

1 **STATE OF NEW HAMPSHIRE**2 **PUBLIC UTILITIES COMMISSION**3
4 **October 22, 2014 - 10:02 a.m.**
5 Concord, New Hampshire6 **RE: DG 14-220**7 **LIBERTY UTILITIES (ENERGYNORTH NATURAL**
8 **GAS) CORP. d/b/a LIBERTY UTILITIES:**
9 ***Winter 2014-2015 Cost of Gas.***

NHPUC OCT30'14 AM 10:31

10 **PRESENT:** Alexander F. Speidel, Esq.
11 (Presiding as Hearings Examiner)

12 Clare Howard-Pike, Clerk

13
14 **APPEARANCES:** **Reptg. Liberty Utilities (EnergyNorth**
15 **Natural Gas) Corp. d/b/a Liberty Utilities:**
16 Sarah B. Knowlton, Esq.17 **Reptg. Residential Ratepayers:**
18 Rorie E. P. Hollenberg, Esq.
19 Office of Consumer Advocate20 **Reptg. PUC Staff:**21 David K. Wiesner, Esq.
22 Stephen P. Frink, Asst. Dir./Gas & Water Div.
23 Al-Azad Iqbal, Gas & Water Division

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

ORIGINAL

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WITNESS PANEL: **FRANCISCO C. DaFONTE**
 MARY E. CASEY
 DAVID B. SIMEK

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P R O C E E D I N G

MR. SPEIDEL: We're beginning our hearing today in Docket Number DG 14-220, Liberty Utilities (EnergyNorth Natural Gas) Corp., doing business as Liberty Utilities, Winter 2014-2015 Cost of gas filing review. During the pendency of this proceeding, you may refer to me as "Attorney Speidel". And, after we take appearances, I have a few matters of housekeeping to take care of.

So, I'll first begin by mentioning that this proceeding was noticed by an Order of Notice issued on September the 12th, 2014. And, there was an updated filing made on October the 15th of 2014.

I'd like to take appearances now please.

MS. KNOWLTON: Good morning, Attorney Speidel. My name is Sarah Knowlton. I'm here today on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp. And, with me from the Company today are the Company's three witnesses: Francisco DaFonte, Mary Casey, and David Simek. And, with me at counsel's table is Steven Mullen, Stephen Hall, and Heather Tebbetts.

MR. SPEIDEL: Thank you. Good morning.

MS. HOLLENBERG: Good morning, Attorney Speidel. Rorie Hollenberg, here for the New Hampshire

1 Office of Consumer Advocate.

2 MR. SPEIDEL: Good morning.

3 MR. WIESNER: Good morning, Attorney
4 Speidel. David Wiesner, for Commission Staff. With me
5 today are Stephen Frink, Assistant Director of the Gas and
6 Water Division, and Al-Azad Iqbal, an Analyst with the
7 Division.

8 MR. SPEIDEL: Thank you. Good morning.
9 I understand that we have a fairly tight physical layout
10 today for a hearing. And, obviously, the Commissioners,
11 the two Commissioners that we do have on hand for the
12 Scrubber case, Special Commissioner Iacopino and
13 Commissioner Honigberg are involved in that other
14 proceeding in the other room. So, I appreciate everyone's
15 patience and willingness to appear before me. With the
16 understanding that I'm not the decision-maker in this
17 case, but rather a conduit of information for the
18 Commissioners' decision regarding this filing.

19 There are, however, a number of small
20 matters I'd like to bring to everyone's attention. And,
21 given the tight physical layout of our hearing room today,
22 I'd recommend that everyone use their microphones, and
23 speak slowly so that our court reporter, Mr. Patnaude, can
24 take good notes, and have that transcript available for

1 the Commission's review.

2 Also, I do note that the affidavit of
3 publication was received in this case. So, this has been
4 a duly noticed hearing.

5 And, I had a chance to examine the
6 filing, and I notice that there were certain confidential
7 schedules. And, I would first like to ask the present
8 counsel as to whether there is any expectation of
9 questions related to those confidential schedules today?

10 MR. WIESNER: I don't believe so.

11 MR. SPEIDEL: And, for the OCA,
12 Ms. Hollenberg?

13 MS. HOLLENBERG: Not that I can think of
14 at this time. No thank you.

15 MR. SPEIDEL: So, there is probably not
16 a need to have a separate confidential phase of the record
17 for this proceeding. That said, however, I did want to
18 inquire, perhaps Ms. Knowlton can give me a little bit of
19 background regarding this, I had a look at the schedules
20 for the Simek testimony, and that relates to environmental
21 remediation costs. And, the corresponding schedule for
22 this particular element of the filing would be
23 Schedule 20, in which the environmental remediation costs
24 are discussed in great deal. But they're also discussed

1 on a pool-level basis, in general detail, in what is
2 described as "Confidential Attachment A". And, I have a
3 Bates Page 25 for the original filing of September. And,
4 I believe that would be the filing. And, there's also a
5 corresponding redacted version of the Simek testimony that
6 was provided as part of the October 15th filing.

7 Now, in examining this, I noticed that
8 the pool-level costs were withheld *in toto* from the public
9 version of the filing. And, when I had a look at the 2013
10 cost of gas filing, which had the testimony of Mr. Mark G.
11 Savoie, dated September the 3rd of 2013, on Bates Page 16
12 of that filing, the pool-level costs for environmental
13 remediation were public.

14 So, I just wanted to know if the Company
15 had a justification for this year's withholding of the
16 pool-level costs for environmental remediation?

17 MS. KNOWLTON: Sure. If we look at
18 either Bates Page 25 or 25R in the Revised Version of the
19 Company's filing, which was made on October 15th, 2014,
20 all of the costs, as you indicate, are redacted or denoted
21 "confidential" in the confidential version, because of
22 one of the -- one of the amounts, which is the "Settlement
23 Costs" line, that amount is the amount that the Company
24 has paid to Public Service of New Hampshire for the

1 remediation -- its share of the remediation of the Keene
2 MGP site. That payment has been made pursuant to a
3 settlement agreement, which itself is confidential, which
4 we plan to mark as a confidential document today.

5 There's no way to present this
6 information without redacting everything. Otherwise, the
7 settlement amount could be backed into by someone. So,
8 that's why, in this case, this year and next year, because
9 there will be the second payment made under the settlement
10 agreement, you will see this page fully redacted.

11 MR. SPEIDEL: Thank you. That's a very
12 helpful explanation, Ms. Knowlton. And, I'll convey that
13 to the Commission, to help them to understand the
14 structure of the filing this year.

15 I was looking around for a reference to
16 a "Confidential Attachment A". And, I guess, in the
17 future, when there is a backfill or an insertion of a
18 confidential *in toto* element of the filing, it might be
19 helpful to have just a reference to the fact that the
20 summary information is provided within a given schedule.
21 But thank you for that explanation. I believe that
22 satisfies my concern.

23 I don't have any further preliminaries,
24 other than the fact that, seeing that we have no

1 intervenors, I believe we're ready to proceed.

2 MS. KNOWLTON: Thank you. The Company
3 would propose to mark for identification as "Exhibit 1"
4 the Revised Winter Cost of Gas Filing, which was filed
5 with the Commission on October 15th, 2014.

6 MR. SPEIDEL: Okay.

7 (The document, as described, was
8 herewith marked as **Exhibit 1** for
9 identification.)

10 MS. KNOWLTON: I would further propose
11 to mark for identification as "Exhibit 2" the confidential
12 version of the October 15th filing.

13 MR. SPEIDEL: Okay.

14 (The document, as described, was
15 herewith marked as **Exhibit 2** for
16 identification.)

17 MS. KNOWLTON: And, as proposed "Exhibit
18 3" would be Attachment MEC-1, which is a confidential
19 document. That was filed with the Commission on September
20 3rd, 2014. And, that is the Settlement Agreement with
21 Public Service of New Hampshire for the Company's
22 allocable share of the Keene MGP remediation expense.
23 And, that was subject to a Motion for Protective Treatment
24 that was filed with the Commission on September 2nd, 2014.

