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Witness	Panel 1
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Direct Testimony of

Ronald T. Gerwatowski

and

Michael D. Laflamme

Table of Contents

I. INTRODUCTION AND QUALIFICATIONS1

II. PURPOSE OF TESTIMONY4

III. MAIN SETTLEMENT AGREEMENT AND OVERVIEW5

IV. RATE PLAN SETTLEMENT FOR GRANITE STATE8

V. RATE PLAN SETTLEMENT FOR ENERGYNORTH22

VI. COMPLIANCE WITH ALTERNATIVE FORM OF REGULATION PROVISIONS34

VII. CONCLUSION42

1 I. **INTRODUCTION AND QUALIFICATIONS**

2 Q. **Mr. Gerwatowski would you please state your full name and business address?**

3 A. My name is Ronald T. Gerwatowski, and my business address is 55 Bearfoot Road,
4 Northborough, Massachusetts, 01532.

5

6 Q. **Mr. Gerwatowski, by whom are you employed and in what position?**

7 A. I am Vice President of Distribution Regulatory Services for Granite State Electric
8 Company, doing business as National Grid (“Granite State” or the “Company”). In my
9 capacity as Vice President, I am responsible for the Company’s distribution rates and
10 regulatory support group, which we refer to as the Distribution Regulatory Services
11 Department. This Department, for which I have supervisory responsibility, provides rate-
12 related support not only to New Hampshire, but also to the other National Grid retail
13 distribution companies in Massachusetts and Rhode Island, of which I also am Vice
14 President.

15

16 Q. **Mr. Gerwatowski, please describe your educational background.**

17 A. I graduated from Westfield State College in 1978. I also attended the University of
18 Puerto Rico for one year in 1976-77. I received a Masters of Education degree from
19 Fitchburg State College in 1982. I then went to law school and received a Juris Doctor,
20 magna cum laude, from Boston College Law School in 1985, where I served on the Law
21 Review.

22

23 Q. **Mr. Gerwatowski, please describe your professional experience.**

1 A. Before going to law school, I was a public school teacher in the Springfield,
2 Massachusetts school system. After graduating from law school, I was an associate at the
3 Boston law firm of Testa, Hurwitz & Thibeault in 1985 and 1986. I left the firm and
4 joined the legal department of New England Electric System (“NEES”) in 1987, the
5 predecessor to National Grid USA. In 1990, I was regulatory counsel for The
6 Narragansett Electric Company, where I practiced before the Rhode Island Public
7 Utilities Commission until mid-1994. At that time, I returned to the corporate
8 headquarters for NEES and worked in the legal department on fuel-related regulatory
9 matters pertaining to the generation plants that were owned by NEES at the time. In
10 1998, after industry restructuring in Rhode Island, I returned to The Narragansett Electric
11 Company as General Counsel and continued in that position until the spring of 2002. I
12 then became General Counsel of Niagara Mohawk Power Corporation in Syracuse, New
13 York, after National Grid USA acquired Niagara Mohawk. I served in that capacity until
14 May 1, 2005, when I took my current position as Vice President of Distribution
15 Regulatory Services in New England.

16

17 **Q. Mr. Gerwatowski, have you previously testified before the Commission?**

18 A. No.

19

20 **Q. Mr Laflamme, Please state your full name and business address.**

21 A. My name is Michael D. Laflamme. My business address is 55 Bearfoot Road, Northboro,
22 Massachusetts 01532.

1 **Q. Mr Laflamme, by whom are you employed and in what position?**

2 A. I am Manager of Regulatory Support for National Grid USA Service Company Inc.
3 National Grid USA Service Company provides engineering, financial, administrative and
4 other technical support to subsidiary companies of National Grid USA. My current duties
5 include revenue requirements analysis for National Grid USA's regulated businesses in
6 New England, including Granite State.

7

8 **Q. Mr. Laflamme, please provide a brief summary of your educational background.**

9 A. In 1981 I earned a Bachelor of Science degree in Business Administration, emphasis in
10 Accounting, from Bryant College in Smithfield, Rhode Island.

11

12 **Q. Mr. Laflamme, what is your professional background?**

13 A. From 1981 through April 2000 I was employed by various subsidiary companies of
14 Eastern Utilities Associates ("EUA"), including EUA Service Corporation ("EUASC")
15 which provided various accounting, financial, engineering, planning, data processing and
16 other services to all EUA System companies. I joined EUA's accounting department in
17 1981 and transferred to the revenue requirements section of EUASC's Rate Department
18 in 1985. I held progressively more responsible positions in revenue requirements prior to
19 transferring to the Treasury Services department of EUASC in 1988. I was promoted to
20 the position of Manager of Treasury Services in 1991. The EUA System was acquired by
21 National Grid USA in early 2000, at which time I joined the National Grid USA Service
22 Company.

1 **Q. Mr. Laflamme, have you previously testified before a regulatory commission?**

2 A. Yes, I have testified in proceedings before the New Hampshire Public Utilities
3 Commission (“NHPUC” or the “Commission”), the Massachusetts Department of
4 Telecommunications and Energy and the Rhode Island Public Utilities Commission. I
5 have also provided primary support for revenue requirements witnesses in proceedings
6 before the Federal Energy Regulatory Commission.

7

8 **II. PURPOSE OF TESTIMONY**

9 **Q. What is the purpose of this testimony?**

10 A. This testimony is intended to be explanatory testimony supporting a comprehensive
11 settlement agreement achieved in NHPUC Docket No. DG 06-107, the Joint Petition of
12 National Grid plc and KeySpan Corporation for Approvals of Merger and Other
13 Regulatory Approvals, executed on May 1, 2007 by and among National Grid, KeySpan,
14 the Staff of the NHPUC and the Office of Consumer Advocate (“Settlement
15 Agreement”). In addition, the testimony will set forth the reasons why the Granite State
16 Rate Plan that is a part of the Settlement Agreement meets the Commission’s
17 requirements for a permissible form of alternative regulation.

18

19 **Q. How is the testimony organized?**

20 A. It begins with an overview of the Settlement Agreement on The Merger Transaction
21 Between National Grid and KeySpan (“Main Settlement Agreement”) and the two
22 attached rate agreements. Then the testimony describes the features of each of the rate-

1 related agreements applicable to Granite State and EnergyNorth Natural Gas, Inc
2 (“EnergyNorth” or the “Company”). Finally, the testimony addresses the Granite State
3 Rate Plan in the context of the Commission’s regulations on alternative regulation.
4

5 **III. MAIN SETTLEMENT AGREEMENT AND OVERVIEW**

6 **Q. Can you please summarize the overall settlement?**

7 A. Yes. The Settlement Agreement is essentially comprised of three main components.
8 First, is the Main Settlement Agreement that addresses the approvals being sought for the
9 Merger Transaction Between National Grid and KeySpan (the “Merger”) to go forward
10 under New Hampshire law. It also includes self-explanatory provisions relating to the
11 operation of the National Grid money pool, service company allocations, designation of
12 fiscal year, and dividend policy for EnergyNorth post-Merger. In addition, it addresses
13 post-Merger reporting requirements.
14

15 **Q. What are the other two main components?**

16 A. The other two components are Exhibits 1 and 2 to the Main Settlement Agreement.
17 These comprise a Rate Plan Settlement for Granite State (“Granite State Rate Plan”), and
18 an EnergyNorth Merger Rate Agreement (“EnergyNorth Merger Rate Agreement”). The
19 Granite State Rate Plan includes a rate reduction of \$2.2 million and limitations on rate
20 adjustments for a period of up to five and a half years. It also contains commitments to
21 improve reliability and maintain quality customer service. This will be described in
22 greater detail later in the testimony below.

