

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 18, 2006 - 10:40 a.m.  
Concord, New Hampshire

RE: DG 06-129  
NORTHERN UTILITIES, INC. - N.H. DIVISION  
Winter 2006-2007 Cost of Gas.

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

Diane Bateman, Clerk

**APPEARANCES:** **Reptg. Northern Utilities, Inc.:**  
Seth L. Shortlidge, Esq. (Pierce Atwood)

**Reptg. Residential Ratepayers:**  
Rorie Hollenberg, Esq.  
Kenneth E. Traum, Asst. Consumer Advocate  
Office of Consumer Advocate

**Reptg. PUC Staff:**  
F. Anne Ross, Esq.

Court Reporter: Steven E. Patnaude, CCR

ORIGINAL

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**I N D E X**

**PAGE NO.**

**WITNESS PANEL:**           **FRANCISCO C. DaFONTE**  
                                  **RONALD D. GIBBONS**  
                                  **JOSEPH A. FERRO (added at Page 12)**

Direct examination by Mr. Shortlidge           5  
Cross-examination by Ms. Hollenberg           12  
Cross-examination by Ms. Ross                 18

**WITNESS PANEL:**           **ROBERT WYATT**  
                                  **STEPHEN FRINK**

Direct examination by Ms. Ross                 38  
Cross-examination by Ms. Hollenberg           44

**CLOSING STATEMENTS BY:**

Ms. Hollenberg                                   46  
Ms. Ross   47  
Mr. Shortlidge                                   48

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**E X H I B I T S**

<b>EXHIBIT NO.</b>	<b>D E S C R I P T I O N</b>	<b>PAGE NO.</b>
<b>1</b>	Cost of Gas filing for the New Hampshire Division	<b>6</b>
<b>2</b>	Revision to Proposed Cost of Gas Adjustment for the Winter Period	<b>8</b>
<b>3</b>	<b>RESERVED</b> (Workpapers that support the conclusion that there have been some cost savings...)	<b>25</b>

**P R O C E E D I N G S**

1  
2 **CHAIRMAN GETZ:** Okay. Good morning.  
3 We'll open the hearing in docket DG 06-129. On  
4 September 15, 2006, Northern Utilities filed with the  
5 Commission its cost of gas rates for the period  
6 November 1, 2006 through April 30, 2007 and its Local  
7 Delivery Adjustment Clause rates and certain supplier  
8 charges for the period November 1, 2006 through  
9 October 31, 2007.

10 An order of notice was issued on  
11 September 22nd setting the hearing for this morning. I'll  
12 note for the record that the Office of Consumer Advocate  
13 has submitted a notice of participation, and that the  
14 affidavit of publication has been filed with the Clerk.

15 Can we take appearances.

16 **MR. SHORTLIDGE:** Good morning again, Mr.  
17 Chairman. Seth Shortlidge, of the law firm Pierce Atwood,  
18 on behalf of the Company, Northern Utilities. As I  
19 mentioned in the previous dockets, Ms. French was unable  
20 to join us today and asked that her appearance be entered  
21 into the record. Thank you.

22 **CHAIRMAN GETZ:** Good morning.

23 **MS. HOLLENBERG:** Good morning,  
24 Commissioners. Rorie Hollenberg and Kenneth Traum here

[Witness panel: DaFonte|Gibbons]

1 for the Office of Consumer Advocate.

2 **CHAIRMAN GETZ:** Good morning.

3 **CMSR. MORRISON:** Good morning.

4 **CMSR. BELOW:** Good morning.

5 **MS. ROSS:** Good morning, Commissioners.  
6 Anne Ross, with the Staff of the Commission. And, with me  
7 today is, on my left, Bob Wyatt, an analyst with the  
8 Gas/Water Division, and further to my left, Steve Frink,  
9 Assistant Director of the Gas/Water Division.

10 **CHAIRMAN GETZ:** Good morning. Is there  
11 anything we need to address, before you conduct your  
12 direct examination, Mr. Shortlidge?

13 **MR. SHORTLIDGE:** No. At this point, I'd  
14 like to call Mr. DaFonte and Mr. Gibbons to the stand.

15 (Whereupon **Francisco C. DaFonte** and  
16 **Ronald D. Gibbons** were duly sworn and  
17 cautioned by the Court Reporter.)

18 **FRANCISCO C. DaFONTE, SWORN**

19 **RONALD D. GIBBONS, SWORN**

20 **DIRECT EXAMINATION**

21 BY MR. SHORTLIDGE:

22 Q Good morning, Mr. DaFonte. Would you mind stating  
23 your name and address for the record.

24 A (DaFonte) Francisco C. DaFonte, and my business

[Witness panel: DaFonte|Gibbons]

1 address is 300 Friberg Parkway, Westborough,  
2 Massachusetts 01581.

3 Q And, Mr. Gibbons, would you mind stating your name  
4 and address for the record.

5 A (Gibbons) Ronald D. Gibbons, NiSource Corporate  
6 Services, 200 Civic Center Drive, Columbus, Ohio  
7 43215, representing Northern Utilities.

8 Q Thank you, Mr. Gibbons and Mr. DaFonte. I show you a  
9 very large document, and this is actually only half  
10 of the document, entitled "Northern Utilities New  
11 Hampshire Division Gas Cost Filing". And, within  
12 that document, there's the "Prefiled Testimony of  
13 Ronald D. Gibbons" and the "Prefiled Testimony of  
14 Francisco DaFonte". Is that your true and correct  
15 testimony?

16 A (Gibbons) Yes, it is.

17 A (DaFonte) Yes, it is.

18 **MR. SHORTLIDGE:** I would ask that the  
19 cost of gas filing be entered as "Exhibit 1".

20 **CHAIRMAN GETZ:** Be so marked.

21 (The document, as described, was  
22 herewith marked as **Exhibit 1** for  
23 identification.)

24 BY MR. SHORTLIDGE:

[Witness panel: DaFonte|Gibbons]

1 Q Now, Mr. Gibbons or Mr. DaFonte, do you have any  
2 changes or corrections you'd like to make at this  
3 time to your testimony?

4 A (DaFonte) I do.

5 Q Would you mind stating those for the record.

6 A (DaFonte) Yes. In my prefiled testimony, at Page 5,  
7 and Page 23 of the entire filing, Line 26, "CGF"  
8 should read "COG". I apologize for that. And, it  
9 appears throughout the testimony, again, on Page 6 of  
10 my direct testimony, and Page 24 of the filing, Line  
11 1 should also be "COG", instead of "CGF". Again, on  
12 Line 7, Line 10 as well. And, also again on Page 9  
13 of my testimony, and Page 27 of the filing, at Line  
14 22 and Line 26. Also, on Page 7 of my testimony,  
15 Page 25 of the filing, Line 25, the storage estimate  
16 should read "3,741,830 MMBtus", instead of the  
17 "2,727,915 MMBtus". That's all I have.

18 Q Mr. Gibbons, do you have any changes or corrections  
19 you'd like to make to your testimony?

20 A (Gibbons) Yes, I do. On Page 3 of my direct  
21 testimony, on Line 23, the "Prior Period  
22 Under-Collection" should read "2,248,403".

23 **MS. ROSS:** Sorry, what page was that?

24 **WITNESS GIBBONS:** Page 3 of my direct

[Witness panel: DaFonte|Gibbons]

1 testimony, Line 23, "2,248,403".