[WITNESS PANEL: DaFonte~Casey~Simek]

1 (The document, as described, was
2 herewith marked as **Exhibit 3** for
3 identification.)

4 MR. SPEIDEL: For the purposes of
5 today's hearing, I will accept all of these proposed
6 markings for use during the proceeding. I will recommend
7 to the Commission that these be made permanent exhibit
8 designations. And, I will also maintain the integrity of
9 the confidentiality of any confidential information
10 presented as part of this filing. And, I would ask that
11 all of the parties today do the same. And, if there is a
12 mention of confidential information, or if there's a
13 mention of a question that pertains to confidential
14 information, I would ask that parties make that clear up
15 front.

16 Does Staff or the OCA desire to have any
17 other further exhibits added to the record today?

18 MS. HOLLENBERG: No thank you.

19 MR. WIESNER: We have no exhibits.

20 MR. SPEIDEL: Excellent. So, I see
21 there are some likely witnesses prepared to give testimony
22 today. Could we have a summary of the presentation of
23 witnesses from the Company.

24 MS. KNOWLTON: Sure. The Company calls

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 to the stand Francisco DaFonte, Mary Casey, and David
2 Simek. And, the Company would propose that they sit as a
3 panel and testify in that manner today.

4 MR. SPEIDEL: Very well. Are there any
5 objections to that?

6 MS. HOLLENBERG: No thank you.

7 MR. WIESNER: No objections.

8 MR. SPEIDEL: Excellent. Mr. Patnaude,
9 I ask that the witnesses be sworn.

10 (Whereupon **Francisco C. DaFonte,**
11 **Mary E. Casey,** and **David B. Simek** were
12 duly sworn by the Court Reporter.)

13 **FRANCISCO C. DaFONTE, SWORN**

14 **MARY E. CASEY, SWORN**

15 **DAVID B. SIMEK, SWORN**

16 **DIRECT EXAMINATION**

17 BY MS. KNOWLTON:

18 Q. Mr. Simek, good morning.

19 A. (Simek) Good morning.

20 Q. Please state your full name for the record.

21 A. (Simek) David B. Simek.

22 Q. By whom are you employed?

23 A. (Simek) Liberty Energy Utilities (New Hampshire) Corp.

24 Q. In what capacity do you work for that company?

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 A. (Simek) I am a Utility Analyst.

2 Q. What are your responsibilities in that role?

3 A. (Simek) I'm responsible for rate-related services for
4 both gas and electric.

5 Q. Did you have any responsibilities for the filing that
6 was made on October 15th, 2014?

7 A. (Simek) Yes. I was responsible for the rates portion
8 of the filing.

9 Q. And, that filing, and I'll refer to the Confidential
10 Version of the filing, which we've marked for
11 identification as "Exhibit 2", contains testimony filed
12 by you, correct?

13 A. (Simek) Correct.

14 Q. And, was that testimony and the accompanying schedules
15 prepared by you or under your direction?

16 A. (Simek) Yes.

17 Q. Do you have any corrections to your testimony or
18 schedules?

19 A. (Simek) Not at this time.

20 Q. If I were to ask you the questions that are contained
21 in your testimony today, would your answers be the
22 same?

23 A. (Simek) Yes.

24 Q. Mr. Simek, are you -- you're aware that the filing that

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 was made on October 15th is a revision of the filing
2 that was originally made on September 2nd, 2014 by the
3 Company?

4 A. (Simek) Yes.

5 Q. Would you explain for the Commission the nature of the
6 revisions to your piece of the filing?

7 A. (Simek) Yes. Through our discussions with Staff and
8 some findings that they had, there were some changes
9 specifically related to the bad debt percentage, that
10 did affect the rates, and, of course, affected many of
11 the schedules that were also included into the filing.
12 Mr. DaFonte also had some changes on his end, which
13 I'll let him explain, but they also affected the
14 schedules that I'm responsible for preparing, and
15 tariff pages as well.

16 Q. Mr. DaFonte, would you please state your full name for
17 the record.

18 A. (DaFonte) Francisco C. DaFonte.

19 Q. By whom are you employed?

20 A. (DaFonte) Liberty Energy Utilities (New Hampshire)
21 Corp.

22 Q. What is your position with the Company?

23 A. (DaFonte) I am the Vice President of Energy
24 Procurement.

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 Q. What are your responsibilities in that position?

2 A. (DaFonte) I am responsible for the procurement,
3 planning, demand forecasting, retail choice for
4 EnergyNorth.

5 Q. What are your responsibilities specifically with regard
6 to the cost of gas filing that's before the Commission
7 today?

8 A. (DaFonte) I'm responsible for providing various
9 schedules, including the demand forecast, the
10 optimization of the supplies utilized for the winter
11 period, and the relevant costs of those supplies.

12 Q. Exhibit 2, which is, again, the confidential version of
13 the filing contains testimony from you and various
14 schedules. Was that prepared by you or under your
15 direction?

16 A. (DaFonte) Yes, it was.

17 Q. Do you have any corrections to your testimony or the
18 schedules?

19 A. (DaFonte) I do.

20 Q. If you would identify -- start by identifying the Bates
21 page number. And, once we have that all before us,
22 then you can indicate what you're proposing to change.

23 A. (DaFonte) Sure. If I can turn everybody's attention to
24 Bates Page 87R. On, Line 9, there is a confidential

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 price associated with Niagara Supply. That should not
2 be confidential. In fact, we don't even purchase the
3 supply at Niagara on a long-term basis anymore. So, it
4 should not be confidential. In fact, we will, in
5 subsequent filings, remove that line item.

6 Also, on that same page, Line 47, reads
7 "Granite Ridge Demand". Again, we no longer use that
8 Granite Ridge supply. So, that should not be
9 confidential. And, we will remove that as well in
10 future filings. One additional --

11 Q. Mr. DaFonte, --

12 A. (DaFonte) Oh, I'm sorry.

13 Q. -- before you move on, if I might just ask you a
14 question about Page 87R, really to clarify for the
15 record. There does remain one confidential line on
16 this document, Line 48, which relates to "GDF Suez
17 Demand". Why is that information confidential, when
18 the rest of the information on this page is not?

19 A. (DaFonte) That's confidential because it's a specific
20 supply, and not regulated, meaning that the other
21 prices on this page are essentially FERC-regulated
22 demand charges. So, they're public. And, with respect
23 to the GDF, it's a specific negotiated rate between the
24 Company and the supplier. So, we would need to keep

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 that confidential.

2 I have one more change that I'd like to
3 make. It's Bates Page 304R, which is my direct
4 testimony. So, Lines 3 and 4 of that page, I
5 inadvertently put in the old address for EnergyNorth.
6 The new address should be "15 Buttrick Road,
7 Londonderry, New Hampshire 03053".

8 Q. Subject to those corrections, if I were to ask you the
9 questions that are contained in your testimony, would
10 the answers be the same today?

11 A. (DaFonte) Yes, they would.

12 Q. Mr. Simek referenced some changes to this filing that
13 related to your piece of the document. Would you
14 explain for the Commission the revisions that you made
15 from September -- the September 2nd version to the
16 October 15th version?

17 A. (DaFonte) Sure. The revisions really stem from a
18 change in the demand forecast. As we typically do in
19 our filing, once we make the filing, we track the
20 change in prices, so that we can update the pricing as
21 we get closer to the actual hearing. And, in the
22 course of going through that, we discovered that there
23 were some erroneous cell references to a forecast that
24 was provided by National Grid to us. Once we corrected

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 those, it obviously affected the demand forecast
2 itself, and then that demand forecast affects quite a
3 few other schedules within the filing. So, we went
4 back, reviewed all of the schedules, made sure that we
5 had all of the cell references correct. And, that sort
6 of kicked off the revised filing, if you will.