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Q. What about the EnergyNorth Rate Agreement?

A. As stated in the Main Settlement Agreement, the EnergyNorth Rate Agreement, among other things, includes a stay out period of one year during which the Company will not change its distribution rates; procedures for rate treatment and sharing of Merger synergy savings in future ratemaking proceedings for the Company; a plan that allows for the acceleration of the Company’s replacement of cast iron and bare steel pipe in the Company’s system; and certain commitments relating to customer service and other operational matters. This agreement also will be described below in greater detail.

Q. Can you please summarize the benefits of the Settlement Agreement?

A. Yes. There are a number of benefits arising out of the Settlement Agreement. Regarding the Granite State Rate Plan, the main benefits are:

- A \$2.2 million distribution rate reduction for electric customers that will be provided in two phases. The first effective for usage on and after the later of July 1, 2007 or 30 days following Commission approval of the Merger and the second for usage on and after January 1, 2008. Once the two phases are implemented, it will equate to a distribution rate decrease of about 9%. This will reduce the total monthly bill of a typical 500 kWh residential customer by about 2.6%;
- A five-year electric distribution rate plan that limits future electric distribution rate increases;
- The exclusion of Merger acquisition costs from the Merger or any prior mergers from Granite State’s distribution cost of service or earnings sharing mechanism;
- Deferral and 10 year amortization of costs to achieve (“CTA”) the Merger savings;
- The use of an imputed capital structure and cost rates as follows:
Debt 50% 7.54% = 3.77%

1 Equity 50% 9.67% = 4.84%
2 8.61% overall cost of capital;
3

- 4
- 5 • A sharing mechanism that provides an incentive for the company to maximize
6 Merger-related savings by allowing the company to retain savings up to a
7 specified earnings threshold and share the balance above the threshold equally
8 with customers during the five year plan;
 - 9 • A reliability enhancement plan and vegetation management plan that call for the
10 company to implement an aggressive program to improve its infrastructure to
11 enhance reliability, with modest rate adjustments for investments in the system
12 under the plan;
 - 13 • The establishment of a Storm Contingency Fund intended to mitigate the potential
14 economic impacts of major storms affecting Granite State's customers and service
15 territory; and
 - 16 • Customer service commitments with respect to call answering standards.
17
- 18

19
20 **Q. What are the benefits arising from the EnergyNorth Rate Agreement?**

21
22 **A.** The main benefits are:

- 23
- 24 • A distribution delivery rate agreement that delays any gas distribution rate
25 increases for a period of one year after the closing of the Merger;
 - 26 • The exclusion of Merger acquisition costs from the Merger or any prior mergers
27 in any subsequent rate case following the Merger;
 - 28 • A Merger savings credit of over \$600,000 annually for gas delivery customers that
29 would be used to mitigate any rate adjustments that may be allowed in
30 EnergyNorth's first rate case to be filed within six months following the closing of
31 the Merger;
 - 32 • The use of an imputed capital structure consisting of 50% equity and 50% debt;
 - 33 • Deferral and 10 year amortization of costs to achieve ("CTA") the Merger
34 savings;
 - 35 • A sharing mechanism that provides an incentive for the company to maximize
36 Merger-related savings by allowing the company to retain 50% of any proven
37 Merger savings for a period of up to 10 years following the merger, with the other
38 50% credited to customers;
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2 • A cast iron and bare steel pipe replacement plan that calls for implementation of
3 an aggressive program to increase the pace of replacing aging infrastructure, with
4 modest rate adjustments for investments in the system under the plan;

5
6 • A commitment to improve response time to emergency calls when customers
7 report potential gas leaks;

8
9 A commitment for economic equivalence of benefits to New Hampshire gas
10 customers affected by the Merger to those of the New York gas customers
11 affected by the Merger;

12
13 • Customer service commitments with respect to call answering standards; and

14
15 • A number of other operating commitments as more fully described in the
16 Settlement Agreement.

17
18 **Q. Given these benefits, do you believe the Merger satisfies the applicable statutory**
19 **standards pursuant to RSA 369:8, II(b)(1) and RSA 374:33 for approval by the**
20 **Commission?**

21
22 **A. Yes. The Merger will not have an adverse effect on the rates, terms, service or operation**

of either Granite State or EnergyNorth as required by RSA 369:8, II(b)(1). To the

contrary, if the Commission approves the Merger and Settlement Agreement, Granite

State and EnergyNorth customers will benefit. Thus, we believe that the Merger is lawful,

proper and in the public interest as required by RSA 374:33.

29 **IV. RATE PLAN SETTLEMENT FOR GRANITE STATE**

30 **Q. Would you please describe the major features of the Granite State Rate Plan?**

31 **A. Yes, the Granite State Rate Plan, Exhibit 1 of the Main Settlement Agreement, contains**

the following subsections which we will be discussed individually:

1. Rate Reduction and Rate Design

- 1 2. Distribution Rate Plan
- 2 3. Exclusion of Merger Acquisition Costs from Rates; Amortization of Costs to
- 3 Achieve; Imputed Capital Structure
- 4
- 5 4. Earnings Reports and Shared Earnings Mechanism
- 6
- 6 5. Storm Contingency Fund
- 7
- 7 6. Reliability Enhancement Program
- 8
- 8 7. Customer Service Commitment
- 9
- 9 8. Other Provisions

10

11 **Q. Would you please summarize the terms of Section 1, Rate Reduction and Rate**
12 **Design?**

13 A. As indicated in the Granite State Rate Plan, the Company will implement base
14 distribution rate reductions totaling \$2.2 million in two phases. The first \$1.1 million
15 decrease would be effective for usage on and after the later of July 1, 2007 or thirty days
16 following the Commission's approval of the National Grid/KeySpan Merger. The
17 second \$1.1 million base rate reduction would be effective for usage on and after January
18 1, 2008. The first phase decrease would be implemented by reducing all of the
19 Company's existing base distribution charges by 4.53%. The second phase decrease
20 would be accomplished by reducing the resulting first phase distribution charges by an
21 additional 4.75%. The proposed base distribution rates resulting from both the first and
22 second phase decreases are shown in Exhibit GSE-3 of the Granite State Rate Plan.
23 Granite State will implement the first phase of the base distribution rate reduction by
24 reducing the distribution rates currently in effect by \$1.1 million calculated as shown on

2 Exhibit GSE-1 (“First Phase Reduction”). Granite State will adjust its distribution rates
3 on an equal percentage basis among rate classes and rate design elements as shown on
4 Exhibit GSE-3A. Bill impacts are included in Exhibit GSE-4.

5 **Q. How was the total Rate Reduction amount of \$2.2 million derived?**

6 A. The rate reduction was the product of settlement negotiations. However, the Company’s
7 actual operating results for 2006, as adjusted for certain issues including an imputed
8 capital structure, formed the basis for the agreed upon amount. Thus, while we did not
9 develop a formal cost of service that was litigated, the starting point for the rate
10 settlement was cost based.