2 **BY THE WITNESS:**

3 A (Gibbons) Again, on Page 5, Line 25, there again  
4 "2,248,403". On Page 6, Line 3, the dollar amount  
5 there should be "2,122,758". And, on Line 4, once  
6 again that one is "2,248,403". And, one last  
7 correction, Page 9, Line 9, the propane rate should  
8 read "\$9.2593".

9 BY MR. SHORTLIDGE:

10 Q Thank you, Mr. Gibbons. Mr. Gibbons and Mr. DaFonte,  
11 I now show you a document entitled "Revision to  
12 Proposed Cost of Gas Adjustment for the Winter  
13 Period". Did you provide this to the Commission this  
14 morning?

15 A (Gibbons) Yes, we did.

16 Q And, is this a revision to your testimony that was  
17 marked as "Exhibit 1"?

18 A (Gibbons) Yes.

19 **MR. SHORTLIDGE:** I would ask that the  
20 revision be entered as "Exhibit 2". Unfortunately, I  
21 thought I had some extra copies of it, which I don't seem  
22 to be able to locate. But I'll give that copy over there.

23 (The document, as described, was  
24 herewith marked as **Exhibit 2** for



[Witness panel: DaFonte|Gibbons]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

identification.)

BY MR. SHORTLIDGE:

Q And, Mr. DaFonte and Mr. Gibbons, would you mind just briefly summarizing your testimony in this proceeding.

A (DaFonte) Sure. My testimony is designed to provide a summary of how the assets of Northern Utilities were utilized for the prior Winter of 2005-2006. And, also provide a forecast of how those same assets will be utilized, given normal weather conditions, for the 2006-2007 Winter Period.

A (Gibbons) The purpose of my testimony is to support the calculation of the Winter 2006-2007 cost of gas, and also support the prior winter, Winter 2005-2006, reconciliation of actual gas costs.

Q Mr. Gibbons, this morning have you had any discussions with the Staff regarding any issues associated with the lead/lag associated with collections in the cost of gas?

A (Gibbons) Just briefly.

Q And, based on those discussions, is it your understanding that the Company is willing to engage in further discussions regarding this issue and to work with the Staff regarding this issue?

[Witness panel: DaFonte|Gibbons]

1 A (Gibbons) Yes, it is.

2 MR. SHORTLIDGE: Thank you. No further  
3 questions.

4 CHAIRMAN GETZ: Ms. Hollenberg or  
5 Ms. Ross, have you had the opportunity to see what's going  
6 to marked for identification as "Exhibit 2", the revised  
7 filing?

8 MS. HOLLENBERG: Just briefly.

9 MS. ROSS: One of us has seen it. We,  
10 frankly, haven't had a chance to review it, because it  
11 came in this morning.

12 CHAIRMAN GETZ: Would it be helpful to  
13 take a brief recess, and then turn to the  
14 cross-examination after that?

15 MS. HOLLENBERG: Yes, please.

16 MS. ROSS: Yes.

17 CHAIRMAN GETZ: Is 11:15 a good time to  
18 come back?

19 MS. ROSS: Yes.

20 MS. HOLLENBERG: Yes.

21 MR. SHORTLIDGE: That's fine.

22 CHAIRMAN GETZ: Okay. Let's resume at  
23 11:15.

24 (Recess taken at 10:50 a.m. and the

[Witness panel: DaFonte|Gibbons]

1 hearing reconvened at 11:17 a.m.)

2 **CHAIRMAN GETZ:** Okay. We're back on the  
3 record. And, Ms. Hollenberg, do you have some questions  
4 for the witnesses?

5 **MR. SHORTLIDGE:** Actually, Mr. Chairman,  
6 before we get going, I'd like to just raise a quick  
7 procedural point. It's our understanding that the OCA and  
8 perhaps Staff may have some questions regarding an issue  
9 in which Mr. Ferro is very well versed. What we would  
10 like to do is have him -- have him respond to some of  
11 those questions. We can either put him on the stand now  
12 or we can wait until after cross-examination occurs and  
13 call him as a supplemental witness. I'm easy either way.  
14 But, if the Staff and OCA would consent, I think it would  
15 be better to have him on stand throughout, so that he can  
16 answer some of the questions as we're going through.

17 **CHAIRMAN GETZ:** Ms. Ross,  
18 Ms. Hollenberg, do you have an opinion on that?

19 **MS. ROSS:** We're happy to have Mr. Ferro  
20 join the panel, if that would expedite the process.

21 **CHAIRMAN GETZ:** Ms. Hollenberg, do you  
22 agree?

23 **MS. HOLLENBERG:** We have no objection to  
24 him joining the panel at this point in time. I think that

[Witness panel: DaFonte|Gibbons|Ferro]

1 our -- a question in our mind is whether or not we will  
2 ask questions of him, as we have discussed prior to the  
3 beginning of this hearing.

4 **CHAIRMAN GETZ:** Okay. Mr. Ferro.

5 **MR. FERRO:** Thank you.

6 (Whereupon **Joseph A. Ferro** was duly  
7 sworn and cautioned by the Court  
8 Reporter and joined the panel of  
9 witnesses.)

10 **JOSEPH A. FERRO, SWORN**

11 **CHAIRMAN GETZ:** Ms. Hollenberg.

12 **MS. HOLLENBERG:** Thank you. Just  
13 checking if it's morning or afternoon, I'm very confused  
14 this morning. Good morning.

15 **WITNESS DaFONTE:** Good morning.

16 **WITNESS GIBBONS:** Good morning.

17 **CROSS-EXAMINATION**

18 BY MS. HOLLENBERG:

19 Q I just have a few questions. And, I'll throw them  
20 out to the panel and you can answer them as you -- by  
21 whomever feels most appropriate to answer it. The  
22 first question I believe would be for Mr. Gibbons.  
23 And, as far as the revised filing is concerned, you  
24 indicate in the summary of the revisions, I guess

[Witness panel: DaFonte|Gibbons|Ferro]

1           it's Page 2 of the revised filing, which is  
2           Exhibit 2, certain revisions that have been made to  
3           the original filing. And, I would just like to ask  
4           you if -- this afternoon we are having a hearing on  
5           the capacity reserve charge proposed by Northern.  
6           And, I'm wondering if the resolution that the parties  
7           will be proposing in that hearing is incorporated  
8           somewhere in this revised filing?

9           A     (Gibbons) Yes, it is. I have credited the estimated  
10           cost of gas rate by \$51,000 to reflect the proposed  
11           settlement.

12          Q     And, could you indicate for the Commission where that  
13           credit can be found in the revised filing please?

14          A     (Gibbons) Yes. It's on Twenty-sixth Revised Page 38  
15           tariff sheet, which would be the page right behind  
16           the transmittal letter and summary of the revised  
17           filing changes, down towards the bottom, the last  
18           number before the total.

19          Q     And, just for purposes of clarification, is that  
20           revision indicated in the summary, which is the  
21           second and third pages of Exhibit 2?

22          A     (Gibbons) Yes, it is. It's in the second paragraph  
23           on the Page 1 of 2 of the summary.

24          Q     Thank you. I have a question, and I'm wondering what

[Witness panel: DaFonte|Gibbons|Ferro]

1 measures are in effect to prevent competitive  
2 suppliers and their customers from shifting costs to  
3 other customers, in other words, what measures are in  
4 effect to prevent gaming by competitive suppliers and  
5 their customers?

