STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 06-107

In the Matter of:
National Grid/KeySpan Energy Corporation
Joint Petition for Approval of Merger

ORIGINAL
N.H.P.U.C. Case No. DG 06-107
Exhibit No. 8
Witness Panel 1
DO NOT REMOVE FROM FILE

Direct Testimony

of

Stephen P. Frink
Assistant Director, Gas & Water Division

May 15, 2007

New Hampshire Public Utilities Commission

National Grid plc &
KeySpan Corporation

Joint Petition for Approval of Merger

DG 06-107

Testimony
Stephen P. Frink

Q. Please state your name, occupation and business address.

A. My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities Commission (Commission) as Assistant Director of the Gas & Water Division. My business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

Q. Please summarize your educational and professional experience.

A. Please see ***Attachment SPF-1***.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to summarize and support the Settlement Agreement (Settlement) between Staff, Office of the Consumer Advocate (OCA) and National Grid on the merger of National Grid and KeySpan as it relates to EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (ENGI or Company).

Q. Please summarize the merger proposal contained in the Joint Petition.

A. The petition estimated company wide savings of approximately $200 million and a total cost to achieve (CTA) of $400 million, with an allocated net savings of $12.8 million to ENGI over ten years. The petition proposed that: prior to ENGI filing its first rate case, all synergy savings would accrue to ENGI; ENGI delivery rates be frozen for one year beyond the closing; ENGI be allowed to add 50% of the estimated annual savings to its revenue requirement in future rate cases; estimated CTA be amortized over 20 years; and, ENGI would not seek recovery of the acquisition premium associated with the merger.

The petition stated that ENGI expected the merger to create gas supply benefits to be reflected in ENGI's cost of gas rates and to improve ENGI's response to customer telephone calls by updating the service quality standards at the time of ENGI's next delivery rate case. In addition, the merger would allow ENGI to avoid capital investments and billing and information systems costs that would otherwise be incurred by a stand-alone company.

Q. What were some of Staff's concerns related to the proposal?

A. Concerns with the proposed rate treatment included: if there are substantial savings, ENGI may over earn and customers would not share in those savings until delivery rates were adjusted through a future rate case proceeding; if net savings were never realized, not only would ratepayers not get the benefit of reduced costs, they would be paying additional costs as ENGI would be recovering 50% of projected net savings; and, projected CTA would be amortized over 20 years though actual CTA could be considerably less, in which case ratepayers would be paying for costs not actually incurred.

The Petition did not address public safety issues that have arisen since the KeySpan/ENGI merger. The number of leaks on ENGI's system has increased, as has the time it takes ENGI to respond to odor complaints (emergency response time). The ENGI emergency response time has increased to the extent that the Gas Safety Division filed a memorandum with the Commission on December 14, 2006, requesting that the Commission require ENGI to begin reporting emergency response times on a monthly basis and suggesting the Commission consider initiating a rule change to establish response time performance standards.

Q. Please summarize the terms of the Settlement.

A. Key elements of the Settlement as it relates to ENGI's first delivery rate filing include:

- Delivery rate filing no later than six months from the merger close;
- Delivery rates frozen until 1 year beyond the merger close;
- First rate filing to credit 50% of estimated annual net savings to ratepayers;
- CTA amortized over 10 years;
- Imputed capital structure of 50% debt and 50% equity.

Key elements of the Settlement as it relates to ENGI's second delivery rate filing include:

- 50% of proven annual net saving added to revenue requirement;
- Actual net annual savings determined no later than 5 years from the merger close;
- No net savings added to revenue requirement in subsequent rate filings;
- If second rate case filed 10 years beyond the close of the merger, no net savings added to the revenue requirement;
- Actual CTA amortized over 10 years.

Key elements related to customer service and safety standards include:

- Improve call answering to 80% within 30 seconds;
- Minimum annual investment in replacement of cast iron and bare steel mains;
- Use of in-house personnel for marking underground facilities for at least 2 years;
- Establishment of emergency response time standards.

Q. How does the Settlement address Staff's concerns related to rate issues?

A. ENGI ratepayers will benefit from projected net synergy savings. ENGI must file a rate case within 6 months of the merger and include 50% of the estimated annual net savings, meaning customers will realize the expected merger savings when delivery rates are adjusted after year one. This is significant because the CTA are greatest in the first year and annual savings at their lowest, as cost saving measures are implemented over time following the close of the merger. Ratepayers will be credited substantial net merger savings before those savings are actually, if ever, realized.

When calculating the revenue requirement in the first rate case, ENGI will use an imputed capital structure of 50% debt and 50% equity rather than the current capital structure of 40% debt and 60% equity. The imputed capital structure is more balanced and is expected to reduce the overall allowed rate of return, thereby avoiding higher rates due to the Company being disproportionately financed by equity.