7 Q. Good morning, Ms. Casey. If you would state your full
8 name for the record please.

9 A. (Casey) Mary Elizabeth Casey.

10 Q. By whom are you employed?

11 A. (Casey) Liberty -- Liberty Energy Utilities (New
12 Hampshire) Corp.

13 Q. What is your position with the Company?

14 A. (Casey) I'm the Environmental Program Manager.

15 Q. What do you -- what are your responsibilities in that
16 capacity?

17 A. (Casey) Besides operational compliance for all of our
18 operations, I'm responsible for the remediation of
19 former MGP sites and related sites.

20 Q. What is your role relative to this particular filing?

21 A. (Casey) I was instrumental in preparing Schedule 20
22 that summarizes all of the environmental remediation
23 costs.

24 Q. Did you prepare the testimony that is contained in this

{DG 14-220} {10-22-14}

[WITNESS PANEL: DaFonte~Casey~Simek]

1 filing that has your name on it?

2 A. (Casey) Yes, I did.

3 Q. And, do you have any changes or corrections to that
4 testimony?

5 A. (Casey) No, Attorney Knowlton.

6 Q. If I were to ask you the questions in your testimony
7 today, would the answers be the same?

8 A. (Casey) Yes.

9 Q. And, if you would just indicate whether there were any
10 revisions made to your testimony as part of the
11 October 15th filing?

12 A. (Casey) No, there were not.

13 Q. Mr. Simek, I have two questions for you before I make
14 you available for cross-examination. Would you provide
15 the Commission with an update on the FPO participation
16 level.

17 A. (Simek) Yes. The enrollment period ended on Monday.
18 And, at this point, it's premature to be able to
19 provide what the enrollment level is for this year.
20 The enrollment letters were sent out on September 22nd,
21 and this year they were only sent out for residential
22 participation.

23 Q. When would the Company have an estimate of the number
24 of enrolled customers?

{DG 14-220} {10-22-14}

[WITNESS PANEL: DaFonte~Casey~Simek]

1 A. (Simek) We're hoping to have an estimate within the
2 next ten days. And, once we do have those numbers, we
3 will supply them to the Commission.

4 Q. Your testimony referred to the Company's plan to submit
5 to the Staff and the Office of Consumer Advocate a
6 proposed policy on occupant accounts. Has the Company
7 done that?

8 A. (Simek) Yes. It was sent on October 15th.

9 MS. KNOWLTON: Thank you. The Company
10 has no further questions for the panel.

11 MR. SPEIDEL: Thank you, Attorney
12 Knowlton. Attorney Hollenberg, would you like to ask some
13 questions?

14 MS. HOLLENBERG: Yes, please. Thank
15 you. I'd like to ask Ms. Casey about an update related to
16 the environmental remediation activity in Concord. And, I
17 just want to confirm that that would not be confidential,
18 if I asked for that update.

19 MS. KNOWLTON: No, it would not.

20 WITNESS CASEY: No.

21 **CROSS-EXAMINATION**

22 BY MS. HOLLENBERG:

23 Q. Then, may I please have an update of the status of
24 discussions between the Company and the City of

{DG 14-220} {10-22-14}

[WITNESS PANEL: DaFonte~Casey~Simek]

1 Concord, with regard to remediation of the pond area
2 please.

3 A. (Casey) Yes. We had a discussion in person with the
4 New Hampshire Department of Transportation and the City
5 of Concord Engineering Office on September 11th of
6 2014. And, they were very productive discussions,
7 leading towards hopeful implementation of the already
8 approved design by the New Hampshire Department of
9 Environmental Services. We discussed certain
10 encumbrances to the site that had to do with the
11 limited access right-of-way on the DOT property, access
12 we would need to implement the design. And, we are
13 also presently exploring the activity and use
14 provisions -- activity and use restrictions, excuse me,
15 that the New Hampshire Department of Environmental
16 Services would impose on the site after it's
17 remediated, after the wetland cap has been implemented.
18 We are in the process of still doing that. But I
19 believe that we are going to be able to update the
20 design, so that the access is not going to be on the
21 more encumbered DOT limited access right-of-way, rather
22 it will go across the site from the west. And, we
23 believe that a tweak of the design will work. So, more
24 to come.

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 Q. Great. Thank you for your efforts on that. Mr.
2 DaFonte, you talked about hedging costs in your
3 testimony, and I believe Mr. Simek probably touched on
4 those as well. The Company has just recently changed
5 its hedging policy, is that correct?

6 A. (DaFonte) That's correct.

7 Q. So, would it also be correct to say that it's difficult
8 to compare the costs associated with hedging that are
9 included in this cost of gas rate to last year's costs
10 for hedging that were included, is that correct?

11 A. (DaFonte) We can do a comparison of some of the
12 hedging, because we are -- we still have hedges under
13 the old plan.

14 Q. Uh-huh.

15 A. (DaFonte) So, that's at least comparable. But it's
16 difficult to compare the new policy, which is a
17 physical basis hedge.

18 Q. Uh-huh.

19 A. (DaFonte) Because we didn't have that previously.

20 Q. Uh-huh. Will the Company look, after this winter, does
21 the Company have any plans to look at how the hedging,
22 the new hedging policy performed, or would you need
23 more time to do that, in order to have historical
24 information to make determinations on whether or not

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1 the hedging policy, the new hedging policy is working
2 or how it's working?

3 A. (DaFonte) We typically would look at the results of the
4 program. And, you know, if it doesn't perform as
5 expected, and, again, this is really a hedging program,
6 so we don't really consider just gains and losses as a
7 measure of the effectiveness of the hedge.

8 Q. Uh-huh.

9 A. (DaFonte) So, we will look at it. Although, we prefer
10 to have a little bit more historical information to see
11 the overall performance, before we propose any
12 additional changes.

13 Q. Uh-huh.

14 A. (DaFonte) But we will keep Staff and OCA informed as to
15 the results for sure.

16 Q. Okay. Thank you. I guess I'll ask Mr. Simek about the
17 unaccounted for gas costs that are included in the cost
18 of gas rate. You talked in your testimony about a
19 "limit to cost recovery". Do you recall that
20 testimony?

21 A. (Simek) Yes.

22 Q. And, you'd agree that that limit arose out of the
23 settlement agreement and order in the Liberty
24 acquisition of EnergyNorth?

[WITNESS PANEL: DaFonte~Casey~Simek]

1 A. (Simek) Correct.

2 Q. And, what that limit does, in effect, is limit the
3 amount of unaccounted for gas costs that can be
4 recovered from customers. Is that correct?

5 A. (Simek) Correct.

6 Q. And, the impact of that limit on this cost of gas, on
7 the cost of gas revenues for this case, was
8 approximately \$11,000, is that correct?

9 A. (Simek) Just give me one moment please.

10 Q. Bates Page 9 and 10.

11 A. (Simek) Correct.

12 Q. And, how does that \$11,000 of "excluded", I'll say,
13 costs compare to the total amount of costs associated
14 with unaccounted for gas this winter?

15 A. (Simek) It's a very small percentage of the total lost
16 and unaccounted for gas.

17 Q. Okay.

18 A. (Simek) It's actually, I believe, Schedule 25, which is
19 Bates Page 293R, shows the volumes of the lost and
20 unaccounted for in the calculation to come to the
21 2.65 percent.

22 Q. So, the 2.65 percent correlates to the 11,000, is that
23 what you're saying? Could you direct me to the page
24 again please. Just the page in the filing that you're

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1 looking at.

2 A. (Simek) It's 293R. Bates Page 293R.

3 Q. Uh-huh. 293R I have as "short-term debt limitations".

4 Am I looking at the wrong thing? Oh. Thank you.

5 A. (Simek) So, yes. You are correct. The 2.65 is

6 comparable to the 1.28. Yes.