6 A (DaFonte) I can answer that. As part of Northern's  
7 tariff, a customer has to remain on a specific tariff  
8 service for at least one year before switching. So  
9 that a firm transportation customer who signs up for  
10 firm transportation service, say, November 1st, would  
11 not be able to jump back to the COG rate, for  
12 example, during the middle of the winter, if, for  
13 some reason, that rate should go down below what  
14 they're paying. So, they have to remain on that  
15 service for the next year. And, so, not until  
16 November 1st of 2007 would they be able to switch  
17 back to the sales rate.

18 In addition, once a firm transportation  
19 customer comes back to sales service, they lose their  
20 capacity exempt status. And, so, therefore, they  
21 would be assigned capacity by Northern Utilities.  
22 And, not that that necessarily is a bad thing. What  
23 it does is it gives those customers the option.  
24 Some, in fact, in the past have decided to come back

[Witness panel: DaFonte|Gibbons|Ferro]

1 in order to get our assets. But, again, the key here  
2 is that they have to remain on the service for one  
3 year, and that prevents some of the gaming based on  
4 price volatility.

5 Q Thank you. I'd like to ask -- I guess I'm going to  
6 direct this to Mr. Gibbons, but you can shift the  
7 responsibility of answering the question if I'm  
8 incorrect in doing so. The Company ended last winter  
9 with a \$2.2 million undercollection, do you agree  
10 with that?

11 A (Gibbons) Yes.

12 Q And, in the proceedings that provided or authorized  
13 the 2005 to 2006 Winter cost of gas, the Commission  
14 authorized a certain bandwidth within which the cost  
15 of gas could be lowered or raised without seeking  
16 some further permission from the Commission, do you  
17 agree with that?

18 A (Gibbons) Yes, a 20 percent bandwidth.

19 Q And, would you agree that the amount, the  
20 \$2.2 million undercollection, could have been reduced  
21 had the Company flexed the rates upwards towards the  
22 20 percent maximum within that bandwidth?

23 A (Gibbons) Yes, that is correct.

24 Q And, why didn't the Company flex the rates in that

[Witness panel: DaFonte|Gibbons|Ferro]

1 manner?

2 A (Gibbons) Mainly, for bill impact purposes. We had  
3 already lowered the rate 10 or 15 percent. And, so,  
4 to go 20 percent on the other side would have been  
5 really to have exceeded 20 percent, and we only had  
6 one month left in the winter. So, we elected to use  
7 a rate, the original rate for the winter, we brought  
8 it back up to where it had been, which resulted in  
9 about a 13.3 percent increase for the customers in  
10 the month of April. If we had gone all the way to  
11 the \$1.47, it would have been a 25.8 percent impact  
12 for one month. And, at that point in time, we  
13 already knew that the rate for the summer that we had  
14 proposed was going to be \$1.01, which was even lower  
15 than what the customers had been paying in March.

16 So, right or wrong, we elected to take  
17 about half of what the projected undercollection was  
18 shown in March and put it into April. If we had  
19 moved -- The impact of this winter, the 750,000, was  
20 about two and a half cents, as opposed to 19 cents on  
21 the rates, if we put all of it in in April. So, it's  
22 a bill impact decision.

23 Q And, would you agree that another consideration, in  
24 terms of whether or not to flex the cost of gas,



[Witness panel: DaFonte|Gibbons|Ferro]

1 would be the policy of keeping costs with the cost  
2 causers? Does that make sense?

3 A (Gibbons) Yes, that would be a consideration. A  
4 majority of the customers or virtually all of them  
5 last winter will be here this winter. But, yes,  
6 there would be -- there will be some movement on and  
7 off of the system from one year to the next.

8 Q Would you agree that carrying costs resulted as a  
9 result of not getting close to zeroing out that  
10 undercollection by not raising it to the height of  
11 the bandwidth?

12 A (Gibbons) Yes, there would be some interest impact.

13 A (Ferro) I think we should point out that the  
14 undercollection that resulted was not just because  
15 the Company elected not to increase the rate to its  
16 20 percent cap. But that, at the end of the period,  
17 when we did not have actuals for March and April, the  
18 actuals came in such that that exacerbated or added  
19 to the intended undercollection that was set due to  
20 just increasing the rate part of the way. So, the  
21 point is that, and we've said this in many other cost  
22 of gas proceedings, the Commission has a great  
23 mechanism to adjust the rate expeditiously late in  
24 the month, prior to the next month, to minimize

[Witness panel: DaFonte|Gibbons|Ferro]

1 under/over recoveries.

2 However, nothing's perfect. And, when  
3 you get late in the season, and you have one month  
4 left, and two months of actuals missing, with weather  
5 considerations, forecast variances, etcetera, an  
6 under or over recovery of some magnitude is very  
7 possible.

8 **MS. HOLLENBERG:** I don't have any  
9 further questions. Thank you.

10 **CHAIRMAN GETZ:** Ms. Ross.

11 **MS. ROSS:** Good morning, gentlemen.

12 **WITNESS DaFONTE:** Good morning.

13 **WITNESS GIBBONS:** Good morning.

14 BY MS. ROSS:

15 Q I'm going to begin with Mr. Gibbons. Were last  
16 winter's gas costs reviewed by the PUC Audit Staff?

17 A (Gibbons) Yes, they were.

18 Q And, what were the results of that audit?

19 A (Gibbons) The audit went quite well. There were a  
20 few minor issues, and those have all been resolved at  
21 this time and are reflected in the revised filing.

22 Q Thank you. I have a series of questions that we  
23 prepared based on the original filing, and the  
24 questions haven't been updated for the updated filing

[Witness panel: DaFonte|Gibbons|Ferro]

1 this morning. So, as I ask them, if the numbers in  
2 my questions are incorrect, if you would just update  
3 them as you respond, I would appreciate it.

4 A (Gibbons) Okay.

5 Q What percentage of gas supply volumes in this winter  
6 COG period forecast have costs that are already  
7 determined through pre-purchased storage injections,  
8 fixed contracts, hedges or other means?

9 A (DaFonte) I can answer that one. In my prefiled  
10 testimony, Page 9, Page 27 of the filing, I attempt  
11 to describe what our hedged volumes are for the  
12 winter period. And, in that question and answer, you  
13 will see that we have approximately 58 percent of our  
14 volumes hedged through underground storage, LNG and  
15 propane supplies. Leaving about 42 percent that is  
16 unhedged physically.

17 Of that 42 percent, we've hedged  
18 approximately 40 percent through our  
19 non-discretionary portion of our hedging plan, an  
20 additional four percent through the discretionary  
21 hedge, which includes hitting the first band on the  
22 targets for the April and May -- the months of April  
23 '07 and May '07. Giving us, again, about a  
24 44 percent hedge of that 42 percent, or, more simply,

[Witness panel: DaFonte|Gibbons|Ferro]

1 18.48 percent added to the 58 percent gives you a  
2 total of about 76 and a half percent of total normal  
3 winter requirements being hedged by either  
4 underground storage, LNG, propane or financial  
5 hedges.

