STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 30, 2007 - 10:13 a.m.
Concord, New Hampshire

RE: DG 06-107
NATIONAL GRID USA AND KEYSPAN CORPORATION: Approval of the Indirect Acquisition of EnergyNorth Natural Gas, Inc. by way of the Merger of KeySpan Corporation with an Indirect Subsidiary of National Grid, PLC, and Other Regulatory Approvals.

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

Diane Bateman, Clerk

APPEARANCES: Reptg. National Grid USA:
Alexandra E. Blackmore, Esq.
Marla B. Matthews, Esq. (Gallagher...)

Reptg. KeySpan Energy Delivery New England:
Steven v. Camerino, Esq., (McLane, Graf...)
Thomas P. O'Neill, Esq.

Reptg. the United Steelworkers of America, Local 12012-3:
Shawn J. Sullivan, Esq. (Cook & Molan)

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Edward N. Damon, Esq.

Court Reporter: Steven E. Patnaude, CCR

I N D E X

EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
1	Joint Petition for Aproval of Stock Acquisition and Other Regulatory Authorizations and Appendices (August 2006)	8
2	Testimony in Support of the Merger Integration Team Update, include the Testimony of Alan Feibelman and Richard Levin (12-19-06)	8
3	Merger Settlement Agreement between National Grid USA and KeySpan Corporation (05-15-07)	8
4	Direct Testimony of Ronald Gerwatowski and Michael Laflamme in support of the Merger Settlement Agreement	8
5	Corrections to Testimony and Merger Settlement Agreement (4 pages)	8
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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning. We'll open this hearing in docket DG 06-107. On August 10, 2006, National Grid and KeySpan Energy Delivery filed jointly a petition seeking approval pursuant to RSA 369:8 and 374:33, a merger transaction that would result in EnergyNorth becoming a wholly owned indirect subsidiary of Grid. An order of notice was issued on September 12 scheduling a prehearing conference that was held on October 3. And, on October 27, a prehearing conference order was issued approving the procedural schedule and granting interventions. Subsequently, on May 10, a secretarial letter was issued setting May 15 as the date for filing of a settlement and testimony in support of the settlement, and scheduling the hearings for today.

Can we take appearances please.

MS. BLACKMORE: Thank you, Mr. Chairman. My name is Alexandra Blackmore, and I'm appearing on behalf of National Grid. With me is Marla Matthews of Gallagher, Callahan & Gartrell.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. CAMERINO: Good morning,

Commissioners. Steve Camerino, from McLane, Graf, Raulerson & Middleton, on behalf of KeySpan Energy Delivery New England. And, with me is KeySpan Senior Counsel, Thomas O'Neill.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

CHAIRMAN GETZ: Other appearances?

MR. SULLIVAN: Hello. I'm Shawn Sullivan, for United Steelworkers of America, Local 12012-3. And, with me is Kevin Spottiswood, the Chairman/President of our 65 member local here in New Hampshire.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MS. HATFIELD: Good morning, Commissioners. Meredith Hatfield, for the Office of Consumer Advocate, on behalf of residential ratepayers. And, with me is Ken Traum, the Assistant Consumer Advocate.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. DAMON: Good morning, Commissioners. Edward Damon, for the Staff. And, with me this morning are Thomas Frantz, Amanda Noonan, Steve Frink, and Steve Mullen.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

CHAIRMAN GETZ: I'll note that we have testimony in support of the Settlement by two witnesses on behalf of the Petitioners, and also two witnesses on behalf of Staff. And, that we also have testimony in opposition to the Settlement by Mr. Spottiswood, on behalf of United Steelworkers.

MR. DAMON: Yes, Mr. Chairman. The parties have discussed a manner of proceeding this morning, and we'd like to explain what that is. And, if you agree with it, we could go ahead.

CHAIRMAN GETZ: Please.

MR. DAMON: We thought that, first of all, the Settlement should be sponsored and the testimony supporting the Settlement as well. So, the Joint Petitioners would conduct direct examination of their witnesses, followed by the Staff direct examination of its two witnesses on the panel. And, then, the OCA would conduct its direct examination of Mr. Traum. Following that, the parties would be able to engage in what we would call "friendly cross" of the panel, and then followed lastly by cross-examination by the Union, which his testimony does object to the Settlement on specific grounds. So, to that extent, it's unfriendly cross. And, then, after that, the Union could put its witness on to sponsor its own testimony on direct, and we would proceed normally after that.

CHAIRMAN GETZ: Okay. And, I take it that's acceptable to everyone?

MR. SULLIVAN: It is.

CHAIRMAN GETZ: Okay. Then, Ms. Blackmore.

MS. BLACKMORE: I have several exhibits I'd like to mark for introduction first. At the Staff's request, we're introducing some documents to complete the record that were initially filed with the prefiled testimony, but there are no witnesses who will be sponsoring that testimony today. The first -- Well, the first exhibit is the initial Joint Petition and prefiled testimony, which was filed on August 10. The second exhibit would be the testimony and in support of the Merger Integration Update, which was submitted by Alan

Feibelman and Richard Levin, which was filed with the Commission on December 20th, 2006. The third exhibit would be the Settlement Agreement among National Grid, KeySpan, the Commission Staff, and the Office of Consumer Advocate, which was filed on May 15, 2007. The prefiled testimony of Mr. Gerwatowski and Mr. Laflamme in support of the settlement, which was also filed on May 15. The fifth exhibit would be some corrections to the testimony and the Settlement that we found after filing that. And, I'd like that as number -- as "Exhibit 5". And, the final exhibit would be a PowerPoint Presentation, which was dated March 21st, 2007, which comprises the Final Report of the Merger Integration Team to senior management of both KeySpan and National Grid.

CHAIRMAN GETZ: All right. The exhibits will be marked for identification as described by Ms. Blackmore.

(The documents, as described, were herewith marked as Exhibits 1 through 6, respectively, for identification.)

CHAIRMAN GETZ: Ready to have your panel.

MS. BLACKMORE: Yes. I'd like to call Ron Gerwatowski and Mike Laflamme to testify.

Mr. Gerwatowski is the Vice President of Distribution Regulatory Services. Mr. Laflamme is the Manager of Regulatory Support for Distribution Regulatory Services.

CHAIRMAN GETZ: Let me just clarify one thing, make sure I'm not missing something. Mr. Traum, you did not file prefiled written testimony, but -- is that correct?

MR. TRAUM: That's correct. So, I'll be very brief.

CHAIRMAN GETZ: Just wanted to make sure I didn't miss a document.

(Whereupon Ronald T. Gerwatowski, Michael D. Laflamme, Stephen P. Frink, Steven E. Mullen and Kenneth E. Traum were duly sworn and cautioned by the Court Reporter.)

RONALD T. GERWATOWSKI, SWORN
MICHAEL D. LAFLAMME, SWORN
STEPHEN P. FRINK, SWORN
STEVEN E. MULLEN, SWORN
KENNETH E. TRAUM, SWORN

DIRECT EXAMINATION

BY MS. BLACKMORE

Q. Mr. Gerwatowski, would you please state your full name

and business address.
A. (Gerwatowski) Ronald T. Gerwatowski. My title is Vice President of Distribution Regulatory Services. My business address is 55 Bearfoot Road, in Northborough, Massachusetts.
Q. And, what are your duties and responsibilities in that position, Mr. Gerwatowski?
A. (Gerwatowski) I have one of those titles which is really somewhat difficult to figure out what I do. But, essentially, I'd like to say it's basically in charge of the Rate Department for the New England states. So, I have rate and regulatory issues under me for New Hampshire, Massachusetts, and Rhode Island.
Q. Mr. Laflamme, would you please state your full name and business address?
A. (Laflamme) Certainly. It's Michael D. Laflamme. My business address is 55 Bearfoot Road, in Northborough, Massachusetts.
Q. And, what is your position with National Grid?
A. (Laflamme) I am Manager of Regulatory Support for National Grid Service Corporation.
Q. And, what are your duties and responsibilities in that position?
A. (Laflamme) I provide a variety of regulatory type

support, primarily cost of service and revenue requirement support for the National Grid subsidiaries in New England.