11
12 **Q. What are the major components of Section 2, Distribution Rate Plan?**

13 A. The Distribution Rate Plan covers the period beginning January 1, 2008 through
14 December 31, 2012 (the “Rate Plan Period”) even though the initial phase base
15 distribution rate reduction would precede January 1, 2008. With only a few exceptions,
16 the Company’s base distribution rates will not change for the duration of the Rate Plan
17 Period. The exceptions are changes relating to: (1) the second phase base distribution
18 rate reduction, (2) the annual Reliability Enhancement Program, (3) exogenous events,
19 and (4) the Storm Contingency Fund. The Settling Parties and Staff have also agreed not
20 to file a complaint to change the Company’s base distribution rates, other than provided
21 for with respect to exogenous events, for the duration of the Rate Plan Period.

1 **Q. Could you elaborate on the exogenous events provisions?**

2 A. Yes. The settlement recognizes that Granite State's costs could be impacted, either
3 upward or downward, by certain events outside the control of the Company.
4 Consequently, the Granite State Rate Plan includes exogenous event provisions which
5 would allow for base distribution rate changes, either increases or decreases, during the
6 Rate Plan Period for certain events. The exogenous events include the following five
7 categories, as more fully described in the Granite State Rate Plan.

- 8 1. State Initiated Cost Change
- 9 2. Federally Initiated Cost Change
- 10 3. Regulatory Cost Reallocation
- 11 4. Excessive Inflation
- 12 5. Externally Imposed Accounting Rule

13 With the exception of the Excessive Inflation category, if any of these exogenous events
14 causes a change in the Company's annual revenue requirement by more than \$100,000 in
15 any calendar year of the Rate Plan Period, Granite State will adjust its distribution rates
16 accordingly. The exogenous event threshold of \$100,000 is a per-event threshold and
17 also represents a cumulative effect. In other words, if a single exogenous event does not
18 effect the Company's revenue requirement in a single year but its cumulative effect
19 causes a change in the Company's annual revenue requirement to exceed the \$100,000
20 threshold in a subsequent year, an exogenous event rate adjustment would be made for
21 that subsequent year impact. The Excessive Inflation exogenous event is measured on a
22 cumulative basis. If the average rate of inflation for either the first three or four years of

1 the Rate Plan period exceeds 4%, Granite State would be allowed a rate adjustment equal
2 to the incremental average inflation rate above 4% times actual Operation and
3 Maintenance expenses (“O&M”), excluding actual Vegetation Management Plan and
4 Reliability Enhancement Plan O&M, for the last year of the averaging period.

5 The Company must file exogenous event rate adjustment requests by December 31st of
6 the year in which an exogenous event occurs and accumulate all exogenous events
7 impacts in a single filing. If the Company believes no exogenous events have occurred, it
8 will file a Certification with the Commission indicating such by February 1 of the
9 subsequent calendar year. If any Party or the Staff believes an exogenous event has
10 occurred that should result in a rate decrease, that party may file with the Commission to
11 open a proceeding to investigate the matter. The exogenous event rate adjustments, if
12 any, would be implemented for usage on and after April 1 of the calendar year
13 immediately following the calendar year in which the exogenous event occurred. The
14 adjustments will be recovered or credited through a uniform and fully reconciling
15 kilowatt-hour surcharge or refund. Interest, at the customer deposit rate, will accrue on
16 accumulated exogenous event impacts when the cumulative amount exceeds \$150,000 or
17 if the rate adjustment is suspended beyond April 1 even if the cumulative amount is less
18 than \$150,000.

19
20 Finally, no exogenous event rate increase adjustment will be allowed if the Company’s
21 average return on equity (“ROE”) for the cumulative period commencing January 1, 2008
22 through the calendar quarter immediately preceding the date of filing for the exogenous

1 event adjustment exceeds 11%. Subsequent exogenous event adjustments would be
2 permitted only if the average ROE drops below 11% and only on a prospective basis.
3 Other than the rate adjustments for exogenous events that occurred during the Rate Plan
4 Period, no additional exogenous event rate adjustments will be permitted after the Rate
5 Plan Period and the Company's distribution rates will be subject to traditional cost of
6 service principles.

7
8 **Q. Are there other provisions included in Section 2, Distribution Rate Plan?**

9 A. Yes there are. During the Rate Plan Period, Granite State is not precluded from
10 proposing to adjust other fees, including without limitation, line extension policies and
11 other charges under its tariff that are subject to Commission approval or proposing new
12 services for customers or non-regulated power producers for fees, provided any such fees
13 are approved by the Commission. The change in revenue due to these adjusted fees or
14 new services would be included in the Company's regulated earnings unless determined
15 otherwise by the Commission. Granite State may also request Commission consideration
16 for changes to the provisions of its terms and conditions, revenue neutral rate design
17 changes and termination of grandfathered interruptible credits which no longer have any
18 cost-basis support. Also, during the Rate Plan Period, Granite State is permitted to seek
19 special relief if a catastrophic event threatens the financial integrity of the Company.
20 Granite State maintains the burden of proving the gravity of the event on its financial
21 integrity. Finally, the Distribution Rate Plan affects distribution rates only and does not
22 affect the operation of Granite State's other adjustment rate provisions including Default

1 Service Adjustment Provisions, Default Service Cost Reclassification Adjustment
2 Provisions, Transmission Service Cost Adjustment Provisions and Stranded Cost
3 Adjustment Provisions.

5 **Q. Would you please turn to Section 3, Exclusion of Merger Acquisition Costs from**
6 **Rates; Amortization of Costs to Achieve; Imputed Capital Structure?**

7 A. Granite State has agreed to exclude from its cost of service, for current and future
8 ratemaking purposes, acquisition premiums associated with the National Grid/KeySpan
9 Merger, or any prior mergers. This exclusion also applies to the Company's regulated
10 earnings calculation.

11
12 Because costs to achieve Merger savings ("CTA") are one time costs needed to realize
13 more permanent Merger related costs savings, the Settling Parties and Staff also agreed
14 that it is appropriate to defer and amortize CTAs to better match the cost occurrence and
15 resulting cost savings. Consequently, Granite State will defer actual CTAs and amortize
16 them to expense, with return, over a period of 10 years commencing January 1, 2008.
17 Granite State's estimated share of total CTA amounts to \$2,031,313 and results in an
18 estimated annual amortization, with return, totaling \$262,591. This estimate will be used
19 as the initial annual amortization amount. The Company will separately track, record and
20 report annually to the Commission by May 1 for the previous calendar year actual CTA
21 incurred to date and the annual amortization amount will be adjusted accordingly. The
22 CTA amortization will be included in the Company's regulated earnings calculations.

1
2 Finally, the Settling Parties and Staff agreed to the use of an imputed capital structure
3 during the Rate Plan Period consisting of 50% equity and 50% debt. The allowed ROE
4 equals 9.67% and the debt rate is set at 7.54%, equal to the Company's actual long term
5 debt rate for calendar year 2006. The resulting overall after-tax cost of capital equals
6 8.61%.

7
8 **Q. Would you discuss the provisions contained in Section 4, Earnings Reports and**
9 **Shared Earnings Mechanism?**

10 A. Yes. During the Rate Plan Period, Granite State will be subject to earnings sharing
11 provisions based on its average ROE over the five year Rate Plan Period. Granite State
12 will be required to file interim accumulated earnings reports with the Commission by
13 May 1st of each of the years 2009, 2010, 2011 and 2012 depicting results for the
14 preceding calendar year. These reports will include a calculation of the Company's
15 regulated earnings and ROE on an annual as well as cumulative basis. By May 1, 2013
16 Granite State will file its Final Accumulated Earnings Report which will calculate the
17 Company's regulated earnings and average ROE for the full term of the Rate Plan Period.
18 This Final Accumulated Earnings Report will determine the amount of any customer
19 share of the shared earnings mechanism. For purposes of calculating return and income
20 taxes in these annual earnings reports, Granite State will use the imputed capital structure
21 and associated costs of capital discussed earlier, unless Granite State's actual average
22 common equity ratio falls below 50% for any year of the Rate Plan Period. In that event,

1 any party may contend that the use of the average actual capital structure for the five year
2 period in the Final Accumulated Earnings Report is more reasonable than the use of the
3 imputed capital structure.