6 Q So, would it be safe to say that the balance of 23  
7 and a half percent floats with the market?

8 A (DaFonte) That's correct.

9 Q Beginning at the bottom of Page 5 of your testimony,  
10 you identify an undercollection of 2.2 million. What  
11 do you attribute this undercollection to?

12 A (Gibbons) As we were just discussing, \$750,000 of  
13 that, or approximately \$750,000, was attributable to  
14 deciding to go ahead and let that roll into the  
15 following winter, because, when it's spread across an  
16 entire winter's volumes, the impact is very small.  
17 And, most of the rest of that was due to warmer  
18 weather in March and April.

19 Q And, warmer weather would have meant a lower volume  
20 of gas sales?

21 A (Gibbons) Yes, it would.

22 Q On Page 7, Line 17, of your testimony, you identify a  
23 net hedging loss of "980,544". Has this number been  
24 updated since the initial COG filing? And, what

[Witness panel: DaFonte|Gibbons|Ferro]

1 impact does this loss have on the proposed cost of  
2 gas rate?

3 A (Gibbons) Yes, it has been updated. The NYMEX prices  
4 that are used to calculate the estimated rate for the  
5 upcoming winter, there's an offset. As those prices  
6 come down, the hedging loss goes up. It's just the  
7 way the mechanism works. The estimated -- let me get  
8 the right -- the estimated hedging loss right now is  
9 \$1.5 million. However, that offsets -- that's been  
10 offset by more savings in the NYMEX calculation going  
11 down.

12 A (DaFonte) Yes, just to add to that. That's a  
13 projected loss at this point in time. Certainly,  
14 with -- given the volatility in the marketplace,  
15 prices for the winter months could certainly  
16 continue, they could go up just as easily as they  
17 have come down, and that hedging loss would also go  
18 down if the price goes up. So, given the number that  
19 we just discussed about the approximately 75 percent  
20 hedge, it's that remaining, you know, 25, 24 percent,  
21 roughly, that is subject to some movement in the  
22 marketplace. So, in fact, the COG rate has gone  
23 down, even though the losses on the hedging program  
24 have gone up, because we don't have a hundred --

[Witness panel: DaFonte|Gibbons|Ferro]

1           there isn't a hundred percent hedge.

2           Q    On Page 42 of the filing, the Tariff Page 38 -- I'm  
3           sorry, just going back to what you just indicated.  
4           As a result, would you say that you're missing out on  
5           low prices as a result of the hedging strategy?

6           A    (DaFonte) On a financial hedging -- From a financial  
7           hedging perspective, we are locking in prices or have  
8           locked in prices. And, while prices go down, we  
9           would not participate in a downside of the market,  
10          because we are locking in those prices. On the flip  
11          side, if prices do go up, we would be protected or  
12          insulated from those price spikes. And, that's  
13          essentially the intent of the program, to minimize  
14          price spikes and to provide, you know, price  
15          stability to customers going into the winter period  
16          to minimize the changes to the gas rate for the  
17          customers.

18                        So, while we do have a portion of  
19          financially hedged volumes, we are able to take  
20          advantage of lower prices this summer through our  
21          storage injections. Because prices have come down  
22          throughout the course of the summer period, we've  
23          been able to take advantage of that by taking that  
24          gas and injecting it into storage, thus resulting in

[Witness panel: DaFonte|Gibbons|Ferro]

1 a lower storage inventory cost. So, together, I  
2 think it's -- it provides a great balance, where you  
3 have a physical hedge and then a financial hedge.

4 So, again, had the reverse happened,  
5 where prices in the summer had continued to go up,  
6 which was the case last summer, we would have been  
7 hedged on the financial side to offset some of those  
8 high prices, which, again, was the case for last  
9 summer and going -- heading into last winter.

10 Q How long has the Company been using this hedging  
11 strategy?

12 A (DaFonte) I believe that this hedging strategy has  
13 been in place since 2001, if I'm not mistaken. And,  
14 it's a dollar cost averaging type of methodology.

15 Q Has the Company attempted to analyze the cost/benefit  
16 of hedging versus hedging a much lower portion of its  
17 portfolio, now that you have five years or so of  
18 experience?

19 A (DaFonte) Yes, we've actually found, in doing some of  
20 the analysis, we found that it has provided the  
21 necessary price stability that we were looking for,  
22 and it provides a good balance of both financial  
23 fixed price hedging and physical hedging through  
24 storage. And, you know, certainly, an ancillary

[Witness panel: DaFonte|Gibbons|Ferro]

1 benefit has been that, through the life of the  
2 program to date, there's actually been a cost savings  
3 to customers.

4 We, certainly, over time would expect  
5 there to be essentially a zero impact, meaning that,  
6 you know, there's a net zero impact in terms of gains  
7 and losses over time. Because, when you do fixed  
8 prices over an extended period of time, you're  
9 essentially going to get to a zero-sum game. And,  
10 what we're looking for is really the benefit to the  
11 customers of price stability, and that's  
12 accomplished, this program has accomplished that over  
13 the last five or six years.

14 Q Do you have any workpapers that support that  
15 conclusion, the one you just stated that there had  
16 been some cost savings?

17 A (DaFonte) We do. I don't have them with me, but I  
18 believe it was -- we provided it as a data response  
19 from Maine, and we can certainly provide that to New  
20 Hampshire as well.

21 **MS. ROSS:** Would the Commission be  
22 willing to make that a record request in this docket, so  
23 that we have it as a part of our record?

24 **CHAIRMAN GETZ:** We'll reserve Exhibit



[Witness panel: DaFonte|Gibbons|Ferro]

1 Number 3 for that data request.

2 (Exhibit 3 reserved.)

3 BY MS. ROSS:

4 Q On Page 42 of the filing, Tariff Page 38, it shows a  
5 capacity release credit of "\$178,900". On Page 125  
6 of the filing, a figure of "175,658" is identified as  
7 the New Hampshire Division capacity release revenue.  
8 Can you please explain which number is correct?

9 A (Gibbons) Yes. On Revised Page 38, with the revised  
10 filing, "175,658" is the correct number, and is  
11 reflected in the rate estimation.

12 Q The schedule on Page 125 does not include capacity  
13 release revenues for the summer period. Are those  
14 revenues credited back to the cost of gas in the  
15 winter filing, see Page 169?

16 A (Gibbons) Yes. All capacity release revenues are  
17 credited back in the winter cost of gas. And, the  
18 actual amount that came in during the summer is  
19 reflected in the reconciliation on Page 169.

20 Q Could you just explain then the schedule on 125 a  
21 little bit further, so that we understand why the  
22 numbers are not shown there?

23 A (Gibbons) Well, if I were to put an estimate for next  
24 summer onto this schedule, you would, in effect, have

[Witness panel: DaFonte|Gibbons|Ferro]

1 18 months worth of capacity release included in the  
2 filing. By doing it in this manner, it's an  
3 annualized capacity release, with half of it  
4 estimated, which is this winter, and half of it  
5 actual, which was last summer.

6 Q Is the Company sharing any of its capacity release  
7 revenue with third parties or is all of the revenue  
8 flowing back to firm ratepayers?

9 A (Gibbons) All the revenues go back to the firm  
10 ratepayers.

11 Q And, has the Company worked with Staff to come up  
12 with a regular reporting process for the capacity  
13 release and off-system sales activity?

14 A (DaFonte) Yes. We've worked with Staff to develop a  
15 suitable report that would provide the capacity  
16 release and off-system sales information on a monthly  
17 basis.