Q. I'm showing you both what's been marked as "Exhibit 4". Can you please describe it?

A. (Gerwatowski) Sure. That's the direct testimony of myself and Mike Laflamme that was filed.

Q. And, do you have any corrections to make to your testimony?

A. (Gerwatowski) We do.

A. (Laflamme) I do. Actually, just one correction to Page 30 of the testimony. I believe it was part of -- I've lost track of the exhibit numbers, but --

Q. Exhibit 5.

A. (Laflamme) Exhibit 5. And, it's a very minor correction. But, at the very bottom of Page 30 of 42 of the testimony, there is a subpart "D" that reads "Annual Operating Report for Items 5, 7, 8 and 14". The numerical designation should actually be "E, G, H and N". There are no numerical subparts here.

Q. Okay. And, do you both adopt the testimony as your own?

A. (Laflamme) I do.

A. (Gerwatowski) Yes.

Q. I'm showing you both what's been marked as "Exhibit 3". Can you please identify it?

A. (Gerwatowski) That's the Merger Settlement Agreement.

Q. And, are there corrections to the Merger Settlement Agreement?

A. (Laflamme) Yes, there are. Again, attached to Exhibit 5 are two very -- actually, three very minor changes. Sequentially, Page Number 25 of 117, in the right-hand bottom corner, in Footnote 2 of that page it currently reads "A filing may be made in 2012 to change rates for effect after December 31st, 2013." That's a typo. The year should be "2012".

The next two changes are identical. They're footnote changes, and they can be found on Page 43 of 117 and 44 of 117. These pages actually show the impact of the second stage of the rate reduction for Granite State. Footnote (a) reads "Per currently effective tariffs", for Column -- for Column (a). That should actually read "Per Exhibit GSE-3A, Page 1 of 2, Column (c)". And, that same -- that same correction should also be made on Page 44 of 117 for the description of Footnote (a).

The reason for those changes are simply the individual rate components found in Column (a) are the resulting rate components after the first step of the rate reduction. So, they're not the currently effective individual distribution rate components. Those are all the changes I have.

Q. Thank you. Mr. Gerwatowski, can you describe in general the benefits of the merger?

A. (Gerwatowski) Sure. We are a consolidation of two large organizations, two very efficient organizations, which is National Grid and KeySpan. And, as a result of that consolidation, here in New Hampshire, we're getting a larger presence for National Grid here in the State of New Hampshire. We currently have two relatively small utilities, a gas utility of 84,000 customers and an electric utility of 41,000 customers. Those customers will now be brought under the same National Grid umbrella in the state, which, again, increases our presence here within the state for the new organization.

As a result of the overall consolidation of the Companies, when I say that I mean and outside the State of New Hampshire, we're anticipating a substantial amount of administrative and general related synergy savings. And, those savings will be spread down and flow down to the various distribution companies that we have in our various states, including New Hampshire. And, over time, over the course of time, those synergy savings will be shared with customers, and ultimately be picked up completely by customers through this consolidated organization. That's one of the primary benefits of the merger, when you take small utilities and combine them. And, that will happen here in New Hampshire.

We've also here, of course, entered into the Settlement Agreement, and that Settlement Agreement solidifies those benefits and specifying exactly how they will be allocated and shared with customers. In addition to that, we've made some very firm commitments to service. And, just taking them in order, first, on the Granite State side of things, there is an immediate rate reduction that takes place, and it takes place in two phases. And, while we would have expected that Granite State's rates would have come down, based on where our earnings were, the merger gives us an opportunity to offer something greater than that, in the nature of a Five Year Plan, which we'll talk about today. In that Five Year Plan, there are also additional service commitments.

On the other side of the equation, on

the gas side, EnergyNorth is situated a little bit differently. There, EnergyNorth hasn't had a rate increase since 1993. And, so, in looking at the earnings history, the expectation is that EnergyNorth would have to come in to increase rates. One of the first provisions of the Settlement is to have a one year stay-out from the merger, which delays that filing coming in. More important, when EnergyNorth comes in for its first rate case, there's an upfront credit that will be applied against the revenue requirement, which is an estimate of savings that will be applied to help mitigate the rate increase that we expect.

But the Rate Agreement for EnergyNorth also has some pretty firm commitments relating to service. One, which was very, very important, was the emergency response time. When I say it's "important", it was extremely important to the Staff, and we'll talk about that a little bit more as we go through. But there's a firm commitment from EnergyNorth to improve its emergency response time to odor calls. The other one is a call answering time commitment that we've made, for EnergyNorth to bring it closer to the call answering experience that National Grid has had over time. And, then, the other more prominent component and commitment is an acceleration of the Mains Replacement Program, which, again, we'll get into details on. I highlight these things because these package of things that I'm describing are really reflecting the larger benefits arising out of the Settlement, as well as the merger that is taking place here, and support the reasons why we believe this is in the public interest.

Q. I'd like to ask you a few questions about the main Settlement Agreement. Can you turn to Page 7 of the Settlement, which is designated as "7 of 117" --

A. (Gerwatowski) Sure.

Q. -- in the bottom right-hand corner. Can you identify the first approval sought?

A. (Gerwatowski) Sure, if you give me one second. Yes, on Page 7, there's a subsection in (1) which is indicated "Merger Approval". And, these two paragraphs under that section essentially are just requesting the statutory approvals that are necessary for the merger to go forward, which are somewhat self-explanatory in the paragraph.

Q. Turning to Page 8, can you explain the "Money Pool" provision?

A. (Gerwatowski) Sure. I'll leave that one to Mike.

A. (Laflamme) Certainly. The Money Pool provisions are actually very similar to the current money pool provisions that KeySpan operates under. And, it's really providing access to low cost capital for the subsidiary companies. National Grid also has a money pool system that it employs. And, essentially, what it does is it allows the borrowings from an internal money pool for companies who require short-term capital from dollars of an associated company who had excess capital or short-term capital. The KeySpan money pool is segregated between regulated and nonregulated, in order to segregate the borrowings or to eliminate the appearance of a unregulated company borrowing from a regulated company. The other provisions that are similar in both the National Grid money pool and the KeySpan money pool is that the parent company can be a lender only. The parent company cannot borrow from the money pool, only the regulated entities can borrow. So, it's a one-way -- a one-way participation by the parent company. And, what this provision does is simply allow the combination or EnergyNorth and Granite State to participate in the same money pool, which will mirror the KeySpan segregated regulated and unregulated system.

Q. On Page 8, there's a reference to "Service Company Allocation". What is the intent of this provision?
A. (Laflamme) Again, both KeySpan and National Grid employ service companies, which provide management and regulatory services and engineering services to all of the sister companies within each of their systems. Currently, for the most general of expenses that don't have a specific allocation methodology, KeySpan uses a three-prong approach to allocate service company costs. It's based on an allocation derived by using revenues, operation and maintenance expenses, and assets or investments. The current National Grid service company allocation methodology uses simply an O&M allocation based formula for allocating those very general type expenses. What we're proposing here is to adopt the KeySpan approach, which is a more robust allocation methodology for allocating those very general expenses.
Q. Could you continue describing the next two items on Page 9?
A. (Laflamme) Certainly. National Grid, PLC, the parent company of National Grid, reports financial results on a fiscal year basis ending March 31st. Consequently, subsequent to the merger with New England Electric System and National Grid, all of the former New England

Electric System companies converted to a fiscal year ending reporting year of March 31st. And, we're asking that the Commission allow EnergyNorth to do so as well.

Q. Regarding the provisions contained in Subsection (3), beginning on Page 9, and continuing through Page 11, what is included there?

A. (Laflamme) I didn't get to the dividends.

Q. Oh. Okay. I'm sorry.

A. (Laflamme) The last of the four sections was "KeySpan Dividends". Generally, dividends are paid out of retained earnings. And, as a result of the merger, we will be required to transfer all of our undistributed retained earnings to paid-in capital as of the merger date. Consequently, retained earnings will be converted to zero at that point. All this provision requests is approval not to restrict KeySpan from paying dividends up to the amount that it otherwise would have been able to pay absent the merger. So, what we're asking is that dividends can still be paid up to the retained earnings amount as of the date of merger, plus any earnings accruing after the merger.

