, 24;71:6;72:18;82:18,20, 21 percent (42) 13:1;17:8;18:7,8,23, 24;19:1,11,16;20:3,7,16, 18,19,23;21:1,4;23:12; 41:9,10,23;42:3,4,5,10, 11,13,15;43:18;44:1; 47:10,12;49:16;50:16; 51:13;53:1;70:21;71:5; 72:9,11;83:2,2 percentage (15) 17:18;55:6,8,13,19,20, 21;56:9,16,18,19,20,24; 57:8;78:6 Peress (38) 4:2;8:5,6;9:17;24:22, 23;25:21,22;26:3,10,13, 22;30:9,11;32:22;33:5, 17,19;35:3;52:12;61:9, 10,16;62:21;63:1,11,12; 64:2,10;67:15,17;68:8,	24;80:9;82:4,5;85:3,4 Peress's (1) 89:10 perfectly (1) 81:1 performance (1) 16:24 perhaps (3) 46:3;88:6;89:12 period (9) 17:7;22:13;48:14; 49:19;50:11,12;51:14; 62:4;71:1 permit (1) 63:24 permits (1) 92:16 personally (1) 53:19 perspective (1) 16:15 petition (3) 9:24;30:2;64:17 petitions (1) 34:11 pick (1) 52:2 piece (3) 18:3;43:23;51:4 pieces (2) 47:8;59:13 place (7) 54:23;55:5;56:14; 62:13;75:23;76:14; 85:24 places (1) 21:16 plan (1) 73:12 play (2) 48:12;75:15 played (1) 98:13 please (19) 7:17;10:7;11:10;14:2; 26:10,20;27:1,2,5;28:13; 30:7;34:13;35:23;38:6; 60:4;61:9,17,21;62:23 pm (3) 83:19,19;98:24 point (17) 16:13;17:6;25:15; 37:8;41:1;49:16;50:23, 24;51:13;52:17;56:23; 58:22;75:16,24;81:17; 84:1;92:18 pointed (2) 91:11;92:2 pointing (1) 23:10 points (1) 52:12 policies (1)	33:4 policy (5) 27:19;31:24;34:5,9; 36:4 policy-nature (1) 37:4 policy-type (1) 32:5 portfolio (1) 62:7 portion (17) 16:6,22;20:1,20,21,23; 28:13;30:12,24;31:6; 40:3,24;41:2;43:15,24; 48:23;92:4 portions (1) 65:23 pose (1) 27:10 poses (1) 28:16 position (33) 11:13,15;28:14;31:12; 32:15,16;34:7;36:22; 38:10,12;39:3,14;46:1, 14,15;47:5,14;51:3;53:3, 4,13;54:5,6;58:2,9,13; 69:7;81:5;88:5;90:6,12; 96:16;97:16 positions (10) 28:10;45:15;47:2,4; 63:22;87:16;91:18;94:9; 95:9,10 positive (1) 98:16 possibility (2) 66:17;80:22 possible (1) 53:24 possibly (1) 64:22 potential (5) 13:21;28:5;39:11; 78:1;80:15 potentially (1) 74:2 practice (1) 92:21 practiced (1) 61:24 practices (4) 33:9;49:14;50:22; 51:12 precedent (7) 67:18;68:4,6;87:6; 88:6,13;93:12 preference (2) 37:5;93:13 preferred (1) 64:24 prefiled (4) 25:1;67:8,10;91:11 prehearing (2)	7:10,11 premarked (3) 9:5;10:17;11:22 prepare (1) 62:17 prepared (1) 62:18 present (4) 8:24;9:1,10;89:5 presentations (4) 27:7,7;80:22;94:13 presented (2) 69:8,21 presumed (1) 92:18 presuming (1) 70:24 Pre-tax (1) 43:3 pretty (1) 36:23 previous (1) 71:22 previously (1) 13:12 pricing (1) 11:16 primarily (2) 41:11;77:21 principles (4) 13:16;18:19;39:10,17 printed (1) 60:19 prior (9) 19:8;20:13;22:6; 52:12;54:20;55:4;86:21; 87:2,18 private (1) 61:24 probably (1) 41:18 problems (1) 66:11 procedural (1) 8:21 proceed (4) 8:22;10:7;26:2;88:13 proceeding (24) 8:9;10:1;24:1;25:4; 30:2;34:15;53:18;55:10; 60:8;62:12,19;63:3; 64:18;65:10;67:20; 81:11;83:23;85:14,22; 87:1;88:1,10,12;90:19 proceedings (2) 65:16;78:5 process (10) 22:4;45:10;71:12; 87:20,22;93:3;94:11,14; 95:5,19 processes (1) 16:14 product (1)