18 Q In recent weeks, natural gas prices have dropped  
19 significantly from what we have seen over the last  
20 year or so. To many, this creates an expectation of  
21 significantly lower natural gas heating bills for  
22 this winter. Is the Company able to wait until the  
23 market price of natural gas drops to these current  
24 lower prices, then purchase all of its winter supply

[Witness panel: DaFonte|Gibbons|Ferro]

1 needs at that point in time? Please explain why that  
2 scenario is not practical.

3 A (DaFonte) Well, basically, the way in which we  
4 procure our supply, particularly for the winter  
5 period, as I mentioned earlier, about 58 percent of  
6 it is locked in through underground storage and LNG  
7 and propane. And, what we do is we fill that  
8 inventory on a ratable basis, given that we really  
9 don't have the ability to predict that prices will go  
10 up or down. And, so, what we do is we take a dollar  
11 cost averaging approach throughout the course of the  
12 summer, and each month we put in a certain volume  
13 required to get our storages to about 95 percent full  
14 on November 1st. And, that provides us with  
15 essentially, you know, an average cost throughout the  
16 summer period.

17 In addition, you know, from a  
18 reliability perspective, we need to ensure that we  
19 get the gas in in the summer period without waiting  
20 to inject gas into storage until such time as we  
21 think prices are going down. For example, last  
22 summer, had folks waited because they thought prices  
23 would go down in August and September and so forth,  
24 they would have been in some trouble, because of the

[Witness panel: DaFonte|Gibbons|Ferro]

1           hurricanes that hit the Gulf Coast and knocked off a  
2           considerable amount of supply. So, what would have  
3           happened is, not only would they be paying more for  
4           their supply, but they may not be able to get their  
5           storages full. So, it's really -- it's both a  
6           reliability issue, as well as, you know, a practical,  
7           you know, economic plan that we put in place.

8           Q     On Page 44 of the filing, the Company includes a  
9           surcharge for the Residential Low Income Assistance  
10          Program. Has this program been successful in  
11          Northern's territory?

12          A     (Gibbons) I don't have the document with me. But,  
13          best that I can recall, participation isn't quite  
14          what we might have expected it to be. Now, that's a  
15          judgment on my part, based on what the projections  
16          were and based on what the report looked like the  
17          last I looked at it, that they're lagging behind.

18          Q     Are you aware of what efforts the Company is making  
19          to increase enrollment in that program?

20          A     (Gibbons) No, I am not.

21          Q     On Page 140 and 141 of the filing, it shows an  
22          extensive listing of environmental costs. In terms  
23          of remediation expenses, what expenses have been  
24          incurred during the 2005-2006 period and are included

[Witness panel: DaFonte|Gibbons|Ferro]

1 in this COG filing?

2 A (Gibbons) The costs that are included in this filing  
3 are those that were incurred from July 1st, 2005  
4 through June 30th, 2006.

5 Q Is there a total dollar number on those costs?

6 A (Gibbons) I believe it's \$632,461.

7 Q And, how many New Hampshire sites does that  
8 represent?

9 A (Gibbons) That would be three New Hampshire sites.

10 Q All right. I have a few questions now for Mr.  
11 DaFonte. There have been several changes to the  
12 resource portfolio since last winter. You have  
13 identified many of these changes in your testimony  
14 and provided additional information through  
15 subsequent discovery. Staff would like to follow up  
16 with additional questions related to these changes.

17 Beginning on Page 6 of your testimony,  
18 you note that there was an increase in the contracted  
19 quantities from Duke Energy Trading. When does this  
20 contract expire?

21 A (DaFonte) The contract with Duke Energy Trading &  
22 Marketing expires I believe the end of March of 2011.

23 Q So, that means it's a five year contract?

24 A (DaFonte) Yes, there's five years remaining.

[Witness panel: DaFonte|Gibbons|Ferro]

1 Q Will there be additional quantity increases prior to  
2 the expiration of this contract?

3 A (DaFonte) Yes. This contract allows for a stepped up  
4 maximum daily quantity that was designed to fit our  
5 load growth profile when we made our decision, which  
6 was back in the Summer of 1999, anticipating, again,  
7 load growth. Instead of contracting for our needs in  
8 the tenth year, we were able to get an agreement in  
9 place that allowed us to increase that MDQ on a stair  
10 step basis, meaning in 2001 and subsequent years.

11 Q What is the approximate annual step-up?

12 A (DaFonte) It's generally right around five to six  
13 thousand decatherms.

14 Q And, as a percentage?

15 A (DaFonte) I don't know the percentage. It's based  
16 off of the -- the tenth year MDQ is about 54,000.  
17 So, it would be roughly, you know, ten percent of  
18 that last year MDQ.

19 Q Does the additional Duke volume associated with this  
20 contract replace the DOMAC peaking volumes that  
21 expire on November 1, 2006? And, we're referring to  
22 Page 6, Line 26 through 27, of your testimony.

23 A (DaFonte) Yes. Part of the -- Part of the Duke  
24 contract will replace those volumes, in this case,

[Witness panel: DaFonte|Gibbons|Ferro]

1 10,000 MMBtu per day, that expires November 1st,  
2 2006.

3 Q Also, on Page 6, Lines 20 through 24, of your  
4 testimony, you reference the Canadian supply contract  
5 with Direct Energy Marketing, which is set to expire  
6 on November 1, 2006. Please describe the replacement  
7 supply contract for this supply.

8 A (DaFonte) What we've done with the -- the Direct  
9 Energy Marketing contract was actually a pre-636  
10 arrangement that was with, actually, was with Granite  
11 State Gas Transmission. Granite State Gas  
12 Transmission provided a bundled service to Northern  
13 Utilities. And, after FERC Order 636, the upstream  
14 assets were unbundled and made available to Northern  
15 Utilities. This supply contract was not one of them.  
16 It was kept in the name of "Granite State". And, it  
17 now expires. Northern took its allocated share of  
18 that contract and was able to negotiate to keep the  
19 TransCanada capacity that goes all the way to the  
20 Western Canadian Sedimentary Basin, and so it now has  
21 control of the capacity all the way back to what we  
22 call the "AECO Hub" in Canada, that's A-E-C-O.

23 And, what the Company has done, and does  
24 every year, is goes out with an RFP for winter

[Witness panel: DaFonte|Gibbons|Ferro]

1 supply, and was able to get an entity to manage both  
2 the Canadian portion of this supply, as well as the  
3 PNGTS portion of the supply, and therefore gets a  
4 delivered service. In exchange, this -- what we call  
5 an "asset manager" will provide a management fee to  
6 Northern Utilities for the right to manage that  
7 asset.

8 Q And, what's the term of the supply contract that  
9 you're using to replace the supply that expires on  
10 November 1st, 2006?

11 A (DaFonte) It's one year. And, we'll continue to do  
12 this on a year-to-year basis.

13 Q And, what's the name of your asset manager?

14 A (DaFonte) Right now, I don't have the exact name of  
15 the asset manager. It's down to actually two  
16 entities. And, we have yet to sign an agreement with  
17 them.