Q. Okay. Regarding the provisions contained in Subsection (3), beginning on Page 9, and continuing through Page 11, could you describe what's included there?

A. (Gerwatowski) Sure. The first paragraph under the (3)(i) was simply a commitment to provide the Commission with a copy of the journal entries when National Grid makes its entries on its books to record the merger, and specifies that we're following the rules of the Commission, as well as generally accepted accounting principles and applicable federal rules.

On Page 10, subpart (ii), is simply an agreement to provide a copy of a corporate organization chart when the merger is concluded. Section (iii) is providing a copy of a final presentation report of the merger -- Merger Integration Team, and I will note that that was one of the exhibits that we've provided here today. I don't remember what the exhibit number was, Alexandra.

Q. It was Exhibit 6.

A. (Gerwatowski) And, the other reporting requirements herein I think are self-explanatory. There's also a promise to follow the affiliate rules, and a promise of filing the new service company cost allocation methodology. I think they're somewhat self-explanatory.

Q. Mr. Gerwatowski, on subsection (iii), on Page 10, refers to the "final presentation of the Merger

Integration Team report", and that's what you've provided as Exhibit 6?

A. (Gerwatowski) Yes, that's right.

Q. Okay. Are there any immediate benefits to electric customers from the Settlement in this docket?

A. (Gerwatowski) Yes. The immediate benefit was what I alluded to earlier, in that we have committed to the rate reduction, a $2.2 million rate reduction that is provided in two phases.

Q. What is the first reduction?

A. (Gerwatowski) The first reduction would occur within 30 days from the Commission's approval of the merger, or July 1st, whichever is later. And, then, there's a second phase, which would then take place for usage on and after January 1st 2008. When the two are put together, that's the $2.2 million reduction that we're referring to.

Q. And, are these rate reductions contingent upon the merger closing?

A. (Gerwatowski) No. Those reductions are not contingent upon the closing of the merger. They're only contingent upon the approval of the merger. In what we would say is the unlikely event that it didn't close, we would still have these rate reductions going into effect.

Q. Could you describe how the Five Year Plan works for Granite State?

A. (Gerwatowski) Sure. What we've been able to do is commit to, I would say, a somewhat of a modified rate freeze is one way to call it, and I can't call it completely a rate freeze, because it does allow for some rate adjustments. But there's a commitment there for five years where the Company could not file a traditional cost of service rate case to raise rates for the entire period of the Rate Plan. But there are some other adjustments and some limits on those adjustments that we can make to the rates.

Q. And, what kinds of adjustments are there?

A. (Gerwatowski) Well, one adjustment relates to the Reliability Enhancement Program, which I can explain a little bit further later. A second adjustment relates to exogenous events, which are essentially events that are out of our control, they're legislatively regulatory imposed on the Company outside. And, again, I can get into detail about that later.

There's an item, which we all hope we would never have to use, it's called "catastrophic financial event". Something major would happen that was affecting the financial condition of the Company, there's an ability to come in there. And, the parties to the Settlement have the ability to object, but at least it gives us the ability to come in if we needed to.

And, then, there's the possibility, with the establishment of a storm fund, that we could find during the five and a half year periods that the fund is inadequate in its amount, and we'd be able to work with the Staff to make a proposal on increasing the contributions to the storm fund.

Q. And, is the Five Year Plan contingent upon the merger closing?

A. (Gerwatowski) Yes. Unlike the actual reduction going into effect, the Five Year Plan is, in fact, contingent on the merger actually closing.

Q. If, during the Rate Plan, the merger and efficiency savings cause the Company to earn more than its allowed rate of return on equity, what would happen?

A. (Gerwatowski) Mike.

A. (Laflamme) Actually, I can answer this one. The Five Year Rate Plan Period, and, actually, it endures after the Five Year Rate Plan, to the extent that the Company does not propose changes in its rates, contains an earnings sharing mechanism. The earnings sharing mechanism is a way to incent the Company to actually be as efficient and even capitalize on any synergy savings it's able to produce. The allowed ROE, which was a settled number in this case, of 9.67 is kind of the base mark or the stepping stone from which to value the earnings sharing mechanism. During the Five-Year Period, there is a 1.33 percent adder for the Company's share of synergy savings, if in indeed it can produce those savings. So, consequently, during the Rate Plan, to the extent that the Company's earnings are 11 percent, the Company is allowed to retain 100 percent of that 1.33 percent adder for synergy savings. To the extent that it earns above 11 percent, there is an equitable 50/50 sharing of those earnings between customer and company.

Now, the calculation during the Rate Plan Period is cumulative. And, the reason for that is is that there is a potential to have, you know, robust earnings in one year and, for whatever reason, earnings suffer in the following year. So, it is a cumulative calculation. The Company has made commitments to file annually with the Commission to indicate both annual and cumulative returns earned by the Company. But, by

May 1st, I believe, of 2013, subsequent to the Five Year Rate Plan Period, the Company will file its final cumulative earnings report. And, to the extent that the average earnings are in excess of 11 percent, 50 percent will be credited to customers in a fashion determined by the Commission, either through a credit or through some other crediting mechanism.

Q. What's the benefit of this kind of a shared earnings mechanism?

A. (Laflamme) Well, I think, as I alluded to earlier, it clearly incents the Company, incents the Company to absolutely maximize the amount of synergy savings it can produce. Its a formula that has worked very successfully in other jurisdictions. We employed a very similar sharing mechanism in Rhode Island and provided great benefits to customers.

Q. Please summarize the reliability related components to the electric plan.

A. (Gerwatowski) I'll do that. Now, I'm not an engineer, so I can't give an engineering data response to this, but I've been involved enough and to a great extent in development of this, so I think I can speak at a high level about the program. Now, generally speaking, the Reliability Enhancement Program, which our engineers

often refer to as the "REP", R-E-P, if I use that, you'll know what I'm referring to, is a program that we launched at the Company to try to essentially address the performance of our worst performing feeders. And, there are a number of elements associated with that. And, in fact, in the Settlement Agreement itself, just to give you a reference, there's an exhibit, GSE, let me just find it, --
Q. GSE-8.
A. (Gerwatowski) -- it's GSE-8, which is tabbed in the Settlement document, which is a pretty good overview of how the program is going to operate. I'm not going to go through this piece by piece, but there is a definition section, it starts on Page 1 of that exhibit and goes onto Page 2 and 3, which basically summarizes the activities involved in the REP program. The first component is what, again, the engineers have called the "feeder hardening" activities. And, there are remediation measures that are taken to replace -- replace components, do upgrades and do various other things, installations and other maintenance work associated with those feeders. The other component of the program is what's referred to here as "Augmented tree trimming and clearing". This is different from

what we normally do in tree trimming, in that those -- the intent -- the intention is to go out and take care of hazard trees that are outside of the zone that you normally would take care of during tree trimming. And, you go out and find these things that you anticipate could create a problem. And, it's a very specific targeted program, specifically to the feeders that are causing some particular trouble.

There's also an "asset replacement" component of this, where the Company tries to anticipate those items that should be replaced even before they fail, and take care of that on those feeders as well. And, then, ultimately, there's a comprehensive "Inspection and Maintenance" component that goes with this, where you have to inspect these feeders to determine what kind of action is appropriate to take place. This is a key program to try to address those, the performance of those feeders.

There's another component of the program, but we don't usually wrap it under the REP, but it does relate and overlap a little. And, that's our traditional "Vegetation Management Program" activities, which we have segregated separately here for purposes of the Settlement, and that's what we often refer to as "tree trimming".

But the idea is to target those feeders, do everything that you can to improve our performance over time by hitting them one at a time. And, then, through that process, we really believe that we're going to make a good -- be able to do something here to really help improve our performance and bring it to the standards that we think it ought to be brought to.