P				
package (1) 39:8 page (23) 23:8,16,17,18;27:1; 28:9;30:8,13,14;35:20, 22,22;39:18;40:16; 48:10;50:8;69:2;74:1; 80:12;86:4,17;87:12,13 Pamela (3) 8:3;66:21;89:1 panel (6) 9:1,21;22:24;26:18; 59:22,23 paragraph (1) 50:8 part (15) 17:12;19:2;24:10; 33:11;47:23,24;51:6; 52:5;55:22;56:1;64:5; 75:5;86:8;92:19;95:5 partial (1) 97:4 participant (1) 91:1 particular (8) 52:18;53:7;66:16; 77:12;91:24;93:7;96:13;				

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

30:20 production (1) 15:13 professional (1) 61:21 profit (1) 92:6 program (3) 18:14,16;44:21 programs (5) 21:9,11;29:15;30:20; 82:1 Project (2) 62:5;80:20 projected (1) 70:21 projecting (1) 72:17 projects (1) 45:7 promote (5) 27:13;29:3;85:7;86:9, 15 promotes (1) 67:24 promoting (1) 68:6 proof (2) 82:9;83:1 proper (2) 59:3;92:13 properly (1) 74:18 property (1) 42:22 proposal (28) 9:20,22;24:9,13;30:2; 32:20;33:11;34:1;49:4; 52:9,18,20;64:8,12;66:4; 72:6;79:16,19;81:3,8,13; 87:21;89:6;90:14;91:15, 17;96:15;97:9 proposals (8) 24:3;66:1;80:1;94:4, 10;95:3,7;96:10 propose (3) 29:20;34:9;85:6 proposed (23) 9:23;24:1,7;30:16; 32:22;33:20;35:24;36:8; 38:24;53:22;54:2;58:10; 64:5,16;65:11;71:3; 75:16;79:1,20;80:21; 90:5;95:16,17 proposes (1) 34:10 propriety (1) 85:17 pros (1) 52:11 provide (13) 12:18;15:21;18:12; 26:10,17;28:19;29:5;	36:1;61:21;69:12;82:23; 86:1;88:10 provided (3) 15:5;60:6;70:19 provides (6) 15:24;18:15;50:5; 58:3;97:20;98:8 provision (4) 27:2;43:13;54:24;92:1 provisions (4) 33:8;34:24;48:9;64:16 prudent (2) 50:23;51:12 prudently (2) 45:9;73:22 Public (12) 12:6;32:14;36:4,14; 39:2;45:7;58:19;62:10; 72:19;89:22;91:5;95:23 PUC (1) 34:2 pull (1) 85:21 purpose (1) 72:21 purposes (5) 23:14;24:15;52:8; 57:5;60:17 pursue (1) 33:16 pursues (1) 28:18 pursuing (1) 27:18 put (7) 9:22;13:20;34:7; 54:23;79:3;81:14;94:9 putting (1) 66:14 Q quite (2) 32:4;51:21 quote (3) 85:23;86:6;87:8 quotes (1) 85:21 R R-3 (1) 19:12 R-4 (3) 19:13;23:6;92:22 raise (1) 75:24 raised (5) 21:18;77:9,21;82:11; 93:15 ramp-up (1) 29:14 range (2)	41:19,23 rate (100) 7:7;10:22;12:21,21, 24;13:1,3,7,17;14:10; 17:8,16;18:17,19,23,24; 19:2,5,8,19;20:13,14,14, 20,21,23;21:12,17,20; 22:1,5,6;23:6;25:6; 26:16;27:9,12,16,20; 28:1,2,16;29:16,20; 