4
5 **Q. Please summarize the Shared Earnings Mechanism.**

6 A. As indicated earlier, the Company's allowed ROE is set at 9.67%. As an incentive to
7 maximize efficiencies and synergy savings from the Merger, Granite State will be
8 allowed to retain 100% of earnings in excess of its allowed ROE up to a maximum of
9 1.33% above the allowed ROE (the "Sharing Threshold"). All earnings in excess of the
10 Sharing Threshold will be shared equally between customers and the Company. There
11 are no rate adjustment provisions if the Company earns below its allowed ROE. The
12 customer share of the Earnings Sharing Mechanism as determined in the Final
13 Accumulated Earnings Report will be refunded or credited to customer in a manner to be
14 determined by the Commission.

15
16 **Q. How will Section 5, the Storm Contingency Fund, operate?**

17 A. The Storm Contingency Fund will operate similar to another storm fund approved by the
18 Commission for Public Service Company of New Hampshire, first approved in Docket
19 DE 99-099. Granite State will credit the fund in the amount of \$10,000 per month or
20 \$120,000 annually. Total O&M costs of qualifying "major" storms will be charged to the
21 fund. As indicated in Exhibit GSE-7 of the Granite State Rate Plan, the NHPUC
22 definition of "major" storms will be used to qualify storms. For Granite State this is

1 defined as a severe weather event or events causing 30 concurrent troubles and 15% of
2 customers interrupted, or 45 concurrent troubles. Troubles are defined as interruption
3 events occurring on either primary or secondary lines. The fund balance, whether
4 positive or negative, will accrue interest at a rate equal to the Company's customer
5 deposit rate. Granite State will also be required to file a Storm Fund Report with the
6 Commission by April 1st of the subsequent calendar year detailing the credits to the fund
7 along with details of any qualifying storm costs that were charged to the fund during the
8 preceding calendar year. The Settling Parties and Staff have agreed to evaluate the
9 adequacy of the fund and its funding level after two years from the effective date of the
10 Settlement Agreement. If the Company believes there is a significant deficiency in the
11 balance it may request the Commission to approve an increase in the funding level,
12 including a corresponding adjustment to distribution rates. The Company has the burden
13 of showing the inadequacy of the funding level.

14
15 **Q. Please explain the Reliability Enhancement Program included in Section 6.**

16 A. The Company has committed to undertake a Reliability Enhancement Program, as
17 detailed in Exhibit GSE-8 of the Granite State Rate Plan, consisting of a Reliability
18 Enhancement Program Plan ("REP") and Vegetation Management Plan ("VMP"). The
19 REP and VMP are intended to provide customers the benefits of improved reliability.
20 Activities to be included in the REP and VMP are listed in Exhibit GSE-8. The REP and
21 VMP include both Capital and operation and maintenance expense ("O&M") spending.
22 Annually by February 15th, commencing February 15, 2008, the Company will provide

1 its REP and VMP for the subsequent fiscal year, the twelve month period ending March
2 31st, to the Settling Parties and Staff for their review. The Company will meet with the
3 Settling Parties and Staff in technical sessions to discuss the Plans, obtain comments, and
4 answer any questions regarding the plans to be implemented for the subsequent fiscal
5 year. Following the Settling Parties and Staffs' review, the Company will take all
6 reasonable steps to carry out the plans. By May 15th, commencing with May 15, 2008,
7 the Company will provide a reconciliation filing for both its REP and VMP detailing the
8 actual amounts spent on the plans in the prior fiscal year. This planning and reporting
9 schedule will be repeated for each subsequent fiscal year ending March 31st.

10
11 **Q. You mentioned moderate rate adjustments. Would you please explain?**

12 **A.** Yes. As we indicated, the plans will consist of both capital and O&M spending amounts.
13 The REP will include both capital and O&M spending while the VMP will include only
14 O&M expenditures. Each year, the Company will include in its February 15th planning
15 report to the Settling Parties and Staff a discreet list of incremental REP capital activities
16 it wishes to undertake for the ensuing fiscal year. Following the completion of the fiscal
17 year, by May 15th the Company will file a reconciliation report. The filing will include
18 actual amounts spent on the REP and VMP O&M activities as well as the capital amounts
19 invested in accordance with implementing the REP. Upon review and approval of the
20 Commission, each July 1st, commencing July 1, 2008, the Company will adjust its
21 delivery rates. The rate adjustment for the REP capital investment allowance will include
an adjustment equal to the revenue requirement for the actual incremental capital

1 investments made pursuant to the previous year's REP capital component. In addition to
2 the incremental REP capital spending plans, a base level of REP and VMP O&M
3 spending is assumed to be covered in the Company's base distribution rates. In an effort
4 to more aggressively deliver reliability enhancement benefits to customers, the initial year
5 of the Rate Plan Period, FY 2008, assumes a REP capital spending target of \$950,000 and
6 a combined REP and VMP base O&M spending level of \$1,950,000 consisting of
7 \$450,000 on REP O&M and \$1,500,000 on VMP. By May 15, 2008 the company will
8 submit its reconciliation report along with the proposed July 1, 2008 rate adjustment.
9 Assuming the actual REP capital expenditures for FY 2008 equal \$950,000, the REP
10 Capital Investment Allowance is estimated to be approximately \$170,000 as illustrated on
11 Exhibit GSE-8, Attachment 1. In addition, if the Company incurs less than \$1,950,000
12 on REP O&M and VMP activities for FY 2008, the difference would be credited to the
13 following year's REP O&M and VMP budget. If, however, the Company incurs more
14 than \$1,950,000 on REP O&M and VMP activities, no incremental rate adjustment will
15 be allowed on July 1, 2008. For FY 2009 through FY 2012 of the Rate Plan Period,
16 preliminary REP capital investments targets of \$500,000 annually have been established
17 which would result in estimated base delivery rate adjustments amounting to
18 approximately \$80,000 each July 1st commencing 2009 through 2013. The base level of
19 O&M spending for the FY 2009 through FY 2012 period aggregates \$1,360,000. For
20 these years, to the extent the Company incurs less than \$1,360,000 on REP O&M and
21 VMP activities for the given fiscal year, the difference would be credited to customers
22 either through a refund commencing on July 1 or credited to the following year's REP

1 O&M and VMP budget, at the Commission's discretion. Finally, the REP and VMP
2 provides that to the extent the February 15th plan submitted for review prior to the fiscal
3 year includes a budget higher than the base level O&M budget and the staff concurs that
4 such additional spending is appropriate for the prospective fiscal year, the incremental
5 expense actually incurred above the base level O&M budget amount will be included in
6 rates, subject to Commission approval, through a uniform adjustment factor on a per
7 kilowatt-hour basis and recovered over a twelve month period, commencing on July 1st.