7 Q. Okay. Thank you.

8 A. (Simek) You're welcome.

9 (Court reporter interruption.)

10 **BY THE WITNESS:**

11 A. (Simek) The 1.28 percent.

12 BY MS. HOLLENBERG:

13 Q. Thank you.

14 A. (Simek) You're welcome.

15 Q. Mr. DaFonte, just a couple of questions about the

16 under-collection, which -- from last winter. So,

17 that's approximately 14 million, is that correct?

18 A. (DaFonte) Yes.

19 Q. And, 5 million -- there was a \$5 million

20 under-collection carried forward from the prior winter,

21 is that correct?

22 A. (DaFonte) I'll ask Mr. Simek to explain that.

23 Q. Okay.

24 A. (Simek) Yes, it is.

[WITNESS PANEL: DaFonte~Casey~Simek]

1 Q. I'll direct my questions to him then. That's probably
2 better.

3 A. (Simek) Yes, it is.

4 Q. Okay. So, 9, about 9 million of it is new
5 under-collection?

6 A. (Simek) Correct.

7 Q. And, I know there were a lot of factors this winter
8 that created high costs and higher demand for gas. I'm
9 wondering if you know or can tell how much the lack of
10 firm capacity by generators using natural gas is
11 influencing the -- is impacting natural gas customers?

12 A. (DaFonte) I can answer that.

13 Q. Okay.

14 A. (DaFonte) Or at least attempt to.

15 Q. That would be great.

16 A. (DaFonte) Maybe it's more of an opinion, than fact,
17 but --

18 Q. Okay. Yes. No, I would just be interested in what
19 your thoughts are.

20 A. (DaFonte) Sure. I think I've spoken about this
21 previously with regard to the lack of natural gas
22 pipeline infrastructure coming into New England. And,
23 particularly, in the winter period, where there are
24 coincident peaks on the electric side, as well as the

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 natural gas side. And, for the electric side, there
2 are quite a few more natural gas-fired generating
3 facilities than five or ten years ago. Unfortunately,
4 most of those facilities do not have firm pipeline
5 capacity. And, therefore, during the peak periods,
6 they will be out attempting to buy natural gas in the
7 spot market to buy the generation that they need.

8 At that same time, the natural gas
9 utilities are out there buying gas with firm pipeline
10 capacity. So, it creates a shortage, and, typically,
11 the price of the gas is bid up on the spot market.
12 And, that increased price of gas is reflected in the
13 index prices that are produced. And, of course, the
14 Company purchases a good number of its volumes at a
15 market-based index price. So, there is some influence
16 on that index price, based on the fact that it's
17 getting bid up by those electric generators that don't
18 have the pipeline capacity and need to have the supply.

19 I would also say that, you know, on the
20 retail choice side, there are some retail marketers
21 that also have to buy gas in the market area as well.
22 And, so, you know, that combination tends to inflate
23 the price. So, it's basic supply and demand. And,
24 certainly, the demand is greater than the supply during

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1 those peak periods and that influences the price.

2 Q. Uh-huh. And, would you agree then that natural gas
3 customers are not only seeing the impact of less or a
4 shortage of capacity through their natural gas rates,
5 but they're also seeing that impact through their
6 electricity rates, because of prices that everybody --
7 that everyone pays for are higher as a result of the
8 higher spot market prices?

9 A. (DaFonte) Sure. There's a direct correlation,
10 certainly, between the high natural gas prices and the
11 higher electricity prices for that fact. That there
12 are more gas-fired generators today as part of the mix
13 of generation overall. And, of course, the high prices
14 that have to be paid for that natural gas create the
15 higher electricity costs for consumers.

16 Q. Thank you. And, do I understand correctly, or maybe I
17 don't, how are -- or, are the retail choice changes
18 that you've made, the program changes that you've made
19 that you talk about in your testimony, in the Company's
20 testimony, at your testimony, Bates Page 319. So, are
21 those changes and the changes to the hedging policy
22 ways for the Company to respond to the capacity issue,
23 that those are both ways that the Company is responding
24 to the capacity issue in New England?

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1 A. (DaFonte) Yes. We feel that is the case. That the new
2 hedging program that we're implementing is designed to
3 hedge the physical basis in the market area, which is
4 what has really spiked over the past winter, and even
5 in, you know, the prior winter during peak periods.
6 And, so, because we require a base load amount of
7 market area capacity, it makes sense for us to try to
8 hedge the portion of that cost that is most volatile.

9 Q. Uh-huh?

10 A. (DaFonte) And, that portion is not the NYMEX, it's
11 really the basis piece of it. And, so, we think that
12 that will help to stabilize prices for consumers. With
13 regard to the Retail Choice Program, in the course of
14 analyzing the program as it was put in place by
15 National Grid, we found that some pipeline capacity was
16 being utilized for peaking services. And, we
17 determined that it was -- it was more difficult to try
18 to estimate what the peaking price would be while we're
19 including a pipeline resource in the peaking column, if
20 you will.

21 Q. Uh-huh. Because you have to estimate the supply costs,
22 because it's a Company -- is it Company-managed or some
23 sort of, when you have -- when you allocate peaking
24 resources to a marketer, you're also managing the

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 supply purchases, is that correct, or --

2 A. (DaFonte) Yes. We basically have to provide them with
3 a price at the beginning of the month, so they know
4 what to charge their customers. There is no tariff
5 provision for a reconciliation of the actual cost.
6 And, so, we felt that it's risky to try to attempt to
7 determine what the prices would be as we called on that
8 pipeline market area capacity and supply.

9 Q. Uh-huh.

10 A. (DaFonte) So, by pulling it out of peaking, we now are
11 left with LNG and propane as part of the peaking mix.
12 And, we have a better handle on that price, because we
13 essentially know it at the beginning of every month.

14 Q. Uh-huh.

15 A. (DaFonte) So, there would essentially be no need for
16 any kind of reconciliation there. And, that provides
17 marketers with more certainty on their price, by
18 providing them with the pipeline capacity as part of
19 the overall pipeline capacity allocation.

20 Q. Uh-huh.

21 A. (DaFonte) It allows the marketer to determine how best
22 to hedge that supply or utilize that capacity. So, we
23 really are giving them more control over how they serve
24 their customer.

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1 Q. Uh-huh.

2 A. (DaFonte) And, most marketers prefer that they control
3 that, so they can provide the best type of pricing for
4 a customer.

5 Q. Uh-huh. Sounds like a good solution for all concerned.

6 A. (DaFonte) We agree.

7 MS. HOLLENBERG: Thank you. I don't
8 have any other questions. Thank you.

9 MR. SPEIDEL: Attorney Wiesner, does
10 Staff have any questions?

11 MR. WIESNER: Staff has questions,
12 Attorney Speidel. I will address my questions to the
13 panel as a whole, and invite whoever is best able to
14 address those questions to respond.

15 BY MR. WIESNER:

16 Q. First question refers to Schedule 11A, which is found
17 on Bates Page 135 of the revised filing. This schedule
18 forecasts sendout requirements of approximately
19 80 million therms, which represents an increase of
20 3.4 percent over last winter's forecast. Please
21 explain the difference between the sendout requirements
22 and billed sales and the reasons for this projected
23 increase.

24 A. (DaFonte) The difference between billed sales and

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1 sendout is essentially the lost and unaccounted for
2 percentage. The sendout, which is reflected here as
3 approximately \$80 million therms, is sort of the gross
4 amount that arrives at the citygate, if you will. And,
5 then, the volumes shown on Schedule 10B, which is Bates
6 132R, those are what essentially is -- goes to the
7 burner tip. So, there's a difference in fuel from the
8 gross receipt point to the delivery at the burner tip.