34:10,11;36:5,16;38:14, 14;43:7,18;45:1,8,12; 47:2,8,10;49:5,8;50:21; 52:24;54:24;55:22;56:4, 23;57:6,13;62:13;65:1, 20;66:13;72:4;73:11; 74:4,10;75:11,11,18; 76:3,5;78:12;81:13,15; 82:17;85:7,11;87:19; 88:15;89:9,14,14,20; 92:23;93:5;96:5,9;98:2, 5,7 rate-class (1) 78:13 rate-making (15) 13:16;24:1,7;28:22; 29:3;35:24;36:8;58:10; 73:16;85:17,23;87:11; 88:12;91:10,14 ratepayers (14) 13:17;14:7,12;16:22; 31:9;65:13;66:19;67:21, 23;68:1,3;85:20;87:9,24 rates (46) 7:8;14:5,11,20,23; 15:7,17,18,23;20:6,9,9, 11,12,13,15;21:24;22:6, 8,8;32:12;39:21;40:8,13, 17;43:15;46:4,17;47:17, 23;49:1,17;56:20,21; 67:1;69:17;73:4;74:21; 78:6,23,24;89:18,19; 91:3;93:10;95:12 rather (4) 37:6;50:11;82:14; 87:19 ratio (2) 57:5;80:24 Raulerson (1) 7:21 reach (4) 39:8;91:20;93:16; 95:22 reached (4) 39:7,12;57:14;89:2 reaches (1) 51:13 reaction (2) 79:21;80:1 read (11) 10:24;23:20;25:17; 27:2;28:12;30:12;35:23; 64:1;69:6,8;96:4	reading (2) 23:23;48:11 reads (1) 23:22 real (1) 62:2 really (11) 20:12;39:9;43:22; 45:13;46:5;53:1;63:20; 78:2;81:6,14;94:5 real-world (1) 66:24 reason (2) 64:3;72:16 reasonable (15) 32:13;36:5;39:2; 47:17,23;73:21;74:21, 21;81:2;89:20,21;91:4, 5;93:18;95:13 reasons (3) 41:5;64:23;94:23 rebuttal (1) 25:14 recall (2) 75:2;82:16 received (2) 72:13;78:17 recent (2) 18:9;70:21 recess (2) 83:17,18 recognize (3) 23:24;37:3;98:13 recommendations (2) 80:3;91:11 recommended (1) 79:19 reconcilable (1) 51:5 reconcile (2) 38:24;41:2 reconciled (9) 40:21,24;55:9,12,13, 16,19;56:9;57:10 reconciliation (4) 36:17;55:5,14;56:6 reconciling (2) 57:5;92:17 record (24) 10:16,24;11:10;22:20, 21;25:1,11,12,18;26:2; 27:2;28:12;30:12;38:6; 44:3;59:5,13;60:21; 61:17;71:19;83:14,15, 16,21 recoupment (2) 21:24;22:4 recover (4) 49:17;73:17;92:4,17 recovered (3) 14:8;48:19;49:5 recoveries (1) 50:20	recovers (2) 30:24;47:10 recovery (10) 18:7;48:16,22;50:14, 19;51:8,16;54:8,21;92:6 redirect (3) 54:15,17;82:3 reduce (7) 19:4;34:22;41:11; 65:4;66:6;75:15;86:14 reduced (3) 50:1,6;64:21 reduces (4) 46:10;65:20,20;67:5 reducing (5) 65:6,7,8;80:16,23 reduction (9) 30:21;41:4,7,16,17; 42:13,23;43:11;66:5 re-examination (1) 55:1 refer (3) 26:18;71:5;82:21 reference (2) 25:23;34:16 referenced (1) 29:18 referred (4) 24:8;66:22;82:16;96:1 referring (4) 10:19;26:14,23;30:7 refers (2) 39:18;82:20 re-filed (1) 59:14 refinements (5) 79:20,23,23;81:6,12 reflect (1) 39:13 reflected (2) 36:10;39:19 reflects (3) 40:2;51:11;93:14 reformed (1) 28:22 refresh (1) 80:4 refund (1) 22:12 refunding (1) 22:10 refunds (1) 67:4 regard (16) 11:14;12:20;15:20; 18:13;19:19;21:6,24; 22:1;37:4;38:11,16; 43:14;54:22;58:1;96:12; 97:22 Regarding (2) 19:9;26:16 regardless (2) 47:18;55:7