18 Q What kind of a term will that agreement have?

19 A (DaFonte) It's still one year.

20 Q One year.

21 A (DaFonte) It's year-to-year.

22 Q Okay. Does the Company contract for the TransCanada  
23 and PNGTS capacity used for this supply?

24 A (DaFonte) Yes. The PNGTS capacity and the



[Witness panel: DaFonte|Gibbons|Ferro]

1 TransCanada capacity will be under the name of  
2 Northern Utilities. We will have control of that.

3 Q Beginning on Page 7, Line 2, you explain that the  
4 Company has contracted for pipeline capacity with  
5 Vector, TransCanada and Union Gas to move supplies  
6 from Chicago and Dawn markets to Waddington, where  
7 Northern will then use its Iroquois and Tennessee  
8 capacity to transport the supplies to New Hampshire.  
9 Can you please describe in greater detail how these  
10 new pipeline capacity contracts will be utilized and  
11 what are the benefits to Northern customers?

12 A (DaFonte) Sure. Just a brief background on that  
13 particular path. We have an existing capacity path  
14 that starts at the border with Iroquois and  
15 TransCanada at a point called "Waddington". And,  
16 that gas we typically would purchase at the border  
17 and move it on Iroquois to Tennessee, and then over  
18 to Granite State to serve Northern Utilities. The  
19 problem was that that particular point at Waddington  
20 was not a very liquid point. And, we saw some  
21 extreme price spikes in the past.

22 And, in particular, January of 2004,  
23 when we had a severe cold snap, we saw prices at the  
24 border ranging from, you know, \$30 to \$50. And, we

[Witness panel: DaFonte|Gibbons|Ferro]

1           decided at that time to explore alternatives to  
2           access more liquid supply points. And, we had  
3           discussions through the Alberta Northeast Group, ANE.  
4           And, as part of a 15 LDC consortium, we negotiated  
5           with Union Gas and TransCanada to build additional  
6           capacity from Dawn, Ontario, over to Waddington.

7                         In addition, at Dawn, there is a  
8           pipeline interconnect with Vector Gas Pipeline. And,  
9           that connects the Dawn point to the Chicago hub,  
10          which is probably the most liquid point in the U.S.,  
11          and has access to Rocky Mountain supplies, Gulf Coast  
12          supplies, Canadian supplies, Permian Basin supplies,  
13          many different supply basins. And, in some  
14          comparisons that we did back in the January 2004  
15          winter, we had seen similar cold temperatures in  
16          Chicago, but we saw prices in the, say, \$10 to \$15  
17          range at the same time we were seeing prices in the  
18          \$30 to \$50 range here in New England. And, we  
19          decided that we would access -- try to access that  
20          supply and minimize that price volatility and the  
21          price spikes.

22                         And, so, this new capacity path, which  
23          starts at Vector, goes through Union and TransCanada,  
24          allows Northern the ability to buy at three new

[Witness panel: DaFonte|Gibbons|Ferro]

1           locations. We can either buy in Chicago, we could  
2           buy at Dawn, which is another liquid point, or we  
3           could continue to buy at Waddington. And, that  
4           provides us with a lot of price diversity and gives  
5           us additional reliability in our portfolio, because  
6           we do now have access to other supply basins. And,  
7           that's, to us, the greatest benefit of this new  
8           capacity path.

9           Q     Are these capacity contracts long-term agreements?

10          A     (DaFonte) Yes, they are. They're 10 to 11 years, in  
11               the case of Vector, and TransCanada they're 10 years.  
12               In the case of Union, it's 11 years.

13          Q     You indicated that the other 15 LDCs chose similar  
14               options for capacity in the ANE group?

15          A     (DaFonte) Yes, that's correct. Some went as far back  
16               as Dawn, while others went all the way back to  
17               Chicago with Vector, as we did. The benefit of --  
18               one other benefit of having the Vector capacity is  
19               that it does provide direct access to a large amount  
20               of storage in Michigan, which is the Washington 10  
21               Storage Field. And, should we decide at some future  
22               point to contract for additional storage, we would  
23               have that ability to do so with Vector.

24          Q     Were there any cost/benefit analyses done in support

[Witness panel: DaFonte|Gibbons|Ferro]

1 of the Company's decision to take the additional  
2 pipeline capacity?

3 A (DaFonte) Yes. Yes, there were.

4 Q Does the Company anticipate a current or future need  
5 to contract for storage capacity at Dawn?

6 A (DaFonte) At this point in time, given that we have  
7 approximately 50 to 55 percent of our normal winter  
8 requirements are satisfied by underground storage, we  
9 think we have sufficient volumes of underground  
10 storage in the portfolio.

11 Q Does the Company contract for supply from sources in  
12 Western Canada?

13 A (DaFonte) Yes. The replacement supply for Direct  
14 Energy Marketing will be -- will be a Western  
15 Canadian supply-based commodity.

16 Q And, what are the advantages to contracting for  
17 supply from that region?

18 A (DaFonte) Again, it's primarily diversity of supply.  
19 We have access to another supply basin, in the event  
20 that there are disruptions in other locations, we do  
21 have some supply diversity. We also have price  
22 diversity. That the Canadian prices often times are  
23 less expensive than the U.S. prices. And, so, we do  
24 have some diversity on both price and supply.

[Witness panel: DaFonte|Gibbons|Ferro]

1 Q Does the Company have an LNG liquids contract with  
2 Distrigas for this winter? And, if so, is it  
3 identified in the filing?

4 A (DaFonte) We have a combination liquid/vapor contract  
5 that has been in place since 2001. We have the  
6 ability, through the combination service, to take  
7 delivery via the pipeline into Granite State at its  
8 interconnect with Tennessee Gas Pipeline. And, then,  
9 we also have the ability to take that supply in  
10 liquid form to replenish any liquid that was utilized  
11 at the Lewiston LNG facilities. And, while it's not  
12 directly identified in the testimony, because it's,  
13 again, it's not a new or a change to the portfolio,  
14 it does show up in many of the gas cost exhibits  
15 under "DOMAC". In some cases, I believe it,  
16 obviously, would be redacted, the supplier name, but  
17 it's on there.

18 **MS. ROSS:** Thank you. I have no further  
19 questions for the witnesses.

20 **CHAIRMAN GETZ:** I don't think we have  
21 any questions from the Bench. So, any follow-up,  
22 Mr. Shortlidge?

23 **MR. SHORTLIDGE:** If you wouldn't mind,  
24 I'd like just a second to confer with my witnesses, to see

[Witness panel: DaFonte|Gibbons|Ferro]

1 if there are any follow-up questions.

2 (Atty. Shortlidge conferring with the  
3 witnesses.)

4 **MR. SHORTLIDGE:** Nothing further.

5 **CHAIRMAN GETZ:** Okay. Then, the  
6 witnesses are excused. Thank you, gentlemen.

7 Ms. Hollenberg or Ms. Ross, will you be offering  
8 witnesses?

9 **MS. ROSS:** I would like to ask Mr. Frink  
10 and Mr. Wyatt to step up briefly to describe some aspects  
11 of the filing.

12 **MS. HOLLENBERG:** I'll have no witnesses.  
13 Thank you.

14 **CHAIRMAN GETZ:** Please proceed.

15 (Whereupon **Robert Wyatt** and **Stephen**  
16 **Frink** were duly sworn and cautioned by  
17 the Court Reporter.)