If ENGI files a second rate case within five years of the close of the merger, ENGI will be allowed to add 50% of proven annual net merger savings to the revenue requirement. The savings will be determined by comparing ENGI administrative and general expenses (primarily corporate service charges) with those calendar year 2005 benchmarked expenses adjusted for inflation. The benchmarked expenses do not include New Hampshire field personnel, thereby eliminating any incentive to reduce field personnel in order to earn 50% of those savings in a future rate case. ENGI will track the CTA and only recover actual CTA costs. The CTA will exclude costs associated with supplemental executive retirement plans such as golden parachutes.

If ENGI does not file a rate case within five years of the merger close, ENGI will make a savings proof filing at the end of year five. In ENGI's next delivery rate filing, it would be allowed to recover 50% of the proven savings determined in the savings proof filing, unless the next filing is 10 years beyond the merger close, in which case there would be no merger savings added to the revenue requirement.

In summary, ratepayers will benefit from anticipated net merger savings and ENGI may only share in proven net merger savings, as ratepayers receive 50% of anticipated net merger savings soon after the merger is consummated and ENGI shares in 50% of *proven* net merger savings through a one time rate adjustment.

Q. How does the Settlement address Staff's concerns related to customer service issues?

A. As a condition of the EnergyNorth/KeySpan merger, ENGI is required to file monthly reports on its call center performance. ENGI reported a service level of 80% of calls answered in 40 seconds for 2002 through 2004, 80% of calls answered in 120 seconds for 2005 and 80% of calls answered in 40 seconds in 2006.

The Settlement provides for ENGI to meet or exceed a call center performance standard of 80% of calls answered within 30 seconds by the end of the first full calendar year following the merger close, a clear improvement over the level of customer service provided since the KeySpan/ENGI merger. As part of the merger integration plan, ENGI's customer information system will be consolidated with the National Grid system sometime after the merger. At that point, Staff will work with ENGI to develop a more comprehensive set of customer service standards, including any appropriate changes to the service level. Until a new set of customer service standards has been developed, ENGI's call center performance will meet or exceed 80% of calls answered in 30 seconds.

Q. How does the Settlement address Staff's concerns related to safety issues?

A. There are a number of measures related to safety, three of which I will touch upon. In particular, the Cast Iron/Bare Steel (CIBS) Replacement Program and establishment of emergency response time standards address Staff's concerns regarding the increase in gas leaks and emergency response time, and will be implemented upon approval of the Settlement, regardless of whether the merger is consummated. The third measure relates to ENGI continuing to use in-house personnel to mark gas lines.

The majority of system leaks occurs on cast iron and bare steel pipes. ENGI stopped installing cast iron mains and services in the 1950's and have also discontinued installing bare steel. The CIBS Replacement program is designed to accelerate the replacement of the cast iron and bare steel mains and services, the pipes most likely to develop leaks.

The Settlement also establishes emergency response times consistent with those achieved by ENGI prior to the KeySpan/ENGI merger, other New Hampshire gas utilities and required in other state jurisdictions.

Q. Please describe the CIBS Replacement Program.

A. Pipe replacement is driven by either external conditions (beyond the control of the Company, such as public works projects) or at the discretion of the Company (likely due to a high incidence of leaks or leak repairs on a segment of pipe). While ENGI has no control over the amount of pipe to be replaced due to external conditions, the CIBS Replacement Program requires ENGI to spend a minimum of $500,000 per year on discretionary CIBS pipe replacement. Discretionary expenditures above the base amount are eligible for recovery through an annual rate adjustment, subject to Commission review and approval. The program ensures that ENGI will invest a minimum of $500,000 annually in replacing mains and services most at risk of leaking and encourages additional investment if needed by providing ENGI the opportunity to recover prudent investments on a timely basis.

Q. When will ENGI be in compliance with the new emergency response time standards?

A. No later than January 1, 2008.

Q. Will ENGI be allowed recovery of the costs necessary to comply with the new emergency response standards?

A. Prudently incurred costs to meet the standard will be included in ENGI's first delivery rate case, to be recovered through rates beginning one year after the close of the merger. To achieve compliance at the earliest possible date and ensure compliance no later than January 1, 2008, ENGI intends to make the necessary investment as soon as practicable. The anticipated investment is substantial, expected to be well in excess of one million dollars. The Settlement establishes incentives ranging from $400,000 to $600,000 for meeting or exceeding the compliance date, thereby rewarding ENGI for achieving compliance as quickly as possible and enabling ENGI to recoup some of the compliance costs that would otherwise not be recovered through future rates. Failure to meet the compliance date will prevent ENGI from recovering any of its initial compliance costs.

Q. How does ENGI mark its gas lines for excavators and how has its performance been?

A. ENGI uses in-house personnel for marking its mains and services, as opposed to using outside contractors, and has performed well in this area.

Q. Is there an advantage to using in-house personnel to mark lines?

A. Yes. In-house personnel have a familiarity with the system that can make it easier to locate lines, identify and correct mapping errors and respond to related inquiries.

Q. How will ENGI mark its gas lines after the merger?

A. Although there is no regulatory requirement that ENGI use in-house personnel for marking lines, ENGI will continue to do so for a minimum of two years. Furthermore, ENGI will notify Staff at least six months in advance of any decision to use outside contractors and hold a technical session to explain the change and address any safety concerns Staff may have.