---	---	--	--	---

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

regime (1) 74:13	10:12;37:22;60:21; 61:13	5:97:11	50:11	75:5
regulation (1) 38:13	represents (4) 20:2;45:14;74:20;	returned (1) 72:14	ROR (1) 76:9	seems (3) 33:1;36:23;52:15
regulations (1) 13:11	90:11	revenue (70) 9:24;12:20,23;14:21;	Rorie (1) 8:11	sells (1) 92:6
regulatory (12) 11:18;39:10,17;58:6, 15;62:5;76:3;80:20; 94:6,11;95:5,18	request (4) 7:7;67:9;88:9;89:23	15:6,17;18:6,22;29:20; 30:1,24;33:20,23;34:9;	roughly (2) 42:7;43:8	semi-annual (1) 21:8
reimburse (1) 14:13	requests (1) 93:18	35:1;36:14;37:7;41:8; 42:14;44:3,9,13;56:21;	run (2) 58:12;74:24	sense (4) 41:14;45:24;72:18,21
reject (1) 98:1	required (2) 73:15;86:21	58:18;62:11,16;64:4,12, 16,23;65:11,17,23;66:1,	running (1) 50:4	sentence (6) 23:21,22;24:8;35:20; 40:16;57:23
rejected (3) 79:19;88:3,7	requirement (14) 12:21;14:21;44:4,9, 13;56:21;58:18;73:5,13, 14;74:4,7,19;98:5	3,5,10,11,12,13;67:1,2; 71:2;72:12,14,20,23;	S	sentiment (1) 98:11
rejecting (1) 85:16	requirements (4) 15:6,17;31:1;37:7	73:5,13,14;74:4,7,19,22; 75:6,12,16,19,22;76:6, 10,13;78:17,18;81:13;	safe (1) 36:3	separate (2) 15:24;75:19
rejection (1) 91:15	requires (1) 73:16	85:8;88:4;89:6;96:12; 97:9	safely (4) 58:5;73:15,18;74:9	separately (1) 16:3
related (3) 15:10,11,24	residential (7) 19:5,10;20:4,24;21:2; 77:23;78:12	revenues (23) 27:22;28:23;29:5,7, 11;30:19;31:3;34:20;	sale (2) 39:11;95:16	sequentially (1) 59:11
relates (1) 9:23	resolution (1) 21:21	36:2;40:7,11,12,18; 41:17;56:10;58:2;64:21;	sales (33) 29:7,11;30:19,21;	serve (1) 28:23
relative (3) 46:7,15;47:1	resolving (1) 87:18	72:8,11;73:7;86:7,11; 88:16	35:1;41:5,7,15,16;53:2; 64:21;65:9;70:22,22,23, 24;71:4,6;72:1,10,17;	service (10) 7:8;27:23;28:6,19; 29:6;36:4;73:16;74:21; 85:23;86:1
relatively (1) 92:14	respect (2) 73:11;82:23	review (2) 13:19;88:23	73:2,8;74:13,15;75:15, 15;76:8,21;77:1;86:8, 11;88:16	sessions (1) 94:15
relevant (2) 32:8,17	respectfully (6) 32:11;67:9;88:9; 89:10,23;90:10	reviewed (1) 89:13	same (8) 22:4;40:14;44:21; 45:7;49:6;55:13;60:24; 95:8	set (15) 13:6;17:1,16,17; 18:17;24:2;43:24;50:12; 55:7;56:20;66:13;72:12; 73:4;74:7;78:6
reliable (1) 36:3	respond (1) 33:1	reviews (1) 80:14	satisfy (1) 82:9	sets (2) 17:19;51:8
reliably (3) 58:5;73:19;74:9	responding (2) 71:17;90:14	revisited (2) 57:18;96:11	saying (1) 45:5	setting (4) 7:12;18:19;45:17;78:9
relief (2) 96:6;98:8	response (5) 59:9;68:23;83:8;85:1; 90:15	rhetoric (1) 98:15	scaled (1) 53:4	settle (1) 94:18