Q. Are there any specified spending levels associated with the Reliability Enhancement Program?

A. (Gerwatowski) Yes. In the context of the plan, and there's a little bit of history associated with this, the Staff actually wanted to come out on the vegetation management side of things for tree trimming and make a firm spending commitment associated with it. We've basically done that here, and in two pieces. There's the expense side of things, which I'm going to talk about now, there's a capital size relating to the REP, but I'm going to talk about the expense side of how the program works now. Is that, in the first year, first fiscal year, which has now just started, we've committed to spend $1,950,000 on a combination of vegetation management and maintenance-related expenses associated with our REP program. And, the way this first year of aggressive program commitment works is that, if we don't go out there and spend the money on the program efficiently and actually spend $1,950,000, and let's say, for example, we only spend -- spend $100,000 less, we then have to take the $100,000 and spill it over to the next year for our following year's commitment. After the first year, after the first aggressive year, the commitment comes down to a "steady-state" of $1,360,000 of expenses every year for the rest of the Five Year Rate Plan. And, to the extent we didn't spend the money up to the 1.9 million, in the first year, it gets put over, it increases our requirement for the following year. And, this same process goes year on year, for us to be able to show that we did, in fact, go out and do the tree trimming that the Staff wanted us to do and associated expenses with the REP program.

Now, there is a provision that contemplates the possibility that, when we meet with the Staff on an annual basis to review our progress, that we could come to a consensus that maybe you could spend more than $1,360,000 in a given year, and there is the ability for us to agree to do that, with the potential of making a rate adjustment after the following year, once we've proven what we've done, if we wanted to spend -- it was deemed to be a good idea to spend an extra 100,000, we could do that. So, we're not necessarily confined to those numbers. There is some flexibility built in to do a little more. That's the expense side of the equation for the program.

A. (Laflamme) And, I just want to clarify one thing. The carryover feature of the first year is not necessarily cast in stone in years two through five. There is a provision that it's at the Commission's discretion to carry over, if we under spend the 1,360,000 in the second, third, fourth and fifth year, there is a provision that indicates that it's at the Commission's discretion to carry it over to the next year or actually immediately refund to customers.

Q. Could you describe the capital component to the plan?

A. (Gerwatowski) Yes. It's a little different, but the concept is similar. In the REP program, there are no capital expenses associated with vegetation management, but, in the REP component, there is equipment replacement, there is capital activity. We've estimated, over the five years, that we would do somewhere between 500,000 and 950,000 a year of capital expenses that would be added. And, what we have embedded in the program here is that we would be meeting with the Staff in advance of each year, except for the first, which we have laid out already, and we would indicate with the Staff which -- what our capital -- expected capital program would be for that year for the REP program, which is completely different from what we would be doing in the normal course, in dealing with substations and other activities. But the capital expenditures in the REP program themselves would be isolated and reviewed. After we finish the fiscal year and implemented that year's program, we would make a filing with the Commission. And, to the extent that we've acted consistently with what the past expectation was, based on the meetings we've had, it allows for an adjustment in our rates for the revenue requirement associated with the capital program. And, because it's a revenue requirement for the capital program, the rate adjustment should be relatively modest, because it's just the revenue requirement associated with it. So, if we spend $500,000 a year, that's not a $500,000 rate increase for next year. It's the revenue requirement associated with that, which, at that number, Mike, what is it, about 100 and --

A. (Laflamme) At 950,000 bucks, that's about 170,000 revenue requirement.

A. (Gerwatowski) And, at 500, it would half of that --

A. (Laflamme) At 950, the revenue requirement is roughly 170,000 bucks. Going forward, half a million dollar of investment would be around $80,000.

A. (Gerwatowski) That's why I referred to it as "modest rate adjustments" that would occur. And, in fact, this is the primary provision that doesn't allow us to call this a "rate freeze", because it does allow for these adjustments consistent with our reliability program. Did we cover the gamut on that?

Q. Is there a provision in the Settlement for a "Storm Contingency Fund"?

A. (Gerwatowski) Yes. Mike, you want to take that?

A. (Laflamme) Sure. We did agree to establish a Storm Contingency Fund, which was actually modeled on a storm contingency fund of PSNH. So, I believe it's familiar with the Commissioners, and certainly with Staff. We've agreed to fund initially at $10,000 per month, or $120,000 per year. And, we will set up -- we'll set up a customer reliability for those deposits to the fund and major storms will be charged to the fund. The definition of "major storms" follows the Commission's definition, which is, I believe -- I should look,

rather than guess. It is specified in the Settlement.
Q. I think it's on Page 67.
A. (Laflamme) Yes.
Q. Exhibit GSE-7?
A. (Laflamme) Yes. So, the definition is "30 concurrent troubles and 15 percent of customers interrupted, or 45 concurrent troubles." And, those troubles are both on the primary and secondary lines. There is a provision in the Settlement to review the funding level after two years, as Mr. Gerwatowski alluded to earlier, to consider whether the funding is adequate or not. And, to the extent that it is inadequate, there is a potential for a change in the funding level, which would be -- which would include an adjustment to rates for a similar amount.
A. (Gerwatowski) Just one other thing I would add, is I believe, and the Staff could correct me if I'm wrong, but this is a program which is very similar to what is being implemented for PSNH.
A. (Mullen) That is correct.
Q. Could you describe the "Exogenous Events" provision.
A. (Laflamme) Yes, I can do that as well. I'm just going to turn to that one. I think Mr. Gerwatowski alluded to them earlier. There's actually five very

specifically defined categories of what constitutes an "exogenous event". The threshold is based on a dollar amount. So, to the extent that any of these increases the Company's revenue requirement, which can be revenues, rates, return, rate base, to the extent that any of these five categories, with the exception of one, and I'll explain in a moment, increases or decreases, for that matter, the Company's revenue requirement by $100,000 or more, there is a rate adjustment provision to include that charge or credit to customers in the subsequent year. The five groups of categories are state-initiated cost changes, which are primarily changes in tax rates or state fees or things like that that are imposed on the Companies, or, in fact, if rates are reduced. If state income tax rates are reduced and generates a savings to the Company, that would result in a credit.

The second is federally initiated cost changes, which is the same as state, except federally imposed, rather than state imposed. The third is regulatory cost reallocations, which really refers to costs that are either currently included in a distribution rate or in a transmission rate that gets transferred, for regulatory purposes, to the other or out of one into the other. It may also include stranded cost recovery changes, where one jurisdiction decides that costs should be better recovered in a different -- in a different recovery mechanism.

I'm going to skip the fourth. The fifth is externally imposed accounting rules. Again, these are rules that are established generally by the Financial Accounting Standards Board and are pursuant to Generally Accepted Accounting Rules, that have the Company either incur expenses that it hasn't in the past or, again, vice versa, not experience expenses that it had had in the past, based on accounting rules.

The last item is excessive inflation, and I kind of held that out for the last, because that does not have a dollar value on it. What the "Excessive Inflation" provision says is there, to the extent that we experience -- the Company experiences cumulative inflation above 4 percent cumulatively through 2011 or cumulatively through 2012, the Company has the ability to file for recovery of the incremental amount of inflation. So, if the inflation -- the cumulative inflation rate is 5 percent, the Company would be allowed to recover 1 percent of its O&M expenses for the year, for that cumulative year. So, it's not -- it's not a full recovery. The Company maintains the risk of inflation up to 4 percent. But, to the extent the cumulative inflation is above 4 percent, we would be allowed an "exogenous event" treatment for that incremental amount.

Q. Are there any other operations or customer service commitments in the Settlement?

A. (Gerwatowski) Yes. In the Settlement document, and there's a section, in fact, that starts on Page 16 of the GSE -- actually, it's the Exhibit 1, but it's on the right -- lower right-hand corner it's listed as "Page 32 of 117". There's a section on "Customer Service Commitments" that we've made here in the plan. And, it relates to -- one relates to the call answering activity, and we made some promises there to try to maintain certain call answering levels. It's a little bit more involved than one might normally expect, only because we're in the midst of putting into effect a new CSS system, so we tried to address the speed bump that we all expect to hit when the new system goes alive, but the Staff was insistent on us maintaining certain levels there even during the transition phase, and we've committed to those here.