18 **ROBERT WYATT, SWORN**

19 **STEPHEN FRINK, SWORN**

20 **DIRECT EXAMINATION**

21 BY MS. ROSS:

22 Q Would you each state your name and position for the  
23 record.

24 A (Wyatt) Robert Wyatt, Utility Analyst for the Gas &

[Witness panel: Wyatt|Frink]

1 Water Division of the New Hampshire Public Utilities  
2 Commission.

3 A (Frink) And, I'm Stephen Frink, the Assistant  
4 Director of the Gas & Water Division.

5 Q And, have each of you reviewed the cost of gas filing  
6 and the updated filing submitted this morning by  
7 Northern Utilities?

8 A (Wyatt) Yes, I have.

9 A (Frink) Yes, I have.

10 Q Mr. Wyatt, would you care to comment on the direct  
11 gas costs presented by the Company in its filing.

12 A (Wyatt) I can comment on the filing. Staff has  
13 completed its review of the filing and the forecast,  
14 the gas forecast for this upcoming winter. And, we  
15 certainly appreciate the Company's cooperation in  
16 answering our questions through data requests and  
17 responses and through the technical session. After  
18 we completed our review, Staff wants to go on record  
19 to support the filing. We believe the rates are  
20 reasonable and recommends approval of the filing.

21 Staff would also like to go on record to  
22 support the Company's strategy to diversify its  
23 portfolio by going back to the Dawn storage and  
24 supply area, and also into the Chicago markets, which

[Witness panel: Wyatt|Frink]

1 are points where there's quite a bit of supply  
2 diversity and the pricing is attractive and more  
3 stable during periods where there are pipeline  
4 constraints during the cold periods.

5 As Mr. DaFonte was sharing with the  
6 Commission earlier, when you get into the cold part  
7 of the season, during high demand, the Waddington  
8 point is an illiquid point and the prices tend to  
9 spike dramatically. By going back to Dawn and then  
10 further back to Chicago, you get into markets where  
11 there's such a diverse supply that the pricing  
12 becomes much more stable during these periods.

13 Q Thank you. And, Mr. Frink, would you care to comment  
14 on the indirect gas costs presented by the Company.

15 A (Frink) Yes. Specifically, I'm going to talk about  
16 the issue regarding working capital and interest  
17 earned on the cost of gas monthly imbalances. And,  
18 this is an issue that came up very late in the  
19 discovery process, and we're still in the process of  
20 exploring. But, for the record, I want to give you  
21 the background as to what we see as the potential  
22 problem.

23 The regulatory agencies generally  
24 recognize that the level of investment required to



[Witness panel: Wyatt|Frink]

1 operate a utility is not limited to the net plant in  
2 service and that there are other items that require  
3 investor-supplied capital. These non-plant items are  
4 generally referred to as "working capital". There  
5 are typically two components that comprise working  
6 capital: Items booked to capital accounts, such as  
7 inventories and prepayments; and the cash needed to  
8 support expense outlays due to timing differences  
9 between receipt of revenues from customers and  
10 payment of vendor bills. The latter component may be  
11 further subdivided into gas supply- and non-gas  
12 supply-related timing differences.

13 Each New Hampshire gas utility is  
14 allowed a supply-related working capital allowance in  
15 its cost of gas mechanism computed by performing a  
16 "lead/lag" study to determine the number of days  
17 between the provision of retail service and the  
18 receipt of revenue, lag days, and the number of days  
19 between the receipt of gas supply and the payment of  
20 gas supply bills, lead days. The net lag or lead in  
21 each month is then multiplied by the monthly gas  
22 supply cost to calculate the monthly supply-related  
23 working capital requirement. This requirement is  
24 then multiplied by an appropriate carrying charge

[Witness panel: Wyatt|Frink]

1 rate to determine the working capital allowance to be  
2 recovered through the cost of gas.

3 The COG mechanism also includes a  
4 reconciliation mechanism that compares on a monthly  
5 basis gas supply costs and revenues. The mechanism  
6 requires interest to be applied to the average  
7 monthly imbalance, over or under recovery, at the  
8 prime interest rate. Gas supply costs are typically  
9 booked in the month in which the gas is consumed.  
10 Revenues can be booked in several ways. One way is  
11 to book revenues associated with, say, May  
12 consumption in June if the customers who consume that  
13 gas had their meters read in June. Another way is to  
14 book all revenues associated with May consumption to  
15 the month of May, regardless of when the meters were  
16 actually read. This is referred to as "accrual  
17 accounting".

18 Of concern in this proceeding is the  
19 potential mismatch of monthly costs and revenues, due  
20 to the use of the first revenue accounting approach  
21 and the associated recovery of interest expense. The  
22 issue is whether such recovery would amount to double  
23 recovery; once through the reconciliation mechanism  
24 and a second through the cash working capital

[Witness panel: Wyatt|Frink]

1 allowance.

2 Staff does not oppose the proposed --  
3 excuse me, that's not applicable. Staff has concerns  
4 regarding the possible double recovery of interest to  
5 the working capital allowance and the monthly  
6 interest earned on under recoveries. This potential  
7 problem is not unique to Northern or to New  
8 Hampshire, as New Hampshire's other natural gas  
9 utility has the same cost of gas mechanism. Maine  
10 and Massachusetts have similar cost of gas  
11 mechanisms. And, New Hampshire's electric utilities  
12 have a similar mechanism.

13 Staff will work with the OCA and the  
14 Company to determine if there is a double recovery of  
15 interest, and, if so, how to resolve the issue. If  
16 such a situation exists, Staff will report its  
17 findings and recommendations to the Commission. The  
18 investigation will be looking at interest costs  
19 included in last winter's cost of gas, since the  
20 reconciliation of those costs is included in the  
21 proceeding, in this proceeding.

22 That completes my testimony.

23 Q And, just to clarify what you've just indicated,  
24 Mr. Frink, it's true, isn't it, that you're not

[Witness panel: Wyatt|Frink]

1 asking the Commission to disallow any elements of the  
2 cost of gas filing in its order following the hearing  
3 today, is that correct?

4 A (Frink) That is correct.

5 Q And, this issue will be reserved for further  
6 investigation?

7 A (Frink) Yes, it will.

8 **MS. ROSS:** Thank you. I have no further  
9 direct for the witnesses. If anyone wants to cross them,  
10 they're available.

11 **CHAIRMAN GETZ:** Ms. Hollenberg?

12 **MS. HOLLENBERG:** Thank you. I just have  
13 one question for Mr. Frink.

14 **CROSS-EXAMINATION**

15 BY MS. HOLLENBERG:

16 Q Just to clarify, the issue is reserved, in your  
17 understanding, going back to November '05, is that  
18 correct?

19 A (Frink) Yes.

20 **MS. HOLLENBERG:** Thank you. Nothing  
21 else.

22 **CHAIRMAN GETZ:** Mr. Shortlidge?

23 **MR. SHORTLIDGE:** No questions for the  
24 witnesses.

[Witness panel: Wyatt|Frink]

1                   **CHAIRMAN GETZ:** Okay. Nothing from the  
2 Bench. So, thank you, gentlemen. You're excused. Is  
3 there an objection to striking the identification and  
4 entering exhibits as full exhibits?

5                   (No verbal response)

6                   **CHAIRMAN GETZ:** Hearing none, then they  
7 will be entered as full exhibits. Is there anything else  
8 to address, before opportunity for closing statements?