remain (1) 95:4	responsibilities (2) 11:14;38:11	Rhode (2) 34:2;62:12	scenarios (1) 88:23	settlement (104) 7:13;9:1,6,20,22; 10:17;11:20,22;12:9,22; 13:3,17,20;14:4;15:21; 16:8,11;17:12,15,16; 18:5,12,15,17;19:3;21:5, 13,23;23:8,15;24:15; 32:8,9,9,12,13;33:8,12; 34:14,19;36:13;39:1,4,6, 7,8,11,12,13,18,19;40:8; 43:13;44:22;45:14; 46:14;47:1,22;48:9,21, 24;49:10;50:4;51:23; 52:5,8;55:4,22;56:1,12; 57:14;58:3,19,21;63:23; 64:5,8,15,20;67:13,20; 68:2;75:7;84:2;88:9; 89:3,8,16,17,19,21,24; 90:5;91:2,93:14;94:16, 20;95:22;96:20;97:4; 98:1,1,2,8
remained (1) 56:13	responsible (2) 11:17;38:14	right (20) 10:6;16:7;20:17; 36:21;42:16;43:3;44:20; 45:6;52:6;53:24;59:20; 72:7;77:15,16;82:2; 83:6,9,13;84:18;98:21	scenarios (1) 88:23	settles (1) 94:17
remaining (1) 42:3	rest (2) 10:20;69:13	rise (2) 31:3,3	schedules (1) 10:20	settling (2)
remains (2) 36:7;44:21	result (8) 13:14;21:3;39:21; 41:16;65:14;66:5;89:19; 91:21	risk (7) 65:13,20,22;66:2; 67:5,6;79:2	scheduling (1) 7:10	
remember (3) 41:21;80:3,7	resulting (3) 32:10;34:22;89:18	risks (5) 27:17;65:18;66:19; 85:12;87:24	School (1) 62:3	
remove (1) 75:13	results (4) 32:12;47:22;91:3; 95:12	risky (1) 80:19	scope (1) 69:23	
removes (2) 75:8,10	resumed (1) 83:19	Road (2) 11:12;71:14	se (1) 66:18	
renewable (1) 62:7	retain (1) 46:9	Robert (1) 8:19	second (2) 22:20;98:11	
re-opener (1) 54:24	retention (1) 91:13	ROE (5) 73:8;76:9;80:16,23; 81:2	secretary (1) 7:11	
repair (2) 13:10,12	return (16) 12:21,24;13:14,16,19, 24;36:6;40:2;66:7; 73:21;74:10,10,24;76:4,	role (2) 38:16;98:13	section (3) 13:3;15:24;23:15	
replacement (1) 18:14		rolling (1)	secure (1) 36:7	
replied (1) 86:10			seeking (1) 76:2	
report (1) 66:21			seem (2) 67:12;81:22	
Reporter (4)			seemed (1)	

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

23:23;96:18 Seven (2) 25:9;59:12 shall (1) 24:3 Shanna (5) 8:7;61:11;12,14,19 share (1) 48:1 sharings (1) 66:17 shift (3) 45:16;46:8,18 shifting (4) 65:13,23;66:2;67:6 shifts (2) 65:18;66:19 short (3) 75:11;87:10;92:14 show (2) 15:18;57:18 shown (1) 15:5 shows (1) 73:3 side (2) 17:17;78:5 signatories (1) 93:17 signatory (1) 9:20 signed (1) 47:20 significant (2) 87:4;94:5 significantly (1) 91:20 similar (4) 12:1;17:15;77:20;81:1 simply (7) 17:19;32:5;51:15; 52:1;76:21;82:16;97:23 single (2) 65:1;69:17 sit (1) 58:4 situation (2) 53:1;97:2 six (2) 35:11;59:12 slightly (2) 18:8;96:3 Smith (1) 61:2 smoother (1) 26:5 so-called (1) 30:23 solely (1) 72:22 solutions (1) 93:15 somebody (1)	33:15 somewhat (3) 