We've also committed to a more robust

customer satisfaction survey than we've done in New Hampshire in the past. One that will be very specific to New Hampshire and have a sample size that yields an error rate of plus or minus 2.5 percent, which is a pretty good, you know, standard to get valid results on customer satisfaction. And, we're agreeing to maintain a satisfaction rate of above 88 percent, which we think is a challenge, particularly when commodity prices tend to bounce around and everything can affect things. But, you know, we've agreed to live up to that standard. We've also agreed to meet regularly with the Staff, and when I say "Staff", if I leave OCA out, I apologize to OCA, but the OCA is a part of that process as well. And, to the extent that we have any, you know, customer service related issues, there's certainly the ability, as always, retaining there for the Staff or OCA to refer the matter to the Commission for some proceeding or investigation associated with it.

I already mentioned the REP program commitments there. So, that's the other matter.

Q. I'd like to turn now to the gas delivery benefits for EnergyNorth customers. Can you describe the near term rate benefit for those customers?

A. (Gerwatowski) Yes. I think I alluded before that, where EnergyNorth, as far as its revenue requirement, is it hasn't raised rates since 1993, and we're expecting that they would have to come in to increase delivery rates. The near term benefit or the immediate near term benefit is that we have a stay-out period of one year from the closing of the merger. So, we don't count from today, we count from when it closes, which, at this point, we would expect hopefully November/October time frame where that could occur, based on current schedules and outside of New Hampshire. But the benefit there is a 12 year delay associated with that --

A. (Laflamme) Month.

A. (Gerwatowski) Did I say "12 year"? Yes, I didn't mean "year". I'm sure they'd be jumping all over me over here. A 12 month delay, thank you for correcting me, Mike.

Q. Is there a merger savings credit that will be applied in the first EnergyNorth rate case?

A. (Laflamme) Yes, there is. As Ron indicated, the agreement here is to delay the implementation of new rates for up to one year from the merger closing. The test year -- And, we've also, just to back up a moment, we've also committed to file a cost of service within six months of the closing of the merger. And, the test year to be used in that proceeding will be the quarter ending immediately preceding the closing of the merger. So, consequently, that test year will include no merger savings, because it precedes the closing of the merger. What we've agreed to do is to provide a credit to that cost of service equal to 50 percent of estimated "steady-state" net synergies from the merger. Now, the Company certainly is aware that synergies do not occur immediately on day one, and, in fact, our estimate is that it will take three to four years for those synergy savings actually to ramp up to "steady-state". But the calculation of the credit, which is $619,000 annually, which will be a reduction to that rate year cost of service, was generated by using "steady-state" savings, which, again, are not expected to occur right away. So, consequently, the immediate benefit -- an benefit of the merger is that the customers enjoy full "steady-state" net synergy savings in their rates as soon as they go into effect, versus having to wait for the synergies to ramp up as they are likely to actually occur.

Q. What is the amount of that credit?

A. (Laflamme) $619,000 annually.
Q. And, is there also a shared merger savings mechanism in the Rate Agreement for EnergyNorth?
A. (Laflamme) Yes, there is. There is a provision for EnergyNorth actually to provide a savings demonstration proof, and there are two ways that that would occur. If, within five years, EnergyNorth were to file a second rate case, there is a savings methodology that actually compares a full year of pre-merger A&G expenses, because, in New Hampshire, we do not have a combination of operations, we have a single gas company and a single electric company that actually do not operate in the same areas. So, the assumption is that most, if not all, of the synergies produced by this merger will be in the form of A&G expenses. So, the rationale for using an A&G methodology to calculate expenses was agreed to by all of the Settling Parties. And, what it does, it takes a look at calendar year 2005 A&G expenses for EnergyNorth. And, that's based on a year that was unaffected by the announcement of the merger. So, we take the 2005 annual expenses and escalate them for inflation to the -- to the rate year -- the rate year of the second rate case, if one should be filed, and compare that to actual expenses for that

period, and that determines how much net synergies are.

In this case, because now we're filing a cost of service that has a test year that theoretically includes 100 percent of the savings, the Company's share, or 50 percent of that delta that I just described, is included as an add-back to the cost of service. So, consequently, you have a book cost of service, plus a synergy allowance for the Company in a year that has a test year that has 100 percent of the savings, and the initial credit is a deduction, because it's based on a cost of service that has zero savings in it.

Q. Is there a commitment from EnergyNorth regarding emergency response times?

A. (Gerwatowski) Yes, there is. This was an item which was very, very important for the Staff. The Staff had in mind a specific set of standards they would like to have EnergyNorth meet post merger, or even they have been asking for EnergyNorth to meet these as soon as possible. We've agreed to the Staff's specific standards on odor calls, and they are specified in the exhibit to the Settlement, and I can find the -- it's under tab "EN-4", which is the last tab of the documents, you'll find the "Emergency Response

Performance Measures" for responding to odor calls. Now, this particular provision is not contingent upon the closing of the merger. KeySpan/EnergyNorth has agreed to meet these standards one way or another. And, it is an aggressive program to meet as soon as possible. Staff was very, very interested in getting us to do this as soon as possible. And, we've included in the agreement an incentive mechanism that the sooner we can get these standards met, the better. And, there's an opportunity to get an incentive, which will allow us to pick up at least a recovery of some of the costs associated with ramping up immediately. In fact, I know the KeySpan folks have already started their program to hire and train the necessary people to get this program up and running. So, that was a very important commitment that has arisen out of the Settlement.

Q. Can you describe the provision for accelerating the Main Replacement Program?

A. (Gerwatowski) Sure. Another issue that was very important to the Staff, and hopefully I'm not misstating things, Stephen, so correct me if I'm wrong, was to get EnergyNorth to increase the level of work in the Mains Replacement Program, and I distinguish it again, I'm not an engineer, but I've been close enough to it, I think I can speak at a high level, but I'm distinguishing those that would be considered "public works projects", which come in all the time and are not driven by company decisions, but are driven by the requirements of municipalities, whether changing sewer systems out or whatever, that's separate and apart from this Mains Replacement Program that's embedded in here. What this Mains Replacement Program is referring to are those things that would be discretionary or replaced due to condition, which you have some discretion on the timing of those things.

What the Company has agreed to is a minimum amount of capital expense in the Mains Replacement Program of $500,000 per year. But, at the beginning of each fiscal year, the Company would meet with the Safety Division and go through a program to identify additional work beyond the 500,000. Then, much like the REP program on the electric side, in fact, it was modeled right after it when we did it in the negotiations, the Company would perform the Mains Replacement Program for the year, and then file a report with the Commission. And, to the extent it was consistent with that which the Staff was comfortable with at the beginning of the fiscal year, then you get a revenue requirement adjustment for the amount over $500,000 of revenue requirement on the increment above 500,000. So, again, we're talking about a modest rate change in that context.

But what it does is it sends the Company the right signal here, saying "Yes, we want you to do more. We recognize that it doesn't have to be done, and we recognize that oftentimes you manage your expenses by these discretionary things, but we want you to go forward and do it anyway." And, we have incentive to do so because the increment will result in some incremental recovery to recover revenue requirements.

Q. Are there other operations in customer service commitments in the Settlement?

A. (Gerwatowski) Yes. Yes. There are numerous ones for EnergyNorth. And, I'm not going to go through every single one, but I'll note the page of the exhibit, of Exhibit 2. There's a section -- there's two sections. One that relates to call answering time, which I've alluded to, which is on Page 94 of 117 of the book, in Section 6. And, then, there are commitments that begin in Section 7, on Page 96 of 117, and run a number of pages through. And, I'm not going to go through every single one. I think that's really self-explanatory. But you'll see that EnergyNorth has made a number of commitments here arising out of the merger.

Q. Could you describe the commitment regarding the marking of underground facilities?

A. (Gerwatowski) Yes. This is the matter relating to use of company personnel for marking underground facilities. The current practice of EnergyNorth is to use in-house personnel only. And, we've committed that we will continue to use in-house personnel only for a two year -- for no less than two years following the merger. In this context, there isn't any current plans to change that practice. But I know that we had a request to try to do a "forever" agreement, saying "we would never ever use anything except in-house staff", and we were reluctant to agree to that, because you never know how things will change, technology changes or processes that can change.