8
9 **Q. Would you briefly describe the provisions contained in Section 7, Customer Service**
10 **Commitments?**

11 A. As more fully described in the Granite State Rate Plan, the Company has agreed to
12 customer service commitments with respect to call answering performance, customer
13 satisfaction survey results and reporting. As a result of the challenges and complexities
14 associated with converting the Company's customer information system, for a period of
15 at least six months from the first calendar month in which the new customer information
16 system is implemented, the transition to the new system is likely to slow call answering
17 time. For that period (the "Transition Period"), the Settling Parties and Staff have agreed
18 to segregate the measurement of call answering statistics for the Transition Period from
19 those pre- and post-transition period. For the pre- and post-transition periods, the
20 Company agrees to meet or exceed a service level of answering 80% of calls within 20
21 seconds. For the Transition Period, the Company will meet or exceed a service level of
22 no less than 80% of calls answered within 30 seconds, with the understanding that the

1 Company will be required to provide an explanation if it is unable to achieve this
2 performance in any month during the Transition Period. In the sixth month of the
3 Transition Period, the customer information system conversion and its impact on service
4 will be reviewed. To the extent that transition difficulties relating to the conversion are
5 continuing, the Company may seek an extension of the Transition Period for good cause
6 shown. With respect to the Customer Satisfaction survey, Granite State agrees to
7 maintain a residential customer satisfaction rating of no less than 88% based on a
8 statistically valid annual residential customer survey. Finally, the Company will also
9 provide reports of call answering results at least every six months and will meet with the
10 Settling Parties and Staff to review its customer service commitment performance. If any
11 of the Settling Parties and Staff is not satisfied with the Company's performance after the
12 Merger closes, they may request the Commission to open an investigation to review the
13 Company's customer service which may include establishing service quality performance
14 standards with financial penalties associated with future performance, together with
15 consideration of offsets and incentives.

16
17 **Q. Would you now move on to Section 8, Other Provisions?**

18 **A.** Section 8 indicates which provisions remain in effect after the Rate Plan Period and
19 addresses the issue of potential back-up service charges. The terms of the earnings
20 sharing provisions of Section 4, the Storm Contingency Fund in Section 5, and the REP
21 and VMP referred to in Section 6 will remain in effect until the conclusion of the
22 Company's first distribution rate proceeding or the effective date of temporary rates

1 (whichever is earlier), whether initiated by the Company, any of the parties, or the
2 Commission. After the Rate Plan Period and until such time, the sharing of earnings
3 above 11% pursuant to Section 4 will be performed on an annual basis and any customer
4 share of shared earnings will be refunded or credited to customers annually as determined
5 by the Commission. In recognition of the potential for increased customer installation of
6 on-site non-emergency generation the Company reserves the right to propose Back-Up
7 Service charges for Commission review and approval at such time in the future as may be
8 appropriate.

9
10 **V. RATE PLAN SETTLEMENT FOR ENERGYNORTH**

11 **Q. Would you please describe the major features of the EnergyNorth Merger Rate**
12 **Agreement?**

13 **A** Yes, the EnergyNorth Merger Rate Agreement, Exhibit 2 of the Main Settlement
14 Agreement addresses rate issues over a ten year period. It includes provisions for an
15 equitable 50/50 sharing of net synergy savings expected to be produced by the Merger
16 between customers and the Company and contains the following subsections which we
17 will be discussed individually:

- 18 1. First Rate Case and One-Year Rate Freeze
- 19 2. Synergy Savings Allowance
- 20 3. Amortization of Costs to Achieve
- 21 4. Comparison to Merger Benefits in New York
- 22 5. Cast Iron/Bare Steel Replacement Program

1 6. Call Answering Time

2 7. Operating Commitments and Annual Report

3
4 **Q. Please describe the provisions of Section 1, First Rate Case and One-Year Rate**
5 **Freeze.**

6 A. Based on recent financial performance, EnergyNorth has not been earning its allowed rate
7 of return. Pursuant to the provisions of Section 1 of the EnergyNorth Merger Rate
8 Agreement Settlement, EnergyNorth agrees to make its first rate case filing no later than
9 six months from the closing of the Merger, to change distribution delivery rates (“First
10 Rate Case”) and will request temporary rates to be implemented no earlier than twelve
11 months from the closing of the Merger. Thus, customers will see no change in
12 distribution delivery rates for a period of at least one year from the closing of the Merger.
13 In order to calculate a pre-Merger, stand alone, cost of service, for purposes of this First
14 Rate Case, the Company will use a test year based on the twelve month period ending
15 with the quarter immediately preceding the closing date of the Merger. With a few
16 exceptions, this is designed to essentially establish rates based on the cost incurrence
17 prior to the Merger. Because of the effect of the Merger announcement on the
18 Company’s costs during this test year period, however, the Company will be allowed to
19 make a normalizing adjustment to test year amounts for the effects of employee attrition
20 caused by the Merger announcement during the test period. EnergyNorth will submit an
21 updated depreciation study and the Settling Parties and Staff have agreed to the use of a
22 capital structure composed of fifty percent equity and fifty percent debt with interest on

1 the debt component determined by using the average rate of borrowings by the Company.

2 The ROE to be used will be determined in the case. However, if the Company's actual
3 average common equity ratio falls below 50%, any party may contend that the use of the
4 average actual capital structure is more reasonable than the use of the imputed capital
5 structure. Because the Company is required to perform a market valuation of the assets in
6 its pension and OPEB plans as of the closing date of the Merger and fair value the assets
7 in each plan, the Company will defer the recognition of any unrecognized gains or losses
8 resulting from such valuation to a regulatory liability or asset, respectively. The resulting
9 regulatory liability or asset will be amortized to expense over a period equal to the
10 average estimated remaining service lives of the employees in the plan. Finally, the
11 Company will not be permitted recovery of the acquisition premium from the Merger (or
12 any prior mergers) in the First Rate Case or any other subsequent rate case.

13 As mentioned earlier, the EnergyNorth Merger Rate Agreement Settlement provides for a
14 50/50 sharing of net synergy savings expected to be produced by the Merger between
15 customers and the Company. While all of the expected annual savings are not expected
16 to be achieved for several years, EnergyNorth will provide customers their 50% share of
17 the net synergy savings, or \$619,000 annually, immediately. Because the First Rate Case
18 proformed test year cost of service will not include any synergy savings, the customer
19 share of \$619,000 will be deducted from the proformed test year cost of service in order
20 to provide customers with the immediate benefit. The net synergy savings amount is
21 based on EnergyNorth's estimated share of steady state Merger savings of \$200 million
22 annually less the ten-year amortization of its share of one-time CTA of \$400 million. The

1 total annual net synergy savings produced by that calculation equals approximately
2 \$1,238,000, 50% of which will be credited immediately to customers in the First Rate
3 Case.

4
5 **Q. Would you now summarize the Synergy Savings Allowance of Section 2?**

6 A. Section 2 describes the method of valuing EnergyNorth's share of net synergy savings
7 ("Savings Allowance") as well as limitations on including the Savings Allowance in rate
8 cases subsequent to the First Rate case. The Company is required to perform a savings
9 proof within five years of the closing of the Merger to establish the Savings Allowance
10 for the balance of the ten year period. The savings proof will occur in the second rate
11 case filed by the Company within the first five years after the closing of the Merger or
12 alternatively, if a second rate is not filed, in a separately filed savings proof and Savings
13 Allowance demonstration no sooner than four years and six months and no later than five
14 years after the closing of the Merger. It is expected that essentially all of the Merger
15 synergy savings for EnergyNorth will be administrative in nature. Consequently, the
16 Savings Allowance will be measured based on EnergyNorth's administrative and general
17 expenses charged to FERC "900 accounts". As shown in Exhibit EN-1, EnergyNorth will
18 compare its actual FERC "900 accounts" expense for the measurement year to actual
19 calendar year 2005 FERC "900 accounts" expense as escalated for inflation. The Savings
20 Allowance will be allowed as a recoverable expense in the next EnergyNorth initiated
21 cost of service rate case filing, subsequent to the First Rate Case, occurring within the ten
22 year rate plan period of the EnergyNorth Merger Rate Agreement, ("Second Rate Case").