45:17;95:15;96:21 somewhere (3) 41:23;45:20;47:6 sorry (4) 34:6;56:3;70:10;76:9 sort (5) 15:3;40:12;46:16; 55:6;75:12 sorts (2) 31:22;53:12 sought (2) 45:16;91:7 sound (1) 42:16 South (1) 12:4 speaking (1) 86:18 specific (3) 57:24;65:23;80:3 specifically (5) 19:11;24:2;69:3; 77:24;79:15 specifics (2) 53:23;80:8 specified (1) 15:14 spent (1) 75:2 split (1) 15:2 stable (1) 72:23 Staff (29) 7:15;8:17,19,24;10:9; 16:10,13;23:23;45:8; 51:5,10;53:14;54:3; 55:24;85:22;86:10; 88:24;90:24;91:16,19, 24:92:3,12,24;93:8,11, 18;97:12;98:17 Staff's (9) 46:16;50:24;52:19; 53:2,4,13;54:6;59:4; 91:10 stagnant (1) 53:2 stakeholders (1) 86:23 stance (1) 69:22 stand (2) 61:11;90:9 standards (1) 62:8 standing (1) 96:2 standpoint (1) 31:8 started (2) 17:24;20:20	starting (2) 27:3;30:14 starts (1) 23:16 state (8) 11:9;38:5;39:22;43:1; 61:17;77:12;78:16;98:4 stated (7) 29:2,10;51:22;52:23; 54:5;87:10;93:9 statement (5) 55:17;71:20;73:24; 95:24;98:16 STATEMENTS (3) 4:1;52:12;90:8 states (4) 17:6;77:7,16;81:21 Stavropoulos (1) 35:12 steel (1) 18:13 stenographer (3) 9:14;60:7;61:3 step-down (1) 49:11 Stephen (5) 8:18,24;10:9,14;12:3 stepped (1) 49:15 Steve (2) 7:19;25:2 still (5) 39:9,16;46:13;50:8; 58:9 stipulated (1) 19:3 stipulates (1) 12:22 stipulation (1) 18:21 storage (1) 15:14 Stravopoulos (3) 37:19;39:15;96:5 Stravopoulos' (1) 96:2 Stravopoulos's (1) 57:23 strayed (1) 88:6 Street (2) 12:4;61:20 strike (1) 87:4 striking (2) 84:8,18 strong (1) 36:24 strongly (3) 39:9,16;94:8 struck (1) 74:6 structure (5)	28:4;49:2;51:14;54:1; 86:22 structures (1) 52:11 student (1) 8:13 study (1) 66:24 studying (1) 77:6 subject (6) 42:2;51:21;62:10; 69:11;70:1,4 submit (3) 9:5,12;32:11 submitted (8) 13:23;23:24;24:9; 28:10;64:11;67:19; 78:18;83:22 suboptimal (1) 87:11 Subsequent (1) 7:11 substantial (2) 31:5;91:9 Sue (2) 25:3,13 sufficient (3) 36:2;58:3;95:13 suggest (2) 85:15;87:15 suggested (3) 53:20;54:4;64:3 suggesting (2) 87:5;94:5 sum (1) 93:14 summaries (1) 67:10 summarize (9) 12:14,19;13:5;18:18; 19:22;21:5;31:11;63:13; 67:13 summary (4) 61:21;63:18,20;67:8 Summer (1) 61:20 supplemental (1) 25:8 supply (1) 40:19 support (4) 64:11;73:1;79:11,15 supported (2) 71:18,18 supporter (1) 91:1 supporting (2) 68:7;72:19 supports (3) 29:18;90:4;98:6 supposed (1) 92:5	surcharges (1) 67:3 Sure (8) 27:6;38:7;45:22; 48:11;51:19;59:10; 60:17;62:21 Susan (1) 30:4 suspending (1) 7:9 swear (1) 37:15 sworn (8) 10:12,13,14;37:10,21, 23;61:13,14 Sylvan (1) 11:12 system (5) 73:15,18;74:8,24;86:3
T				