But what we did agree to is that, before we could implement a program which changes what was -- from using in-house to using outside contractors, we would have to come to the Staff and the OCA, and no less than six months prior to implementation, and provide the program details, if, in fact, we were going to do that. And, to the extent that there are any safety issues or any other concerns that are associated with this that Staff or OCA had, they could refer the matter to the Commission. And, if it is referred to the Commission, we're agreeing that we will not implement until this Commission reviews the matter and is satisfied that it's not going to effect the service or public safety.

Now, I say this, when I describe this, I don't want to overstate the matter. This was not set up this way because there's a plan to do this. But it's simply a mechanism set up in the event that we had, in the future, a different idea of operating. So, we've made the commitment not to do it for two years at a minimum. And, that's the nature of the underground issue.

Q. Can you describe the provision that allows a comparison of merger savings benefits between New Hampshire and New York?

A. (Gerwatowski) Yes. I think that the -- there was a recognition that, simultaneous with this proceeding going on and the negotiations that we were having with the parties, there's a proceeding going on in New York, where, while New York is different for a lot of reasons, there are other issues that just are not involved in New Hampshire, one issue that actually is present there that's present here is -- that is "how will the synergy savings be allocated and shared?" And, I think that everyone has taken a look at what we have done in the EnergyNorth context and how we're sharing those savings and feel it's a fair arrangement. But there was a concern that, if somehow, in New York, some better arrangement were to come out favoring the gas companies -- the gas customers in New York, on the issue of the savings, that New Hampshire didn't want to be left behind. So, we have an agreement here that, when EnergyNorth comes in for its first rate case, which is specified here, we have the burden to actually include in our filing a description of what took place with respect to the savings allocations in New York, and we have the burden of showing that the arrangements that we have here in New Hampshire are at least as good or better than what arose in New York. And, if we conclude that it's not, to have some form of crediting mechanism in our filing. And, the Staff and OCA is free to disagree with our analysis and take a different position, but the idea here is that there is a safety

valve here, so that New Hampshire would feel comfortable that they wouldn't be left behind if things were dramatically changed from the process in New York on this particular issue.
Q. Through these preliminary questions, have we covered every aspect of the Settlement?
A. (Gerwatowski) No. We tried to go through the highlights here. I think our prefiled testimony goes into greater details. But I don't want to leave the impression that we've tried to cover every single matter here and every single benefit. We've tried to do a high-level flyover, but probably a little bit more detailed than you might expect, but we thought it was important enough to do so.
Q. Could you please summarize the status of the merger proceedings in New York and Massachusetts.
A. (Gerwatowski) Sure. In New York, where a merger approval is required of the PSC, they are now in the midst of hearings or hearings schedule, where all the prefiled testimony has been filed, has come in from all parties, a schedule has been established, where there will actually be the evidentiary hearings taking place in early July. I think they were aiming to destroy everybody's Fourth of July week, so I don't know if

they changed that or not, but it may be as early as then, or maybe a week or two afterwards. And, the way the schedule works is that there's an administrative law judge, the way the process is in New York, that you typically litigate before an ALJ, and then the matter gets deferred to the Commission. And, so, the ALJ is scheduled to then issue a draft order, which would be public, which is a recommended order for the Commission to sign, but the parties in the process that they have set up will have opportunity to comment on the ALJ's order before it actually goes to the Commission. The Commission then gets to receive those comments and determine the extent to which they will alter the order, and they have scheduled the expected order by the Commission by the end of October. And, so, really what they're litigating is to determine what conditions, if any, would be imposed on the merger approval, or I guess, hypothetically speaking, a rejection of the petition. But I think it's really an issue associated with what conditions will be imposed. There's one issue in particular, there's some generation ownership that KeySpan has on Long Island, which is an issue, but which makes it much, much different from New Hampshire. But that's the schedule.

So, that's why we're not expecting a closing until the end of the fall.

Q. And, the Massachusetts proceeding?

A. (Gerwatowski) In Massachusetts, it's very different from what we have here in New Hampshire and New York, in that the -- there's no statutory provision which gives the Department jurisdiction over the merger, in approving it or declining it. But there was enough publicity associated with the merger and the benefits of the merger, the Department has opened a docket to examine what effects the merger would have on rates going forward or service quality and things of that sort. So, we don't need an order from the Department in Massachusetts to go forward with the merger. And, I'm not even sure how long the process would take place. We just got the order from the Department a matter of a couple of weeks ago, and there will be testimony filed. But it won't hold up the merger. It's just I think an overview or review of what they could expect from the National Grid and KeySpan companies as a rate and quality service matters going forward as a result of the merger.

MS. BLACKMORE: Thank you. I have no further questions.

CHAIRMAN GETZ: Mr. Damon, are you doing your direct now?

MR. DAMON: Yes, I am. Thank you.

DIRECT EXAMINATION

BY MR. DAMON

Q. Mr. Frink and Mr. Mullen, would you please state your names and business addresses for the record.

A. (Frink) My name is Stephen Frink. I'm with the New Hampshire Commission. My title is Assistant Director of the Gas Division.

A. (Mullen) My name is Steven Mullen. I'm a Utility Analyst here with the New Hampshire Commission in the Electric Division.

Q. Would you please each describe your prior involvement in this docket.

A. (Frink) When the docket came in, it was docketed as a gas docket, related primarily to KeySpan. And, so, I did an initial review and held technical sessions, looking at the benefits and risks associated with the merger.

A. (Mullen) I was involved in the settlement negotiation process, as well as participated in preparation of the documents that we're discussing today, mainly from the electric side.

Q. Let me show you a document, Mr. Frink, and ask you if you can identify that?
A. (Frink) This is my direct testimony in this proceeding.
Q. Was that the testimony that's been prefiled?
A. (Frink) Yes, it is.
Q. Mr. Mullen, the same question.
A. (Mullen) This is the testimony that I filed in this proceeding on May 15th, and I wasn't aware that it was prefiled. Oh, it was prefiled, but hasn't been marked. Thank you.

MR. DAMON: Okay. Thank you. I'm going to give these to the Clerk and ask that these be marked for identification. Okay. Why don't you say which each of them is? Which one is going to be 7?

MS. BATEMAN: The Direct Testimony of Steven Mullen will be "7" and Direct Testimony of Stephen Frink will be "8".

(The documents, as described, were herewith marked as Exhibits 7 and 8, respectively, for identification.)

BY MR. DAMON
Q. Mr. Frink, did you prepare Exhibit 7 or was it prepared by you under your direction?
A. (Frink) Yes, I did. Oh, I prepared Exhibit 8. Yes.

Thank you.
Q. Okay. Sorry. Mr. Mullen?
A. (Mullen) Yes.
Q. You prepared Exhibit 7?
A. (Mullen) That's right.
Q. Do either of you wish to make any corrections to your testimony?
A. (Frink) I do not.
A. (Mullen) Neither do I.
Q. And, is your testimony true and accurate to the best of your information and belief?
A. (Frink) Yes, it is.
A. (Mullen) Yes, it is.
Q. Now, you've heard the testimony of Mr. Gerwatowski and Mr. Laflamme. Do either of you have anything that you would like to add or modify to their testimony so far?
A. (Frink) No, they did a very good.
A. (Mullen) There's just a couple of things I'd like to touch on. I described in my prefiled testimony how the -- how Granite State's earnings and reliability performance came to be involved in this proceeding, as they weren't part of the original petition that was filed. As I stated in testimony, Staff had been reviewing Granite State's earnings, as well as its

reliability, and we had noticed that Granite State had been overearning recently. Also, recently, their reliability performance, namely their -- a couple of specific indices, the SAIDI and SAIFI, had declined. So, we -- Staff had been considering asking the Commission to potentially open proceedings related to those two issues. But we felt it was opportune, as well as efficient, to combine those issues into the merger proceeding.