9 Additionally, what impacts the
10 difference is that the sendout on Schedule 11A is
11 calendarized, while the volumes on Schedule 10B are
12 actual, they're billed sales. So, you'll see that the
13 larger volume occurs, for example, in February, because
14 it's billing a greater portion of January. So, there's
15 a lag there. So, that has an impact as well. That's
16 why the numbers don't necessarily correlate
17 one-for-one, because of the way that they're
18 forecasted.

19 Q. Thank you.

20 A. (DaFonte) And, the other thing, just to address the
21 growth that you mentioned, part of the growth from last
22 year is really just organic growth, which is
23 approximately 2.4 percent. The other portion that gets
24 us to the 3.4 percent is that the migration, or we call

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1 a "reverse migration" of transportation customers back
2 to sales service. So, that ratio differs by about
3 one percent, based on the prior calculations that we
4 have made. So, there are more sales to transportation
5 volumes.

6 Q. And, how does a customer switching from transportation
7 to firm sales service impact supply planning and gas
8 costs?

9 A. (DaFonte) Well, the switching is generally not a
10 problem. If it's a customer that has the Company's
11 capacity, and we call those "capacity-assigned"
12 customers. They come back and they take their capacity
13 and bring it back with them. So, it's not necessarily
14 a concern for us.

15 What could be a concern for us is what
16 we call the "capacity-exempt" customers. And, those
17 customers have their own capacity, or, better said,
18 their marketers have the capacity to serve those
19 customers. And, if those customers come back to
20 utility sales service, then we have got to determine
21 whether we have sufficient capacity to serve them,
22 because they're not coming back with any capacity.
23 Their marketer retains that capacity.

24 But, again, if that's done in an orderly

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1 fashion, we don't have a significant concern, because
2 we have some time to plan for those customers. But, if
3 it's a mass reverse migration, then that can cause some
4 concerns on our part, with regard to having to go out
5 and purchase more spot supplies to meet their needs.

6 I guess one other thing I would add with
7 regard to the capacity-exempt, which is more of a
8 longer term issue, certainly, there is a concern, in
9 the short-term, if they were to come back in large
10 amounts during a peak period. But, in the long run, we
11 feel that those customers, those returning
12 capacity-exempt customers, would actually benefit the
13 overall system cost. Because, generally speaking, they
14 are the higher load factor customers. They were the
15 first to take advantage of the firm transportation
16 service. And, so, their load factor would allow the
17 Company to essentially collect its pipeline demand
18 charges during the off-peak period, which today it has
19 to go out and optimize, and get, certainly, you know, a
20 lot less than the maximum rate for that capacity during
21 the off-peak period. So, a lot of that capacity during
22 the off-peak period would be billed to these customers
23 or borne by these customers at the maximum tariff rate.

24 So, over the long haul, as long as we

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 have some time to plan, we can do that. And, I think
2 it's -- it will work out probably favorably. But it's
3 really the short term that we have some concerns.

4 Q. Mr. DaFonte, if those customers returned to sales
5 service, are they capacity-assigned customers from then
6 on?

7 A. (DaFonte) Yes. As soon as they return to sales
8 service, they then become capacity-assignable. They
9 have the option to go back to transportation service,
10 certainly, but, if they do, they will take our capacity
11 with them. Which, of course, for us, makes it more
12 tenable on the planning side, if they then decide to
13 come back at some future point, because they now have
14 capacity that we would retain to serve them.

15 Q. Those customers would no longer be capacity-exempt?

16 A. (DaFonte) Correct.

17 Q. Grandfathered customers?

18 A. (DaFonte) That's correct.

19 Q. Thank you. What is the total anticipated
20 capacity-exempt sendout forecast for this winter
21 period?

22 A. (DaFonte) Our calculations indicate it's probably in
23 the 16 to 17 million therm range.

24 Q. And, what is the amount of capacity-exempt load

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 expected to switch to firm sales service this winter?

2 A. (DaFonte) We don't have an estimate for that at this
3 point. Very difficult to estimate what that could be,
4 simply because we are not privy to the contractual
5 arrangements of these customers with their marketers.
6 So, it's quite possible that some of those contracts
7 will expire during the winter period. And, those
8 customers may be in the process right now, as we speak,
9 of obtaining bids for their new contract period. And,
10 those bids will most likely reflect the current market
11 conditions. And, that is the reason we are somewhat
12 concerned that some of these customers will come back,
13 because the current market conditions are certainly
14 much higher than what the customer was used to paying.

15 The other thing that we don't know is
16 how the new contracts will be structured. For example,
17 if it's a short-term contract for one year, then, it's
18 probably capturing a lot of the price increases in the
19 marketplace. If it's a longer-term contract, maybe
20 that -- those costs can be smoothed out over that
21 period. We just don't know how those customers are
22 going to react to the new bids for their supply.

23 We do know and we track this, that we've
24 just, in October, we had five capacity-exempt customers

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 return to sales service. So, we will continue to
2 monitor that. We talk to the marketers all the time,
3 to make sure that, if they're -- if they even are
4 considering returning their customers to us, that they
5 give us some advance notice. And, we have had
6 inquiries both from customers, marketers, and even the
7 consultants for the customers. Many of the customers
8 today use consultants/brokers to help them with their
9 energy procurement decisions.

10 Q. What was the Company's experience with capacity
11 reversals during the last winter period of 2013-14?

12 A. (DaFonte) Last year, we did not have any that I'm aware
13 of. And, that can be attributed to the fact that
14 customers were still under contract, and prices really
15 didn't start to go up until you were in the winter
16 period. So, if a customer had sort of locked in during
17 that summer period, they wouldn't have seen the
18 significant market area price swings that we saw in
19 that winter.

20 But, as I said, now that some of these
21 contracts are coming up for expiration, the bids will
22 reflect the current market conditions.

23 Q. Can you describe the impact, if any, that any
24 anticipated reverse migration would have on this

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1 winter's operations and pricing?

2 A. (DaFonte) Well, as I said previously, if it's an
3 orderly return of customers, then, I don't see a
4 significant impact, either, you know, from a cost
5 perspective or from a reliability/operations
6 perspective. But, if it's a, you know, a significant
7 migration, then there could be some short-term price
8 impacts, having to purchase more spot supplies. And,
9 from a reliability perspective, certainly, if we don't
10 have sufficient supplies for those customers, then we
11 could experience some disruptions potentially. But a
12 lot of things have to happen for that to occur. The
13 pipeline pressures would have to drop, and it will have
14 to be on a very cold day. But I wouldn't -- I wouldn't
15 rule it out, anything can happen, but it's highly
16 unlikely that that would happen this winter. But we
17 continue to monitor that, to make sure that there
18 aren't those concerns. As I said, we do talk to the
19 marketers frequently. And, we try to get an
20 understanding of what they're going to do with regard
21 to the customers they currently have.

22 Q. Thank you. Is it the case that the Company can decline
23 to take a customer back, if it would result in
24 reliability issues, such as you described?

[WITNESS PANEL: DaFonte~Casey~Simek]

1 A. (DaFonte) Yes. We will look at a customer request to
2 return to sales service on a case-by-case basis. At
3 this time, we have sufficient reserve capacity to serve
4 a good number of those customers. But we would not
5 have sufficient capacity to serve all of them,
6 certainly.

7 Q. Thank you. In Commission Docket Number DG 14-091, a
8 special contract was approved for Liberty to serve a
9 compressed natural gas provider, and Liberty requested
10 an expedited approval process in order to meet a
11 projected in-service date of November 1st. What is the
12 status of that project and is that project reflected in
13 the sales forecast for this winter period?

14 A. (DaFonte) As far as the sales, those are not reflected
15 in this winter period. The project is actually moving
16 along as anticipated. All of the permitting has been
17 received to date. The Company has ordered the
18 compressors, dryer equipment, so forth, and that was
19 done about three weeks ago. We've paid the necessary
20 deposit on the equipment as well. The meter and
21 regulators and piping should be ordered this week by
22 iNATGAS. And, there's a bid package that should be
23 going out within the next two weeks for prospective
24 contractors to construct that facility. Overall, we

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1 are on schedule for an April 1st in-service date.