1 However, the Company will be allowed to add back the Savings Allowance to its cost of
2 service in any cost of service rate case not initiated by the Company if such rate case
3 precedes a third Company initiated rate case filing. The Company will forfeit its ability
4 to add back the Savings Allowance if it files a third rate case within the ten year rate plan
5 period. After the ten year rate agreement, no Savings Allowance will be permitted in the
6 Company's cost of service and the Company will be subject to an annual earnings sharing
7 mechanism until the time of the Company's next base distribution rate change. For
8 purposes of the earnings sharing mechanism, EnergyNorth will use the Commission-
9 approved imputed or actual capital structure and cost of capital determined using the last
10 Commission-approved return on equity and updated cost of debt in effect at that time.
11 Annual earnings over the Company's last approved ROE will be shared 50% for
12 customers and 50% for the Company.

13
14 **Q Please explain Section 3, Amortization of Costs to Achieve.**

15 A. The provisions of this section are similar to those described earlier for Granite State.
16 EnergyNorth will defer actual CTAs and amortize them to expense, with return, over a
17 period of 10 years commencing with the effective date of rates from the First Rate Case.
18 EnergyNorth's estimated annual amortization, with return, totals \$409,203. This estimate
19 will be used as the initial annual amortization amount. The Company will separately
20 track, record and report annually to the Commission by May 1 for the previous calendar
21 year actual CTA incurred to date and the annual amortization amount will be adjusted
22 accordingly.

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Q. Would you please summarize the Comparison to Merger benefits in New York, Section 4?

A. The Merger also requires the approval of The New York Public Service Commission. As such, the Company has agreed to include with the filing of the First Rate Case, a comparison of economic benefits of the Merger accruing to affected New Hampshire gas delivery customers of EnergyNorth (“New Hampshire Customers”) to those being realized by affected New York gas delivery customers of KeySpan Energy Delivery-LI and KeySpan Energy Delivery- NY (“New York Customers”) pursuant to a settlement or litigated outcome of the Merger petition in New York. The economic analysis will compare the net present value of the New Hampshire Customers’ share of net synergies pursuant to this agreement to the net present value of New York Customers’ share of net synergy savings produced by applying the customer share of net synergy savings established in New York. Because EnergyNorth has committed to delay the implementation of required rate relief for one year from the closing of the Merger, in contrast to the immediate rate increases expected to be implemented by the New York companies, the comparison will include an economic valuation of the avoided rate increase ultimately determined by the Commission in New Hampshire for EnergyNorth. If it is determined that the total economic benefits were greater for the New York Customers, on a proportional basis, the Company will be required to provide additional credits to EnergyNorth customers in its First Rate Case filing to provide an equivalent economic benefit.

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Q. How will the Cast Iron/Bare Steel Replacement Program, Section 5, Operate?

A. The Settling Parties and Staff were in agreement that a program to accelerate the replacement of EnergyNorth’s cast iron and bare steel (“CIBS”) pipe was appropriate, as more fully described in Exhibit EN-3. Similar to Granite State’s REP and REP Capital Investment Allowance, EnergyNorth will commit to invest incremental capital to accelerate the replacement of its CIBS. An annual base level of CIBS replacement of \$500,000, excluding replacement of cast iron and bare steel pipes required in public works projects and/or carried out pursuant to the main encroachment policy in effect on January 1, 2007, was established. The CIBS replacement plan commences April 1, 2008 (FY 2009). By January 15, 2008, and annually thereafter, EnergyNorth will provide a copy of its CIBS replacement plan for the upcoming fiscal year to the Settling Parties and Staff for their review and comment. The Company will meet with the Settling Parties and Staff in technical sessions to discuss the Plans, obtain comments, and answer any questions on the Plan to be implemented for the subsequent fiscal year. An updated and finalized CIBS replacement plan will be provided to the Settling Parties and Staff by May 1st upon completion of the Company’s winter frost patrols in early April. It is recognized that events may require reprioritization of activities during the plan year, such changes deemed appropriate by the Company will be communicated to the Settling Parties and Staff for review and discussion.

Q. Will there be a rate adjustment each year?

1 A. Yes. Again, similar to the Granite State REP Capital Investment Allowance,
2 EnergyNorth would be permitted a CIBS Capital Investment Allowance. Annually, On
3 May 15, EnergyNorth will file a report with the Commission detailing the actual amount
4 of capital investments made in accordance with implementing the CIBS Plan during the
5 prior fiscal year and the associated incremental revenue requirement associated with the
6 capital investments in excess of the CIBS base level of \$500,000. Provided that the
7 investments were made in accordance with the CIBS Plan accepted by the Settling Parties
8 and Staff, the Company will be allowed a permanent increase in its base delivery rates to
9 recover the incremental annual revenue requirement effective July 1 for the preceding
10 fiscal year's incremental investment as illustrated on Exhibit EN-3 Attachment A. This
11 permanent base delivery rate adjustment will first take effect for usage on and after July
12 1, 2009 and annually on July 1 thereafter.

13
14 **Q. Please summarize the commitments included in Section 6, Call Answering Time.**

15 A. EnergyNorth has agreed to answering 80% of calls within 30 seconds by the end of the
16 first full calendar year following the closing of the Merger and to maintain that
17 performance standard until its customer information system is consolidated with the rest
18 of National Grid. If EnergyNorth believes the costs or other consequences incurred to
19 achieve this standard would be imprudent and the Settling Parties and Staff concur, a new
20 call answering standard may be negotiated in good faith, taking into account the needs of
21 customers. In any event, once EnergyNorth's customer information system is
22 consolidated with the rest of National Grid, the Settling Parties and Staff have agreed to

1 negotiate in good faith service quality standards pertaining to customer service. The
2 Company will provide monthly reports of call answering results to the Settling Parties
3 and Staff and meet with them at least every 6 months to review its customer service
4 commitment performance. Finally, the company will provide annual call answering
5 performance reports. If the Settling Parties and Staff believe customer service is being
6 materially compromised by poor performance, they may petition the Commission to
7 investigate the Company's service quality performance which may include establishing
8 service quality performance standards with financial penalties associated with future
9 performance, together with consideration of offsets and incentives.

10
11 **Q. Would you discuss briefly the Operating Commitments and Annual Report**
12 **provisions contained in Section 7?**

13 A. Yes. In summary, and as more fully explained in Section 7 of the EnergyNorth Merger
14 Rate Agreement, the Company has made commitments surrounding the following:

- 15 A. Ownership of System
- 16 B. Cast Iron Encroachment Policy
- 17 C. Critical Valves
- 18 D. Annual Operating Report for Items 5, 7, 8 and 14 below
- 19 E. Aldyl A Pipe
- 20 F. Contact Information
- 21 G. Outside Contractor Activities
- 22 H. Quality Assurance/Quality Control (QA/QC) System Program Update

1 I. Marking of Underground Facilities

2 J. Operator Qualification (OQ) Plan Compliance

3 K. Location of Operation Centers

4 L. Peak Shaving Facilities

5 M. Internet Access to Operations Manuals and Procedures

6 N. Emergency Response Time

7
8 **Q. Is there anything you would like to add related to these commitments?**

9 A. Yes. We believe that most of the commitments above are self explanatory and require no
10 further discussion here. We would, however, like to take a moment to discuss two of
11 them.