The other issue I want to talk about is I'd just like to highlight specifically which components of the agreement pertaining to Granite State are contingent upon the Commission's approval of the merger, versus the closing of the merger. The rate reductions, as previously stated, are not subject to the closing of the merger, only the Commission's approval of the merger. Similarly, the Reliability Enhancement Program, the Storm Contingency Fund, and the customer service commitments are also contingent upon the Commission approving the merger, but not upon the closing of the merger transaction itself.

Q. Mr. Mullen, now your testimony deals primarily with the Granite State Electric component of the Settlement Agreement and, to a certain extent, I guess you also describe the main Settlement Agreement as well. But, from your perspective, why do you support the Settlement Agreement?

A. (Mullen) Well, as you mentioned, most of my -- most of my testimony deals with the electric side, from the Granite State perspective. And, approval of this agreement will result in Granite State customers getting significant and immediate rate reductions, a commitment by Granite State to improve its reliability, and as well as maintain its high level of customer service.

Q. In reviewing whether the Settlement Agreement would be supported or not, did you consider any of the possible risks that might be posed by the agreement?

A. (Mullen) Well, it's much easier to identify the benefits. The risks, you know, it's possible that, you know, one could look at it and say "Well, there's a risk that, because we have a Five Year Rate Plan, that we couldn't call the Company in to review its rates." However, that risk is mitigated by the earnings sharing mechanism, whereas, if Granite State were to earn, you know, quite a bit in excess of its allowed rate of return, those earnings get shared, once they go above 11 percent. So, you know, that risk, like I say, has been mitigated. I suppose there's also the risk of a different outcome, if we were to have a full rate case, but that risk can go both ways. You know, when you get into a rate case, you have other things filed, such as depreciation studies, testimony on return on equity, the Company will have a number of proforma adjustments to its revenues and expenses. So, you know, I personally think that this is a very good outcome for Granite State customers.

Q. And, did you look specifically at the inflation levels, the 4 percent, I believe, inflation levels that are included in the "Exogenous Events" provision of the Granite State Electric Rate Plan?

A. (Mullen) Yes.

Q. And, what did you find?

A. (Mullen) Looking at historical and future projections, the 4 percent level, using the same index that's referred to in the Settlement Agreement, looking back as far as 1996 or as far forward as 2012, the historical or forecasted levels have not reached 4 percent. So, for purposes of this agreement, and considering the limited time frame of the agreement, we determined that 4 percent was reasonable to use.

Q. Mr. Frink, your testimony relates primarily to the

EnergyNorth component of the Settlement Agreement. And, I would ask you a similar question, and that is why do you support the Settlement Agreement?

A. (Frink) Well, there are a number of benefits that have already been put forth. One, the safety concerns are being addressed, and that was a major concern of Staff. We brought to the Commission's attention, as recently as last December, that we had concerns regarding emergency response times. And, even without the merger taking place, the Settlement Agreement calls for implementing emergency response standards that will improve the response times. And, it also ensures a minimum level of investment in replacing the cast iron and bare steel pipe, which is pipe that was prone to leaking. And, so, those are two important benefits that come out of this Settlement Agreement. And, then, as far as the benefits that derive from the merger itself, again, as already stated, there is a likelihood of a rate case, EnergyNorth's most recent rate of return quarterly filing shows they're returning 5 percent. And, that's unadjusted, but you would certainly expect with that that there's likely to be an increase. The merger puts off any increase for a year beyond the close of the merger. When that rate case does come in, it will -- the cost of service will include an adjustment that gives ratepayers 50 percent of anticipated net synergy savings. And, as was previously stated by the Company, those savings, "steady-state" savings aren't expected in the early years. So, that is a real benefit to ratepayers.

There's some other minor, well, items that were addressed in the Settlement, such as imputed capital structure and using actual costs to achieve amortized over ten years, whereas the petition called for using the estimated costs to achieve being amortized over 20 years. EnergyNorth shareholders will only share the proven net savings. So, there's no risk to customers that the savings won't be achieved and they'll wind up making a payment to shareholders through an increase in the cost of service. These savings have to be proven through part of a rate case that's filed within the next five years, and the synergy savings proof filed at five years.

This merger also consider precludes -- The Settlement also precludes the recovery of any acquisition premium, thereby avoiding any potential future litigation over that issue. And, there is a provision that allows for an adjustment to the sharing mechanism, in the event New York should order -- an agreement should be reached in the New York jurisdiction that would grant a greater share of the savings to customers. So, where the customers in New Hampshire are guarantied a 50 percent share or greater. And, for those reasons, for those benefits, that's why we support this filing.

Q. Did you consider the possible risks or disadvantages of the Settlement Agreement?

A. (Frink) We certainly did. We see only limited risks in this proceeding. For one, there will be a rate case, so there will be a chance to review actual costs and expenses, revenues. So, we're not agreeing to any rate at this point. So, there's less risk that there will be a -- we'll be locked into a rate with changing circumstances. Also, unlike when EnergyNorth was purchased by KeySpan, KeySpan at that time didn't have any New Hampshire experience, and National Grid does have experience before the New Hampshire Commission, does operate a utility in New Hampshire. Also, with the KeySpan/EnergyNorth merger in 2000, they -- the administrative and general expenses were being incurred by, here in New Hampshire, by EnergyNorth employees. In 2000, after the first merger, that situation changed to where Corporate Services being -- are doing that work elsewhere, and, by this merger, isn't going to result in layoffs in New Hampshire or any change, really. We certainly expect to see a decrease in those expenses coming back to New Hampshire.

So, again, we won't experience any layoffs under this proposed merger. Also, as a matter of fact, it's anticipated that KeySpan will actually add personnel in New Hampshire as it implements these safety measures that they have agreed to implement to meet the standards.

So, other than the risk of glitches that can occur during the transition period from the various systems to newer systems, outside of that, we don't see a lot of risk here.

Q. Now, I know that, particularly, well, this comes up in both sides of the Settlement Agreement. But, on the EnergyNorth side, there is testimony and provisions regarding the estimates of synergy savings and costs -- so-called "costs to achieve those savings". And, I would ask you, Mr. Frink, to what extent is the sharing of net merger-related savings dependent on realization of those estimates?

A. (Frink) Again, the initial rate case will have

estimated savings accruing to ratepayers. Fifty percent of the estimated savings, $619,000, will be basically a credit to the cost of service, and that's based on estimates. After that, there will be no more estimated synergy savings that accrue to anybody. In the next rate case, it will be based on a cost of service. To the extent there are actual proven merger savings, and they're to be proved through a comparison of 2005 administrative and general expenses. So, again, those are the expenses that flow from corporate services, and doesn't impact the line people. But that's compared to the 2005 benchmark, that was before the merger, and now it's -- and a look at those particular expenses for 2005, they're actually a little lower than in 2004 and 2006. So, they seem reasonable, and that will be the benchmark going forward. So, there will be a proof, so that eliminates the estimated savings at that time.
Q. And, at the first rate case, will the actual or estimated costs to achieve be taken into account in determining the ratepayer share of net synergy savings?
A. (Frink) Yes. Again, that will be a credit to the cost of service. So, the EnergyNorth cost of service at that point in time will be reduced by 619,000.

Q. Which is the estimate of -- And, which includes an estimate of costs to achieve?

A. (Frink) Which is one half of the estimated "steady-state" savings. Are you talking about the costs to achieve or the savings?

Q. Yes, the costs.

A. (Frink) The costs to achieve, correct, that would reflect the -- that's a net figure, so it does include the estimated cost to achieve.

Q. And estimated savings as well?

A. (Frink) And estimated savings, yes.

Q. Now, turning your attention to the emergency response time standards set forth in the Settlement Agreement, can you comment on the advantages of this agreement, as compared with the Settlement Agreement entered into in connection with the 2000 merger involving EnergyNorth?

A. (Frink) The merger between KeySpan and EnergyNorth in 2000, there was a commitment to maintain the existing standards. There weren't any reporting requirements with that. And, over time, the response times, particularly during nonbusiness hours, started to trend up. And, it cumulatively, over the years, it's been quite a decline. But, starting in 2005, the rules were put in place that required reporting on response times.