2 Q. I now want to refer to Revised Schedule 7, which is
3 found on Bates Page 113 of the October 15th filing.

4 MR. SPEIDEL: "Bates Page 115", did I
5 hear that correctly?

6 MR. WIESNER: Sorry. One thirteen
7 (113).

8 MR. SPEIDEL: One thirteen (113). Thank
9 you.

10 BY MR. WIESNER:

11 Q. This schedule calculates the average NYMEX futures
12 prices for the winter months based on 15 days ending
13 September 24th. These prices are used to forecast
14 commodity costs for the upcoming winters. How do the
15 prices used in that calculation compare to the most
16 recent NYMEX futures prices for the winter months?

17 A. (Simek) I used -- excuse me. I had used the Monday
18 settlement prices for NYMEX, and reran our model. And,
19 the prices actually had gone down approximately three
20 cents from our October 15th filing. So, for our
21 residential rate, they actually were 1.1351.

22 Q. And, if the Company were to use the most recent NYMEX
23 futures prices that you just described, Mr. Simek, how
24 would that impact the proposed cost of gas rates?

[WITNESS PANEL: DaFonte~Casey~Simek]

1 A. (Simek) The cost of gas, in total, total cost of gas
2 would go down approximately \$2 million, if we use the
3 rates as of the Monday close. And, again, the cost of
4 gas rate would go down approximately three cents.

5 Q. Thank you.

6 A. (Simek) You're welcome.

7 Q. Do the proposed maximum cost of gas rates allow enough
8 flexibility to absorb normal price fluctuations through
9 monthly rate adjustments without adjusting the rate at
10 this time?

11 A. (Simek) Yes.

12 Q. Thank you. Approximately what percentage of the gas
13 supplies in the Company's winter period forecast are
14 hedged, pre-purchased, or otherwise tied to a fixed,
15 pre-determined price?

16 A. (DaFonte) We are hedging approximately 1.9 bcf of our
17 anticipated purchases, either through the NYMEX hedging
18 or through the physical basis hedging. That equates to
19 approximately 24 percent of normal winter's supply
20 requirements. If you include underground storage and
21 propane, which are generally known prices going into
22 the winter period, you end up with approximately
23 52 percent of the anticipated normal winter supply
24 purchases as being known, if you will.

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1 Q. Can you please describe in greater detail the
2 modifications to the Company's hedging programs this
3 year?

4 A. (DaFonte) Sure. Previously, the Company was hedging
5 the NYMEX futures, either through swaps or through
6 options. What the Company found is that, because the
7 NYMEX was much less volatile than when the program was
8 initially filed and approved, there was no real benefit
9 to customers. In fact, with the NYMEX dropping, there
10 were some significant losses as a result of those
11 hedges over the last five or so years.

12 The Company looked into a better way, we
13 think, to hedge, which would be the physical basis
14 purchases in the market area. As I mentioned earlier,
15 those basis numbers are really what had caused prices
16 to increase. For example, last winter, even during the
17 peak periods, we had a NYMEX run-up of maybe a dollar
18 or so, from a little over \$4.00 to over \$5.00 in
19 February, kind of a one-month run-up. At that same
20 time, market area prices were \$60, \$70, \$80. So, you
21 can see that the NYMEX component of that \$60, \$70, \$80
22 was *de minimis* compared to what the basis number was.

23 And, so, it was, you know, really clear
24 to us that the problem was the basis in the market

[WITNESS PANEL: DaFonte~Casey~Simek]

1 area, which, as I mentioned earlier, is a result of a
2 lack of sufficient natural gas pipeline infrastructure
3 coming into the region.

4 Q. And, how do the costs of the Company's hedged supplies
5 compare to projected market prices?

6 A. (DaFonte) I did an update, which is really looking at
7 the prices as of Tuesday, is when NYMEX settled, as of
8 this past Tuesday. And, we, at this point, would be
9 projecting a loss of \$1.4 million. Much of that is a
10 result of the fact that prices have really softened
11 from the original filing, as Mr. Simek has mentioned.
12 And, so, the NYMEX has come down quite a bit. And, the
13 physical basis market has also softened a bit in the
14 early months of the winter.

15 However, as you know, until we actually
16 have a settlement of the NYMEX and a first-of-the-month
17 price for market area supply, we really won't be able
18 to determine what the gain or loss would be as a result
19 of those hedges.

20 Q. Next, I want to address the under-collection, and this
21 is described in Schedule 18, Bates Page 167, beginning
22 on Bates Page 167, and is also referred to elsewhere in
23 the prefiled testimony. Schedule 18 shows an
24 undercollection of almost \$15 million from last year to

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 be recovered in this year's rates on total gas costs of
2 \$100 million. Please explain why, in spite of monthly
3 adjustments and a mid-winter revised cost of gas filing
4 last year, how such a large under-collection occurred?

5 A. (Simek) Part of the under-collection was related to the
6 revised mid-winter cost of gas filing. It was
7 identified at that point that the full under-collection
8 at that point was not going to be collected through the
9 new proposed rates. Again, the high rates that
10 occurred during the winter months occur actually during
11 the winter months. So, for us to identify, really, the
12 only way we can try to prevent that happening this year
13 is for the Company to be as diligent as we can
14 monitoring market prices.

15 We do have a 25 percent price increase
16 cap that we can do from our original proposed filing,
17 our revised filing from today. And, again, as long as
18 we're diligent and monitoring the market, and updating
19 the prices appropriately through our trigger filings
20 each month, and, again, identifying if another
21 mid-winter cost of gas revised filing would need to be
22 done, if we have to go above the 25 percent,
23 identifying that as soon as possible, so that we could
24 move forward and get those adjusted rates in place as

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 soon as possible.

2 Q. Other than what you just -- I'm sorry.

3 A. (DaFonte) Could I just add to that? Just to accentuate
4 the fact that last winter was an anomaly, very
5 difficult for anybody to forecast the run-up in prices.
6 Even with the midcourse correction that we made, we
7 were attempting to increase rates for the last two
8 months of the winter period. And, certainly, to avoid
9 the rate shock to customers, we didn't collect the full
10 amount.

11 But, at the same time, it was still a
12 forecast of anticipated costs for March and April.
13 And, obviously, those costs came in much higher than we
14 anticipated, which was pretty much the story for the
15 entire winter. And, no one could really predict how
16 high these prices were going. And, no one could
17 certainly predict how long they were going to stay up
18 there, and that was certainly the case for March and
19 April, where the prices stayed pretty strong. And,
20 quite frankly, much of it was related to the fact that
21 storage levels were depleted significantly, and you
22 tend to see that bear out in the latter part of the
23 winter.

24 So, in the March and April time frame,

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 where storage levels were very low, it forced companies
2 to have to go out and buy spot gas in lieu of
3 withdrawals from storage. And, that was not just a New
4 England issue, but that was pretty much a
5 Northeast/Mid-Atlantic/Midwest issue, and we saw prices
6 increase in all of those locations. So, it was, you
7 know, a significant, I would say, anomaly in the market
8 that really caused that run-up, and was clearly very
9 difficult for us to predict.

10 Q. Mr. Simek, other than the monitoring actions which you
11 described a moment ago, has the Company taken any other
12 steps to avoid an under-collection similar to what was
13 experienced last year?

14 A. (Simek) Not that I'm aware of, no. Again, with our
15 tariff, we're limited to only being able to increase
16 the prices up 25 percent. And, then, if we would need
17 to go higher, if we continue to have an
18 undercollection, we would have to go through another
19 mid-winter revised cost of gas rate filing. And, in
20 doing so, that's the best attempt that the Company can
21 do, in order to try to curb any type of
22 under-collection.