12
13 **Q. What is the first one you would like to discuss?**

14 A. The commitment relating to the marking of underground facilities. Specifically, the
15 Company has committed that for at least two years from the date of the Merger, it will
16 continue to use Company employees to mark underground facilities. Even more
17 important, the Company is committing that if at any time after the two years it decides to
18 use outside contractors, it must notify the Settling Parties and Staff at least six months in
19 advance. If the Staff has any concerns about this proposal, the Settling Parties and Staff
20 may request the Commission to review the matter. During the pendency of the
21 investigation, the Company may not use outside contractors. Thus, if the Settling Parties
and Staff determine that there are safety, service quality, or reliability reasons why the

1 Company should not be permitted to use outside contractors, they have the ability to refer
2 the matter to the Commission. Only if the Company can meet the burden of showing that
3 it would not result in a degradation to service quality, safety, and reliability could the
4 Company implement the proposed change.

5
6 **Q. What is the other commitment you wish to address?**

7 A. The Emergency Response Time commitments and potential Company incentive included
8 in Item N. Commencing with calendar year 2008, the Company has agreed to the annual
9 average emergency response time standards set forth in Exhibit EN-4 of the EnergyNorth
10 Merger Rate Agreement. The Company will report on its performance against these
11 annual average targets for the year. If the Company misses the targets, it must provide an
12 explanation to the Settling Parties and Staff. If the Settling Parties and Staff are not
13 satisfied with the explanation and believe safety is being materially compromised by the
14 Company's poor performance, they may petition the Commission to investigate the
15 Company's Emergency Response Time which may include establishing service quality
16 performance standards with financial penalties associated with future performance,
17 together with consideration of offsets and incentives. Recognizing that there are
18 incremental costs in achieving these emergency response time standards and to provide an
19 incentive to the Company to achieve compliance with the average annual standards earlier
20 than for the twelve months ended December 31, 2008, the Settling Parties and Staff have
21 agreed to allow the Company to earn an incentive for early compliance with the
22 standards.

1
2 If the Company achieves the annual average standards for the twelve month period ending
3 August 31, 2008 and maintains compliance in each subsequent rolling twelve month
4 period through December 31, 2008, it will be allowed an incentive of \$600,000. The
5 incentive is reduced by \$50,000 for each subsequent rolling twelve month period if
6 continued compliance is not maintained. If compliance is missed in an interim twelve
7 month period, the maximum incentive the Company could earn would be measured by
8 the incentive for the subsequent twelve month period for which continued compliance
9 through December 31, 2008 is maintained. The incentives for continued compliance
10 beginning with the twelve month period ending September 30, October 31, November 30
11 and December 31, 2008 are \$550,000, \$500,000, \$450,000 and \$400,000, respectively.
12 For example if the Company achieves compliance with the annual average standards for
13 the twelve month periods ending August 31, September 30 and October, 31, 2008, then
14 misses the standards for the twelve months ended November 30, 2008 and regains
15 compliance for the twelve month period ended December 31, 2008, the earned incentive
16 would be \$400,000. No incentive would be earned if the Company misses the standards
17 for the twelve month period ended December 31, 2008. Any incentive earned will be
18 deferred and recovered in rates established in the First Rate Case or in the Company's
19 next local distribution adjustment charge rate change, whichever is earlier. The Company
20 will be allowed to include the full costs of complying with these standards in its First
21 Rate Case cost of service. If an extraordinary event beyond the Company's control
22 occurs, to which the Company appropriately responds and the response to such

1 circumstances and events causes the Company to miss its performance measures for
2 emergency response during the measurement periods, the Company reserves its right to
3 request exclusion of the response calls received during the event from the calculation of
4 the measures. The Company's request must prove the extraordinary nature of the event
5 and the appropriateness of its response and the Settling Parties and Staff may take any
6 position they deem appropriate. If such an event were to occur, the Company agrees to
7 meet with the Settling Parties and Staff before making any filing.

8
9 **VI. COMPLIANCE WITH ALTERNATIVE FORM OF REGULATION**
10 **PROVISIONS**

11
12 **Q. Does the Granite State Rate Plan constitute an “alternative form of regulation”,**
13 **within the meaning of Commission regulations?**

14 A. The answer to this question may largely be a legal question and could be debated. To
15 obviate the need for that debate, we will show that the Granite State Rate Plan meets all
16 the requirements under the Commission's regulation for approval of an alternative form
17 of regulation. But, in fact, looking at the definition in the Commission's regulations, we
18 do not believe that the plan itself necessarily fits the definition in all respects.

19
20 **Q. Why?**

21 A. The definition states that an alternative form of regulation is a method of utility rate
22 regulation “other than methods which are based upon cost of service, rate base and rate of
23 return.” We believe that every rate-related component of the plan has its basis in cost of
service ratemaking. As explained earlier, the starting point for the rates is our 2006 cost

1 experience. Even the special adjustment provisions associated with the REP and VMP
2 are cost of service based. The only components that veer away from traditional
3 ratemaking are the earnings sharing mechanism and the five year nature of the plan that
4 permits exogenous event adjustments. But even the sharing mechanism is based on a
5 cost of service calculation and the exogenous events triggers are tied to revenue
6 requirement impacts based upon cost of service analysis. Thus, while the plan is
7 different than a fully litigated cost of service case, it may be more akin to a cost of service
8 rate case settlement than alternative regulation.

9
10 **Q. Assuming the Granite State Rate Plan was deemed to be a form of alternative**
11 **regulation, does the plan meet the requirements of the regulations?**

12 **A.** Yes. We believe that it does and we can show this by addressing each section of the
13 Commission's regulations on alternative forms of regulation.

14
15 **Q. Please refer to section 206.05 of the regulations and walk through each of**
16 **subparagraphs (a) through (f), as they may apply to the Granite State Rate Plan.**

17 **A.** Certainly. First, subparagraph (a) requests that the company identify the "form of
18 regulation it seeks." In this case, the form of regulation is essentially modified cost of
19 service ratemaking. The modifications relate to the limitations on rate changes,
20 exogenous event provisions, the changes that would be permitted under the REP and
21 VMP, and the earnings sharing mechanism.

1 **Q. What about subparagraph (b), relating to what part of the business the plan affects?**

2 A. Subparagraph (b) requires the company to indicate whether the plan applies to its entire
3 operations or portions of its service or operations. In this case, the plan applies to Granite
4 State's electric distribution operations. However, it is important to point out that the
5 plan does not affect current rules relating to default service, stranded cost recovery,
6 transmission cost recovery, and matters pertaining to the systems benefit charge.

7

8 **Q. To respond to subparagraph (c), what is the term of the plan?**

9 A. Assuming the Merger closes, the term of the Rate Plan Period is for up to 5 ½ years,
10 ending December 31, 2012. However, there are components of the plan that continue
11 after 2012, including amortization of CTA which lasts through 2017. In addition, until
12 the first base distribution rate change occurring after 2012 arising out of a rate case for a
13 period after the rate plan, the REP and VMP and the earnings sharing mechanism remain
14 in place.