Tab (1) 66:21 table (1) 8:1 tail (1) 19:6 tailored (1) 28:3 talking (4) 20:11,12;80:15;96:5 target (11) 17:2,18,19,21;18:1; 49:11;50:20;55:23; 66:11;72:11,13 targets (2) 17:4;18:22 tariff (1) 7:9 tax (7) 13:4,14,19,24;43:5,6,7 taxes (8) 13:9,22;14:19;39:22, 22;42:22,24;43:1 Taylor (2) 7:20;25:9 technical (2) 87:22;94:14 temporary (8) 10:22;20:9,14,14; 21:24;22:6,8;25:6 tend (4) 41:8;42:22;43:9;63:19 tends (1) 85:19 tension (2) 30:17,22 term (2) 51:22;73:13 terms (14) 12:9,15,20;22:4; 32:10;41:24;42:20;				

**SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH**

46:18,24;54:3;71:4; 72:1;90:7;97:19 territory (3) 27:24;28:6;31:14 test (3) 56:19;57:4,8 testified (6) 62:9,12,14;85:22; 87:8;91:16 testimonies (2) 11:5;23:24 testimony (89) 9:6,7,13;10:5,21;18:1; 25:3,14,14,21,23;26:6; 30:4,7,8,13;31:6;34:17; 35:12;39:14;45:16,19; 46:3,16,17,17,19;50:24; 51:22;52:10,23;57:24; 59:4,13,14,15;60:2,6; 61:1;62:17,18;63:2,14, 16,21;64:1,11,17;66:21, 22,23;67:9,10,14,19; 68:18,23;69:2,13,23; 70:2,19;71:22;74:1; 75:2,4;79:18,21;80:13; 82:16;84:13,15;85:14, 16,22;86:4,6;87:5,13,14; 90:11;91:12;92:9;94:3, 10;96:2,15,22;97:4 thereafter (1) 50:4 therefore (4) 27:19;65:6;72:10;76:8 therm (1) 31:2 thinking (2) 32:16;76:24 Thirty-nine (1) 62:24 though (2) 14:10;76:13 thought (3) 41:23;49:12;81:7 three (5) 17:1;47:19;51:20; 59:12;80:5 throughout (2) 88:22;90:19 throughput (4) 30:23;31:7;34:15;73:6 through-put (1) 34:23 tied (2) 53:10;92:20 Tierney (4) 30:5;34:16,23;72:6 Tierney's (9) 25:3,13,21,23;26:5; 30:8;31:6;66:22;96:22 times (1) 98:14 today (11) 8:13;9:10;25:8;32:11;	38:17;41:22;58:4;63:7; 90:9;96:3,13 today's (1) 85:5 token (1) 95:8 took (2) 13:18;47:2 tool (1) 85:17 topic (1) 32:23 total (13) 12:22;15:6;20:22; 31:2,3;39:6;40:11; 41:24;43:5;44:13;52:2; 70:23;96:4 totally (1) 35:2 tough (1) 88:21 towards (7) 40:1,6;46:19,20;47:6; 54:8;85:16 trackers (8) 75:3,8,21,21,21;76:1, 10,11 traditional (3) 85:23;91:10,13 translate (1) 42:22 Traum (3) 8:12;61:1;84:1 treated (1) 49:3 treatment (2) 28:16;29:3 trend (1) 19:7 trouble (1) 94:22 true-up (1) 22:5 try (2) 75:14;76:12 trying (3) 38:24;41:21;45:24 turn (7) 9:12;23:7;27:1;28:8; 30:7;36:24;77:11 turning (2) 53:5;83:24 twice (1) 21:10 two (6) 9:12;15:3;23:1;59:12; 80:5;96:17 type (4) 63:24;75:22;78:24; 80:17 types (4) 24:7;37:11;75:20; 79:22	typical (1) 20:3 typo (1) 23:11 U ultimate (1) 94:20 ultimately (1) 94:15 uncollectible (1) 55:8 under (11) 9:6;13:11,19;40:23; 44:21;48:24;49:6,17; 57:9;74:12;98:22 understood (1) 71:21 undertake (1) 17:24 undertaken (1) 95:19 unfavorable (1) 14:9 unique (2) 27:23;95:15 unless (1) 41:11 