9                   (No verbal response)

10                  **CHAIRMAN GETZ:** Hearing nothing, then,  
11 Ms. Hollenberg.

12                  **MS. HOLLENBERG:** Thank you. I would,  
13 before going onto my closing statement, just want to  
14 clarify something with Northern that its counsel  
15 represented on the interest issue that Mr. Frink just  
16 summarized in his testimony. I think it was just an  
17 oversight, but counsel for Northern indicated that he was  
18 planning to work with Staff to resolve this issue. And, I  
19 just wanted to clarify that the OCA is included in that  
20 discussion?

21                  **MR. SHORTLIDGE:** Absolutely.

22                  **MS. HOLLENBERG:** Thank you. And, that  
23 Northern's understanding is also that the resolution will  
24 go back to November '05?

1                   **MR. SHORTLIDGE:** That's our  
2 understanding.

3                   **MS. HOLLENBERG:** Thank you. Firstly,  
4 we'd like to thank the Staff and Northern for their  
5 cooperation and efforts in this proceeding. Under the  
6 2005-2006 cost of gas order, the Company could have  
7 reduced the undercollection from that period had it  
8 increased the cost of gas to the top of the bandwidth that  
9 the Commission approved. The Company chose not to do so  
10 for rate continuity purposes, and the ratepayers are  
11 paying carrying costs as a consequence of that decision.  
12 While we consider rate continuity to be a legitimate goal,  
13 the purpose of the CGA bandwidth is to enable the Company  
14 to get as close to zero as possible at the end of the rate  
15 period. Without waiving our rights to take a different  
16 position in the future, should these circumstances or  
17 similar circumstances occur again, we would leave it to  
18 the Commission to determine whether, in its -- the  
19 Commission, in its discretion, whether the Company should  
20 be allowed to recover these carrying costs.

21                   Otherwise, with the exception of the  
22 interest issue that the parties have asked to reserve for  
23 further discussion, the OCA does not object to the filing.  
24 Thank you.

1                   **CHAIRMAN GETZ:** Well, can I follow up on  
2 that, Ms. Hollenberg? I'm trying to understand your  
3 position. Are you saying it was imprudent for Northern  
4 not to seek to pass through those costs all in the  
5 previous period?

6                   **MS. HOLLENBERG:** I guess, at this point,  
7 the OCA is not going to take a position on whether or not  
8 it was prudent or imprudent. And, instead, we're just  
9 leaving it to the Commission to determine whether or not  
10 the actions of Northern were consistent with the  
11 Commission's order and the purposes underlying the cost of  
12 gas mechanism.

13                   **CHAIRMAN GETZ:** Okay. Thank you.  
14 Ms. Ross.

15                   **MS. ROSS:** Thank you. And, thank you to  
16 the parties and the Company for assembling this filing as  
17 quickly as they did, and for assisting in resolving a  
18 number of the issues. We do note that we have reserved  
19 the issue with regard to working capital and the interest  
20 on over and under recoveries to be resolved post hearing.  
21 And, we are not asking the Commission to do anything in  
22 the cost of gas proceeding with regard to that issue.

23                                 Staff has completed its review of the  
24 cost of gas forecast for the upcoming winter period.

1 Based on its review, Staff believes the proposed cost of  
2 gas in the filing are reasonable and recommends approval  
3 of these costs. Thank you.

4 **CHAIRMAN GETZ:** Thank you.

5 Mr. Shortlidge.

6 **MR. SHORTLIDGE:** Thank you, Mr.

7 Chairman. In the interest of time, I'll keep my remarks  
8 brief. The Company appreciates the efforts made by the  
9 OCA and the Commission Staff to resolving this docket  
10 expeditiously. As always, it has been good working with  
11 both Commission Staff and OCA to address numerous issues  
12 that have been raised. The Company looks forward to  
13 working with both these parties in the future regarding  
14 indirect gas costs, to ensure that, in the future, these  
15 costs are accurately reflected in the Company's filings.

16 With regard to the OCA's comments  
17 regarding the carrying costs associated with the  
18 over-/undercollection, I would simply emphasize to the  
19 Commission that the Company's witnesses testified that,  
20 were the Company to have sought to recover the full over-  
21 or undercollection during the last period of the last  
22 winter season, it would have resulted in customers  
23 receiving an immediate increase in gas costs of 29 cents,  
24 and then subsequently a significant decrease in gas costs



1 during the summer period. The Company's goal is to ensure  
2 that its customers receive stable gas costs. It's one of  
3 the reasons we have the hedging program that we discussed  
4 today. And, the Company values that highly.

5 The Company has also said that it  
6 appreciates the bandwidth that's provided by the  
7 Commission, and tries to make sure that it minimizes the  
8 over- or undercollection. The Company's position, as of  
9 the end of last winter, was that, to increase gas costs  
10 that dramatically for that short a period did not make  
11 significant sense, especially considering the limited  
12 impact during this winter's CGA period.

13 With that said, the Company hopes that  
14 the Commission acts expeditiously to approve this filing.  
15 And, that's all.

16 **CHAIRMAN GETZ:** Well, I think I need to  
17 go back one step, though. I want to make sure I  
18 understand the issue with the indirect costs and working  
19 capital and over/under recoveries. I'm taking the Staff  
20 position as a request to reserve the issue, and I guess I  
21 took from the comments of Ms. Hollenberg the expectation  
22 that it would go back to the previous winter proceeding.  
23 So, it's basically preserving the issue on the existing  
24 cost of gas period, and so that, in the future, there

1 could be the potential of some change to a future cost of  
2 gas rate, if some disallowance was --

3 **MS. ROSS:** Yes. Yes. The current cost  
4 of gas that you're being asked to approve today contains a  
5 reconciliation back to November 1, 2005. And, because it  
6 contains that, and that's carried forward in this rate,  
7 we're suggesting that this issue be reserved. And, that,  
8 when it's ultimately determined by the Commission, there  
9 may be a correction, which could possibly occur either  
10 midcourse during the progress of our cost of gas through  
11 this period or it could even occur as late as the  
12 reconciliation for next winter. Because, as you recall,  
13 these are sort of layered, fully reconciled rates. So,  
14 you end up carrying forward some over- and  
15 undercollections from prior periods.

16 And, if the other parties disagree with  
17 the way I've explained this, please feel free to add on.

18 **MR. SHORTLIDGE:** I guess, on the part of  
19 the Company, the Company sees two issues outstanding.  
20 There is the issue regarding indirect gas costs, and  
21 there's a variety of issues involved in that, including  
22 working capital and other issues. The Company and the  
23 parties will take that up in discussions, and those issues  
24 are going to be reconciled between the periods, and as

1 early as sometime during this winter period or perhaps the  
2 next period.

3 There is a second issue, which is the  
4 under recovery associated with the prior winter period,  
5 which was a result of the Company choosing not to increase  
6 gas costs pursuant to its 20 percent bandwidth in the  
7 tariff. That issue the Company takes exception with, and  
8 believes that the Company was prudent and should be  
9 finalized in this proceeding.

10 **CHAIRMAN GETZ:** Thank you. All right.  
11 Then, we will close this hearing and take the matter under  
12 advisement. Thank you.

13 **MR. SHORTLIDGE:** Thank you.

14 **(Whereupon the hearing ended at 12:17**  
15 **p.m.)**

16  
17  
18  
19  
20  
21  
22  
23  
24