15 **Q. What about the form of regulation that will apply after the Granite State Rate Plan
16 expires, as indicated in subparagraph (d)?**

17 A. Rate regulation of Granite State reverts to a traditional cost of service ratemaking after
18 the Rate Plan Period.

19

20 **Q. What about subparagraph (e), which asks how the rates charged under the
21 alternative form of regulation would compare to rates that would be charged under**

1 **methods which are based upon cost of service, rate base and rate of return, if the**
2 **utility were to file a rate case concurrently?**

3 A. We believe that the rates that will be in effect after the second rate reduction occurring on
4 January 1, 2008 represent a settled cost of service rather than a fully litigated cost of
5 service. As explained earlier, the starting point for the rates negotiated under this plan
6 were based on adjusted calendar year 2006 operating results that were deemed to
7 approximate the rate year revenue requirements of a cost of service rate case. While a
8 fully litigated case might change this up or down by some amount, we are in the range of
9 the result of such a case. For the remainder of the period, the rates will only be adjusted
10 for specified costs attributable to the REP and VMP, exogenous events or changes in
11 funding levels for the Storm Contingency Fund if deemed appropriate by the
12 Commission. Thus, the plan is consistent with underlying cost of service ratemaking
13 methodologies throughout the period.

14
15 **Q. What about subparagraph (f), requesting additional information?**

16 A. We believe it is fair to say that the balance of this testimony addresses the other areas that
17 the negotiated Granite State Rate Plan affects. Thus, the testimony as a whole addresses
18 this request.

19
20 **Q. Please turn to the Commission's regulations in Puc 206.06. In that part,**
21 **subparagraph (a) requires a petition to be filed. How does this plan comply?**

1 A. The Company has actually filed a settlement in lieu of a petition. We believe the
2 settlement and this testimony stands in place of the formal petition to meet the
3 requirement.

4

5 **Q. Subparagraph (b) requests a description of the effects, if any, on several areas. Can**
6 **you address the first area under subsection (1), referenced as the effect on**
7 **“competition?”**

8 A. Yes. In this case, there is no impact on competition. It would appear that this section was
9 intended to address regulated entities that have competitors, such as the
10 telecommunications industry. In the case of Granite State, it is not in competition for its
11 distribution delivery service. Moreover, the only part of its business that has competitors
12 offering service is commodity service and this rate plan has no effect on default service
13 regulation.

14

15 **Q. Subsection (2) refers to the effect, if any, on the safety, adequacy and reliability of**
16 **public service. Can you respond to this?**

17 A. Yes. With respect to safety, there is no impact. The Company will continue to conduct
18 its business as usual and remains fully regulated by the Commission with respect to safety
19 issues. With respect to adequacy and reliability, the same can be said, except that the
20 plan calls for enhancements to reliability. Specifically, we believe the REP and VMP
21 will provide a very positive mechanism that will allow the Company to improve
22 reliability over the course of the Rate Plan.

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Q. Subsection (3) refers to the traditional regulatory balance which does not unfairly benefit or disadvantage utility consumers, utility investors and other stakeholders. Can you respond to this?

A. Yes. We believe the Granite State Rate Plan strikes a very good balance and aligns the interests of all stakeholders. Customers are provided with the benefit of immediate rate relief, while the Company, through the Sharing Threshold, is given the proper economic signals to operate efficiently and to maximize the achievement of synergy savings from the Merger. This benefit alignment also exists to the extent the Company is successful in achieving Merger savings and efficiencies greater than anticipated and contributing to the Company's earnings growing above the Sharing Threshold of an average 11% ROE. In such an event, customers and the Company will enjoy an equitable 50/50 sharing of incremental earnings. The Granite State Rate Plan also brings rate stability to the distribution component of customer bills, by limiting rate changes to those specified in the plan.

Q. Subsection (4) refers to administrative efficiency in the regulatory process, how does the plan affect this component?

A. We believe that the negotiation of this rate plan represents a very efficient result and the mechanisms built in allow for fairly straightforward regulatory review and activity through the five year period. While the REP and VMP will generate some annual reviews, it is set up in an efficient manner that allows the Settling Parties and Staff to

1 interact both informally and formally with the Company each year, with the common goal
2 of enhancing reliability.

3
4 **Q. Subsection (5) relates to economic development. Does the plan relate to this subject?**

5 A. Only in an indirect way does the Granite State Rate Plan relate to this issue. That is, there
6 is a distribution rate reduction, followed by limits on increases over the five years. To
7 the extent this helps stabilize the cost to businesses, it may help economic development.

8
9 **Q. Subsection (6) relates to access to basic utility service to residents. Is this subject
10 implicated?**

11 A. No. This subject is not affected by the Granite State Rate Plan. There is no change to
12 any service requirements for customers.

13
14 **Q. Subsection (7) refers to innovation of services. Is this subject implicated?**

15 A. Not directly. However, the plan does provide an incentive for the company to maximize
16 efficiencies from the Merger.

17
18 **Q. Subsection (8) refers to infrastructure improvements. Is this subject impacted by
19 the Rate Plan?**

20 A. Yes, in a very positive way. One of the key components of the Granite State Rate Plan is
21 the REP and VMP. This allows the Company to move forward with a program to
22 improve reliability, including capital investments.

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Q. The final subsection (9) refers to environmental safeguards and incentives. What about this section?

A. We do not believe this subject is implicated. Regulation by the Commission and other environmental agencies over the company remains unchanged by the rate plan on the subject of environmental issues.

Q. Part 206.07 of the Commission’s regulations sets forth the standards for approval. Can you please explain why the Company believes the Granite State Rate Plan meets this standard?

A. Yes. The first standard requires that rates are not unduly discriminatory and are at a level that allows those to whom a service is being marketed to obtain such service. In the case of the Granite State Rate Plan, the company’s current rate classifications remain unchanged and the proposed rate reduction is being allocated on an equal basis, as shown in Exhibit GSE-3A and GSE-3B. Further, all customers remain able to obtain service without change to current requirements.

Q. As referenced in subparagraph (2), does the Granite State Rate Plan provide the company with the opportunity to realize a return on its investment which falls within a range that is neither confiscatory nor unduly profitable and that reflects the utility’s investment risk?

1 A. Yes. The starting point for the rates is based on 2006 operating results, and a ROE of
2 9.67%. While the Company may have taken the position that the ROE should have been
3 higher, we recognized that this was the ROE allowed by the Commission in other recent
4 utility cases. Thus, we accepted the compromise of settling on this return. As discussed
5 earlier, to the extent that the Company operates very efficiently and achieves substantial
6 synergy savings from the Merger, the Granite State Rate Plan has in place an earnings
7 sharing mechanism that provides for an equitable sharing of earnings over a sharing
8 threshold of 11% between customers and the Company. Thus, there is a safeguard built
9 in to assure that the plan does not become “unduly profitable.”

10

11 **Q. The final standard requires that the plan serve the public interest in light of the**
12 **considerations described in Puc 206.06(b)(1) through (9). Is this standard met?**

13 A. Yes. Based on a review of the preceding point by point explanations of how the plan
14 affects these criteria, it is fair to say that the Granite State Rate Plan is in the public
15 interest, results in just and reasonable rates and provides the Company with the
16 opportunity to realize a reasonable return on its investment.

17

18 **VII. CONCLUSION**

19 **Q. Does that conclude your testimony?**

20 A. Yes it does.