Absent the Settlement, ENGI would be within its rights to use outside contractors for line marking at any time without notice to Staff or the Commission.

Q. Are there increased costs related to the customer service and safety improvements?

A. While some improvements may be achieved through adopting 'best practices' and others achieved through efficiencies realized in connection with the merger, one would expect there to be some incremental costs related to raising customer service and safety standards above those being achieved at current costs. Additional costs, if any, have not been identified.

Q. Will ENGI be compensated for additional costs related to improved customer service and safety?

A. Other than the opportunity to recover investments above the base level established in the CIBS Replacement Program and incentives related to Emergency Response Standards, ENGI will not recover any additional costs absent a rate case. That said, ENGI will be filing a rate case within six months of the close of the merger and recovery of prudent costs will be begin one year following the close of the merger.

Q. How will Staff verify that the provisions in the Settlement will be adhered to?

A. In addition to reporting requirements established through Commission order and rules, the Settlement contains additional reporting requirements that will enable Staff to monitor progress towards meeting the provisions, and compliance with and maintenance of such standards thereafter.

Q. How does the Settlement compare to merger terms in New York?

A. The Settlement contains a provision that ensures ENGI ratepayers will share in the net synergy savings at a level no less than that granted ratepayers in New York, if, and when, those terms are established. As of this date, there is no settlement agreement in New York and the New

York Public Service Commission has not ruled on the National Grid/KeySpan merger.

Q. Any other Comments regarding the Settlement?

A. The Company's recent quarterly rate-of-return reports indicate that ENGI is earning well below its allowed rate of return and, therefore, a rate increase may be appropriate. The one year rate freeze ensures ratepayers will not see an increase in delivery rates until one year after the close of the merger and the new rates will contain a credit for anticipated net synergy savings. ENGI only shares in proven net merger saving, if any, through a one time adjustment to the revenue requirement in its second rate case, after which net merger savings flow entirely to ratepayers. The Settlement also precludes recovery of the acquisition premium, avoiding potential future litigation over that issue.

Under the terms of the Settlement ratepayers will see improved customer service, as customer calls will be answered more quickly, and public safety should improve as ENGI accelerates the replacement of mains and services prone to leaks and emergency response times decease.

Q. Please summarize your recommendations.

A. Staff recommends that the Commission approve the Settlement. Whether examined in terms of "no net harm" or "net benefits," the terms and conditions provided in the Settlement allow the transaction to meet either standard.

Q. Does that conclude your testimony?

A. Yes.

Attachment SPF-1

Stephen P. Frink

Educational & Professional Experience

Mr. Frink graduated from the University of New Hampshire with a Bachelor of Arts degree in Sociology in 1977 and a Masters in Business Administration in 1980. He attended and completed Depreciation Programs sponsored by Depreciation Programs, Inc. at Grand Rapids, Michigan in 1992, 1993, 1994 and is a member in good standing of the Society of Depreciation Professionals since 1994.

In 1981, Mr. Frink worked as a High School Math Teacher in Manchester, New Hampshire.

In 1982, Mr. Frink relocated to Texas and worked as an Auditor for Dallas County. He audited various county departments and performed monthly reconciliations of various fund accounts.

In 1985, Mr. Frink went to work for Schenley Industries, Inc., a wholesale liquor distributor located in Dallas, Texas, where he audited national and international manufacturing plants.

In 1986, Mr. Frink left Schenley to work for the City of Dallas as a Budget/Financial Analyst, where he prepared and monitored budgets, prepared pro forma statements, amortization schedules and performed cash flow analysis. He was promoted to Senior Analyst in 1987.

In 1988, Mr. Frink left the City of Dallas to work for the City of Austin as a Financial Analyst. There he prepared budgets and fiscal impact statements, developed a capital projects tracking and monitoring system, and provided training and technical assistance in the implementation of a new accounting system.

In 1990, Mr. Frink joined the Finance staff of the New Hampshire Public Utilities Commission. Working as a member of the PUC Audit Team, he conducted or participated in audits of the books and records of public utilities. He performed desk audits and determined rates of returns. He prepared schedules and exhibits supporting testimony in dockets involving rate increases and participated in settlement conferences. In 1995, Mr. Frink became a full time Analyst for the Finance Department and in 1996 was promoted to a Senior Analyst position, primarily responsible for analyzing and advising the Commission on issues of depreciation, cost of gas adjustment filings, special contracts, and finance and rate increase petitions. In 1998, Mr. Frink was promoted to Assistant Finance Director. As Assistant Finance Director, he assisted in the direction of all aspects of a department responsible for the audit, analysis and review of public utility financial operations, including financing, rate cases and various utility studies filings related to public utility regulation. In 2001, New Hampshire Public Utilities Commission operations were restructured and Mr. Frink became Assistant Director of the Gas & Water Division and now administers all aspects of regulation of gas utilities.