23 A. (DaFonte) And, obviously, as I mentioned earlier, the
24 fact that we implemented a new hedging plan, that was

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 specifically designed to minimize the price spikes
2 associated with the basis run-up. So, we feel like we
3 have a lot more protection on the price spike
4 associated with the basis into New England. So, we
5 think that will help to avoid bumping up against that
6 25 percent cap that Mr. Simek spoke about.

7 Q. And, other than the physical hedging program which
8 you've described, have there been any other material
9 changes in this winter's supply plan compared to last
10 winter? And, if so, please explain those changes.

11 A. (DaFonte) The supply plan really hasn't changed, other
12 than the changes to the Retail Choice Program that I
13 spoke of earlier. That we feel will help to better
14 allocate costs to those marketers and customers that,
15 you know, that essentially caused those costs. So, in
16 that regard, we have a -- we would have a better handle
17 on forecasting our prices.

18 Q. What has the reaction been from the marketers to the
19 Retail Choice Program changes that you've described?

20 A. (DaFonte) Generally positive. They had some questions,
21 trying to understand what it is that we were attempting
22 to do and how it would impact them. We provided them
23 with a notice a couple months ago. We had discussions
24 with them specifically, explained these changes, and

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 they were generally okay with what we propose. We
2 really didn't have any complaints.

3 Q. Thank you. What was the total amount of environmental
4 remediation costs incurred for the year ending June 30,
5 2014?

6 A. (Casey) If I could refer you to Bates Page 260R,
7 2-6-0-R. The figure is presented on Line 11, second to
8 last column labeled "2013-2014".

9 Q. Thank you. The Commission's Final Audit Report found
10 an \$8,243 error in the reported expenses. How is that
11 to be treated and what is the rate impact of that
12 treatment?

13 A. (Simek) That \$8,243 correction is included on Bates
14 Page 260R, in Line 11, that Ms. Casey just pointed out.
15 Also, I would like to point out one correction that I
16 found while we were going through the discussion here.
17 Within the confidential Attachment A, on Bates Page
18 25R, --

19 MR. SPEIDEL: Just a second, Mr. Simek.
20 Are you going to read a specific figure there?

21 WITNESS SIMEK: No.

22 MR. SPEIDEL: Okay. Go on.

23 **CONTINUED BY THE WITNESS:**

24 A. (Simek) I just wanted to show that the total on that

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1 page doesn't tie to the amount that we had just shown
2 on Page 260R. And, the difference is that 8,243 audit
3 correction that we just discussed.

4 BY MR. WIESNER:

5 Q. And, can you describe any rate impact from that
6 revision?

7 A. (Simek) Yes. There was no rate impact. The 8,243,
8 with the rates going out to four decimal points, was
9 too low to impact the rate.

10 Q. Thank you. The Audit Staff also found two expenses
11 totaling approximately \$3,500, considered to be general
12 expenses that are not related to specific remediation
13 sites. And, the Final Audit Report recommended that
14 those expenses should not be recovered through the
15 Environmental Remediation Surcharge. How are those
16 expenses to be treated and what is the rate impact of
17 that treatment?

18 A. (Simek) We have accepted the Audit's suggestion, and we
19 plan on including these adjustments in the 2014-2015
20 cost of gas reconciliation.

21 MR. WIESNER: No further questions.

22 Thank you.

23 MR. SPEIDEL: I have a few Bench
24 questions I'd like to ask. And, I think we can work

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1 backwards.

2 BY MR. SPEIDEL:

3 Q. Mr. Simek, you mentioned the fact that the \$8,000 --
4 roughly \$8,000 correction tied into Bates Page 260R,
5 Line 11, has not been tied back to I believe it would
6 be Schedule 20, is that correct?

7 A. (Simek) It was to Page 25R, Attachment A.

8 Q. Yes. And, so, I just need to clarify for my own
9 understanding, what you were referring to when you said
10 it "wasn't tied back"?

11 A. (Simek) Confidential Attachment A was meant to show the
12 total 2013-2014 expenses.

13 Q. Yes.

14 A. (Simek) And, what we're showing on Page 260R is the
15 expenses that are included in the rate calculation.
16 So, there was a prior year adjustment of 8,243 that is
17 included in the adjusted revised rates.

18 Q. So, it is included in that?

19 A. (Simek) It is included in the rates.

20 Q. Okay. Then, that's kind of a nonissue. Thank you. I
21 would just like to ask a general question of the
22 Company. Are there any revisions beyond what was
23 presented in Exhibit 1, that is the October 15th
24 revised filing, to the tariff page sheets and/or the

[WITNESS PANEL: DaFonte~Casey~Simek]

1 bill impacts presented in Revised Schedule 8? Or is
2 this the state-of-the-art, all of these figures are
3 current and can be reflected in any Commission order?

4 A. (Simek) All the figures are current and can be
5 reflected.

6 Q. Thank you. I have a couple of follow-up questions for
7 Mr. DaFonte. Regarding the capacity-exempt customers
8 returning to sales service in the month of October, and
9 if you don't happen to have this specific figure,
10 that's all right, but, in a general way, what would be
11 the rough sales volume that corresponds to these five
12 capacity-exempt customers that have returned to sales
13 service that the Company will be now serving in a
14 bundled capacity fashion?

15 A. (DaFonte) I don't have the actual sales volumes. But
16 we did calculate the impact on design day, which is
17 really what's most critical for us. And, our
18 calculation is it's a little over 300 dekatherms that
19 we would require incrementally in our design day
20 calculation, which, in the filing, we've calculated as
21 140,500 dekatherms on design day. So, that would go up
22 to 140,800, roughly.

23 Q. Thank you. If there were a rush reversal of
24 capacity-exempt customers to sales service by customers

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 that are really responding to real-time conditions in
2 the upcoming winter markets, is there an expectation
3 that the Company would alert the Commission community
4 at large regarding that reversal, especially if it were
5 "disorderly", as you described, Mr. DaFonte?

6 A. (DaFonte) Certainly, we'd like to have that discussion.
7 Whether it happens or not, I think it's worthy of
8 discussion, just to determine the best course of action
9 for the Company. Whether there should be some
10 preplanning, in the event that this happens, just to,
11 you know, protect the customers that are on the system
12 right now, and to, you know, better understand how we
13 would deal with some of these customers who may want to
14 come back, yet we may not have the resources on hand to
15 take them back. That is a -- it's a big concern of
16 ours, because these customers, while they don't have or
17 may not have capacity, and we may not have the capacity
18 to serve them, they're still physically connected to
19 our distribution system. So, it would be very
20 difficult for us to say "well, we can't take you back".
21 And, they say "Sure, okay. We'll just shut down our
22 manufacturing plant or our pizza place", or what have
23 you, they're probably going to continue to take gas.
24 And, we would most likely have to go out and physically

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[WITNESS PANEL: DaFonte~Casey~Simek]

1 shut them off, which is never a, you know, a headline
2 that you want to read about. So, I think there are
3 some things that are worthy of discussion, to try and
4 address this issue before it actually comes to
5 fruition.

6 Q. So, you would expect that you're going to be
7 workshopping and discussing things with Staff and the
8 OCA in the next couple months, before the winter really
9 gets going, about potential contingency planning on a
10 prospective basis. But, also, would you expect that,
11 if you had a major industrial customer that's rushing
12 back to sales service, that in some fashion you'd give
13 a call to, say, Assistant Director Frink or folks like
14 that, just to alert them to what's going on? Because I
15 believe it would be important for the Company to work
16 collaboratively with the Commission and the OCA, and
17 making sure that, if there are potential disruptions,
18 that perhaps some fair solution could be reached.

19 A. (DaFonte) Sure. We'll definitely be in touch with the
20 Staff and OCA on any of these issues. And, certainly,
21 we do file a Migration Report every month. And, we can
22 kind of see what the trend is there, because we also
23 have to think about, not just capacity-exempt, but we
24 have to determine if there's some pattern or trend in

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1 migration of even the capacity-assignable customers.