unnecessary (2) 67:11;79:22 unrelated (1) 78:3 unusual (1) 96:14 up (12) 14:13;15:18;37:15; 45:8;47:12,17,18;60:20; 76:17,18,20;97:2 upon (3) 52:4;94:24;95:12 usage (2) 31:3;82:20 usage-based (1) 31:1 use (5) 15:23;31:2;47:15; 82:21;87:10 used (7) 18:19;53:14;56:20,24; 57:4,5;73:21 useful (1) 73:22 using (4) 46:21;55:12;66:17; 78:13 usual (2) 45:10;49:8 Utilities (8) 12:6;27:18;29:5,19; 85:6,13;87:24;88:14 utility (26) 27:7,23;28:17,23;	29:7,10,15;30:18,24; 31:2;62:10;65:13,19,21; 66:4,8,19;67:1,23;73:17; 74:3;79:12;86:1,9; 87:21;98:4 V value (3) 32:7,17;75:12 variable (7) 28:4;41:11;42:4;47:8, 13;65:1;69:17 variance (2) 14:18;19:6 various (6) 11:17;24:1;27:14; 45:16;86:23;91:9 varying (1) 45:20 verbal (3) 59:9;83:8;85:1 Vermont (1) 62:3 versus (2) 20:18;46:1 vibrant (1) 36:7 vice-president (1) 38:12 view (12) 16:13;32:6,7;37:5; 48:1;52:15,17;54:3; 75:16;97:10,11,12 viewed (1) 89:7 views (2) 44:5;97:6 volatility (2) 34:22;65:20 volume (3) 28:24;30:19;65:7 volumetric (5) 19:4;22:9;46:4,7,8 W wake (1) 82:1 walked (1) 48:8 Waltham (1) 11:12 Water (1) 12:8 way (13) 72:7;73:4,4;74:11; 76:7,23;78:13;79:12; 81:23;86:22;94:12; 98:15,17 ways (6) 53:24;67:3;73:7; 75:13;77:10;93:24	weather (1) 41:6 week (1) 7:13 weight (3) 71:23;84:14;87:4 welcome (1) 97:15 What's (6) 12:1;17:22;36:13; 43:5;64:23;79:21 whatsoever (1) 88:3 whenever (1) 34:10 whereby (1) 17:17 WHEREUPON (8) 10:11;37:21;59:23; 61:12;83:12,18;84:21; 98:23 whenever (2) 49:15;51:16 whole (4) 68:2;89:9,14,14 willing (1) 46:23 willingness (2) 86:20;93:16 wishes (1) 9:9 withdrawn (8) 24:4,14,16;33:11; 52:9;89:7;96:24;97:1 withdrew (2) 95:2,9 within (2) 30:18;69:22 without (11) 29:4;45:12;48:21,24; 67:5;75:23;76:6,10; 87:10;89:16;93:3 witness (26) 8:8;9:9,22;30:10; 31:18;35:18;37:7;53:20; 54:4;61:9;63:22;68:11, 21;71:8,9,10,17;80:10, 14;82:15,23;83:10,11, 12;87:8;97:5 witnesses (10) 9:21;10:11,16,18; 24:20;26:7;48:4;59:21; 87:1;94:2 witnesses' (1) 39:1 wondering (1) 52:19 word (3) 30:14;35:21;37:17 words (4) 21:14;27:4,4;57:17 work (7) 43:17,23;44:6;50:9;
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SETTLEMENT AGREEMENT HEARING - January 13, 2011
ENERGYNORTH NATURAL GAS, INC., D/B/A NATIONAL GRID NH

60:19;61:3;94:12
worked (2)
62:4;94:11
working (4)
15:10;28:20;43:20;
62:1
works (3)
16:2;36:15;45:7
worse (1)
87:9
wound (2)
47:12,18
write-offs (3)
50:19;55:15;56:18
wrong (2)
69:6;77:11
Wyatt (1)
8:19

Y

year (17)
18:4;20:6;21:10;
24:11;43:16;44:24;49:7,
23:50;3;56:19;57:4,8;
62:12;66:16;78:1,7,9
years (3)
16:9;17:1;48:13
yield (2)
40:13,17
York (1)
38:9