2 We continue to monitor that as well.

3 But our real concern is the
4 capacity-exempt. And, as I said, I think it's worthy
5 of having that discussion to make sure that there is a
6 contingency plan, if needed, or, at the very least, we
7 have a clear understanding of what the rights are of
8 the customer, what the rights are of the Company, and
9 how we handle this on a go-forward basis.

10 Q. Thank you for that answer. That's very helpful. Also,
11 I believe Mr. DaFonte responded to a question regarding
12 hedging losses. And, the interim figure that was
13 provided was "\$1.4 million" in hedging losses. Is it
14 fair to say that those losses are really notional or
15 paper losses at the present time, in that prices during
16 the actual winter period could still overshoot the
17 Company's expectations during the passage of the
18 winter?

19 A. (DaFonte) Correct. That's a mark-to-market
20 calculation. So, it is based on prices at the current
21 time. And, as I said, we have to wait until the NYMEX
22 expires for each month to determine what the actual
23 gain or loss is related to that specific month. And,
24 then, we have to wait until the first-of-the-month

[WITNESS PANEL: DaFonte~Casey~Simek]

1 index price comes out for the Tennessee Zone 6 purchase
2 point, which is what we are hedging with our physical
3 basis. And, that first month would be December of
4 2014. So, we'll have to wait until that time to get an
5 appropriate calculation on the gain or loss on that
6 physical basis hedge.

7 Q. So, it's very possible that the hedging program could
8 have a value that's far in excess of this mid-autumn
9 spot check of \$1.4 million in losses?

10 A. (DaFonte) Certainly. And, as I said, you know, the
11 hedging program, particularly the basis hedges, are
12 designed to prevent a spike in prices. Certainly, if
13 they go down, I think that's good for everybody, even
14 though there may be some losses associated with that
15 hedge. It's still overall a good thing for the
16 consumer.

17 Q. And, this is in the "obvious" category, but it's my
18 understanding that the Company would wish to have
19 approval of these rates in advance of November the 1st?

20 A. (Simek) Yes.

21 MR. SPEIDEL: Thank you. Attorney
22 Knowlton, any redirect?

23 MS. KNOWLTON: Yes. Thank you. I have
24 a question for Mr. Simek.

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REDIRECT EXAMINATION

BY MS. KNOWLTON:

Q. Mr. Simek, would you please indicate what the rates were that the Company initially sought approval for and what the revised -- the proposed revised rates are?

A. (Simek) Yes. In our original September 2nd filing, the proposed rates for a residential customer was at 1.2225; and for a C&I High Winter Use, the rate was at 1.2248; and for a C&I Low Winter Use customer, the rate was at 1.2068.

Our revised rates -- our revised proposed rates for the October 15th filing, for a residential customer is 1.1630, or six-tenths lower than the original filed rate; for the C&I High Winter Use, our proposed revised rate is 1.1666; and our C&I Low Winter Use proposed revised rate is 1.1384.

MS. KNOWLTON: Thank you. The Company has no further questions for the panel.

MR. SPEIDEL: Well, thank you very much. I would welcome any further general questions from any of the parties regarding the filing that haven't been quite yet addressed?

(No verbal response)

MR. SPEIDEL: Or, hearing nothing, I

1 would like to invite the Company to make its closing
2 statement.

3 MS. KNOWLTON: If I may, I believe the
4 Company typically closes last. We'll proceed first, if
5 the Bench prefers that I do so?

6 MR. SPEIDEL: No. That's all right.
7 You're exactly right. So, who would like to begin? Would
8 the Office of Consumer Advocate like to begin?

9 MS. HOLLENBERG: Sure.

10 MR. SPEIDEL: Excellent.

11 MS. HOLLENBERG: Short and sweet. The
12 Office of Consumer Advocate does not oppose the proposed
13 cost of gas rates that have been offered by the Company as
14 of their revision in October. And, we appreciate the
15 efforts of the parties to come to this hearing today.

16 MR. SPEIDEL: Okay. Mr. Wiesner, for
17 Staff.

18 MR. WIESNER: Staff supports Liberty's
19 proposed rates as requested in its revised 2014-2015
20 Winter Period Cost of Gas filing. The Commission Audit
21 Staff reviewed the 2013-2014 peak period cost of gas
22 reconciliation and verified that the costs and revenues
23 were properly accounted for without exception. Audit
24 Staff did note a disparity between the balances in the

1 filing and those on Liberty's general ledger, and is
2 working with the Company to resolve those differences.
3 Staff reserves the right to address this issue in a future
4 cost of gas proceeding.

5 The Local Delivery Adjustment Charge is
6 comprised of a number of surcharges, all of which have
7 been established in other proceedings, with the actual
8 rate determined in the winter cost of gas proceeding and
9 effective for one year beginning on November 1st.

10 Audit Staff completed its review of the
11 Company's environmental remediation costs, and there were
12 no material exceptions.

13 Staff recommends approval of the revised
14 cost of gas rates and the LDAC rate as just and
15 reasonable. Staff has also reviewed the proposed updated
16 supplier balancing charges, the Company's gas allowance
17 factor, and the capacity allocator percentages for this
18 year for reasonableness and accuracy. And, Staff also
19 recommends that the Commission approve these charges as
20 well.

21 MR. SPEIDEL: Thank you. Ms. Knowlton.

22 MS. KNOWLTON: Thank you. The Company
23 requests that the Commission approve the proposed rates in
24 order for the rates to take effect on November 1st, 2014.

1 As supported in the Company's prefiled testimony and the
2 testimony presented today at the hearing, the Company
3 submits that the proposed rates are just and reasonable.
4 They are based on an appropriate forecast of supply that
5 will be necessary this winter. And, as Mr. Simek
6 indicated, the Company will monitor the market prices
7 actively and will make any adjustments that are necessary
8 within the collar that's allowed for in the tariff.

9 As Ms. Casey testified, the Company has
10 made significant progress in resolving some very large
11 environmental issues over the course of the past year,
12 including resolution of the Company's obligations to
13 contribute to the remediation of the Keene MGP site, the
14 commencement of the Liberty Hill remediation, as well as
15 progress with the City of Concord in moving forward the
16 remediation of the Concord Pond. And, we hope that next
17 year we'll have a further update on that.

18 As Mr. DaFonte indicated, the Company
19 would like the opportunity to sit down and talk with Staff
20 and OCA on planning around the potential return of
21 capacity-exempt customers. And, we will follow up as
22 necessary to schedule that, and appreciate the time of OCA
23 and Staff to do that.

24 And, with that, the Company appreciates

1 everyone's time reviewing this proposed filing.

2 MR. SPEIDEL: Thank you very much. I
3 would have one request of Staff. Would it be possible for
4 the Staff to provide me, as a courtesy, with a copy of the
5 Audit Report, so that I may make reference to specific
6 line items there as appropriate within my Hearings
7 Examiner's Report to the Commission.

8 I expect to file a report recommending
9 approval of this filing shortly. And, I appreciate
10 everyone's involvement in this proceeding. And, I will
11 definitely underscore the importance of having a
12 collaborative meeting with Staff and the OCA with the
13 Company regarding the capacity-exempt issue, because I
14 expect that the Commission will be very interested in
15 that. And, it could be a winter very much like last
16 winter. Again, if the weather is mild, then there's
17 nothing to be worried about. Prior planning is certainly
18 something that is valuable and is especially valuable in
19 an emergency situation. And, if it's not needed, that
20 would be wonderful, of course, for all. But it is very
21 important to plan for the potential for a sudden rush from
22 capacity-exempt service to sales service. So, I will
23 incorporate that recommendation in my report.

24 And, I thank everyone for their time.

1 The hearing is adjourned. Thank you.

2 (Whereupon the hearing was adjourned at
3 11:31 a.m.)

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