And, since that time, it's been identified, and now the issue has been addressed here through the Settlement Agreement. As part of the Settlement Agreement, the reporting is even tighter for EnergyNorth. And, there's also a commitment to specific standards, as opposed to "you'll maintain a general level." So, this is much more specific with what will be done, when it will be done, and reporting to be able to track it, and address it if it is -- if it isn't being met.

Q. I believe Mr. Gerwatowski also mentioned, and maybe briefly, that the first test year in the -- in the first rate case, the test year will be, I believe, for the last quarter preceding the merger close. And, what is the rationale for choosing that test year?

A. (Frink) Well, when picking a test year, it's always preferable to have the most current information available. Even though there may be some merger effects to the extent that personnel may have left as a result of the announcement, we felt that using the most current information, not weight that, we could make the appropriate proforma adjustments. The advantage is that that is a stand alone EnergyNorth rate case, and using information that should be more easily verifiable. So, that's the advantage of using the last quarter.

Q. Now, the Settlement Agreement also provides for a savings proof to be filed subsequent to the first rate case. And, in that regard, is that expected to be a separate proceeding from a rate case, or is it combined with the second rate case?

A. (Frink) If a second rate case is filed within five years of the close of the merger, the savings proof will be done as part of the rate case. If, for whatever reason, EnergyNorth doesn't feel the need to file for a rate case within five years, at that -- at the end of five years they would have to file the savings proof. Again, the concern is, you go too far out, you start losing some of the information. And, so, we think within five years that we should have reached a "steady-state" savings at that time, we'll take that opportunity to review and determine what the savings are. And, that number will then be used in a future rate case, if filed within ten years of the close.

This is a one-time adjustment that allows shareholders to share in 50 percent of the actual savings, proven savings. But, if they don't file within the ten years, then even that one-time

opportunity is gone. The assumption being that they have, over the ten years, they amortized the costs to achieve. If they're not coming in for the rate case, it's very likely that they're achieving those savings and earning on those savings.
Q. Within the Petitioners' petition, and I believe that's at Exhibit 1, at Page 10, and in Mr. Bodanza's testimony, predicts gas supply benefits from the merger, including gas supply savings from a combination of EnergyNorth's portfolio with the New England Gas Company's Rhode Island supply portfolio. Has the Staff looked at that aspect of the merger?
A. (Frink) Yes, we did some discovery on that and we looked at it. There's not enough evidence to demonstrate that there will actually be gas savings through this merger. We certainly don't expect gas costs to go up, it's something we look, you look at with every cost of gas proceeding and through the integrated resource planning. And, to the extent there are savings, that will get passed through to customers, and there will be no sharing of any savings.
Q. Mr. Mullen?
A. (Mullen) Yes.
Q. I turn to you with a few clarifying questions. First

of all, in respect to the estimates of synergy savings and costs to achieve, I'll ask you the same question as I did Mr. Frink. To what extent is the sharing of those net merger-related savings dependent on realization of those estimates in the Granite State side of this?

A. (Mullen) Well, on the Granite State side, first off, we're not dealing with the synergy savings. The only part that comes in is the costs to achieve. Because of the specifics of the Granite State Rate Plan, we did not have to get into the synergy savings aspect of it. Regarding the costs to achieve, there's a provision to allow an amortization of the costs to achieve based on the current estimate of those costs, which I believe is a little over $2 million. That will eventually be trued up to actual costs. So, we're starting right now with an estimate, but that will be trued up in the future to actual costs.

Q. Mr. Mullen, in your testimony, on Page 7, at Line 14, you say "Upon the closing of the merger, the Granite State Rate Plan goes into effect for the five-year period." Why do you say that, when, on the previous page, on Page 6, you mention that the rate reductions are not contingent on closing of the merger?

A. (Mullen) This goes back to the differentiation between which provisions are contingent upon the Commission approving the merger and which conditions -- which provisions are conditioned upon the closing of the merger. The rate reductions, as well as, as I mentioned before, the REP and the Storm Contingency and the customer service commitments are only subject to the Commission's approval of the merger. The Rate Plan deals with the Five-Year -- the way we're going to deal with rates over the Five-Year Period and that sort of thing. That is contingent upon the closing of the merger, and earnings sharing mechanism is as well.
Q. Now, I believe on Page 4 of your testimony, Line 22, you refer to an estimated $2 million of overearnings by Granite State. For what period of time does that figure relate?
A. (Mullen) That was for the year ended December 31st, 2006.
Q. And, could you state what that represents in percentage terms?
A. (Mullen) Well, if you compare to the 9.67 percent ROE that we have agreed to in this Settlement Agreement, if you take their -- Granite State's existing capital structure, which has roughly 83 percent or so of

equity, or did as of the end of December of '06, the earned return on equity for that 12-month period would be roughly a little over 12 percent. If you then, instead of using the existing capital structure, calculated based on the 50/50 capital structure that we've agreed to in this agreement, this -- the 12 percent becomes more of 15 to 16 percent. The 50/50 capital structure is what we've agreed to as being an appropriate level to use for purposes of ratemaking going forward for the agreement. And, that's how we'll be calculating the earnings during the five-year period.
Q. If Granite State is allowed to retain 100 percent of the earnings over 9.67 percent, up to 11 percent, why isn't the 11 percent, in effect, the allowed return on equity?
A. (Mullen) Okay. Well, make no question, the 9.67 is the allowed ROE. That's the starting point. The 11 percent, or that 1.33 percent bandwidth above 9.67, allows the Company to, through efficiencies from the merger, retain some of the savings -- retain the savings up -- 100 percent of the savings up to that level. Once they get above 100 percent -- or, excuse me, 11 percent ROE, then those savings become shared

50/50. So, the 11 percent just gives the Company an area where they can retain some savings, and, you know, it gives them an incentive to maximize the savings from the merger.

Q. The Granite State Settlement also provides for certain reliability and vegetation management spending, and I believe that the requirements commence at the beginning of the 2008 fiscal year.

A. (Mullen) That's correct.

Q. When you say the "2008 fiscal year", when does that start?

A. (Mullen) Well, we are in it now. It started on April 1st of 2007, and it goes through the end of March of 2008.

Q. Okay. One other question on the REP and vegetation management. Now, there's certain categories of spending, part of it is on operation and maintenance spending and the other is on so-called "capital spending". Now, how does one differentiate between those two types of spending?

A. (Mullen) It's mainly the nature of the activity that you're doing. If you're replacing an asset, that goes to capital. If you're replacing or installing a new one, that's capital spending. If you're doing more in the area of, say, maintenance type of operations or tree trimming, those type of things are O&M expenses. Essentially, the capital projects are things that you put in that have a useful life of more than one year.

Q. Now, I'd like to go back briefly to the question of earnings and so forth. If the Company should earn less than 9.67 percent, whose risk is that?

A. (Mullen) That is fully the Company's. There is no lower band where the Company could share the -- the customers would be responsible for any shortfall of the 9.67. Anything under 9.67 is solely the responsibility of the Company.

MR. DAMON: Thank you. That's all I have for direct examination.

CHAIRMAN GETZ: Thank you. Ms. Hatfield.

MS. HATFIELD: Thank you.

DIRECT EXAMINATION

BY MS. HATFIELD

Q. Mr. Traum, would you please state your name for the record.

A. (Traum) Certainly. My name is Kenneth E. Traum.

Q. And, by whom are you employed?

A. (Traum) By the Office of Consumer Advocate.

Q. What is your position at the OCA?
A. (Traum) The Assistant Consumer Advocate.
Q. Have you testified before the Commission previously in that capacity?
A. (Traum) Yes, I've testified on behalf of the OCA in numerous documents, in gas, electric, water, and telephone.
Q. And, have you filed prefiled testimony in this docket?
A. (Traum) No, I did not, mainly due to time constraints. The purpose of my testimony today is just to discuss the OCA's support for the Settlement Agreement entered into by the Companies, Staff, and the OCA.
Q. And, did you work on the Settlement Agreement that's been marked as "Exhibit 3" in this case on behalf of the OCA?
A. (Traum) Yes, I did, and that would have been on both sides, the electric and the gas side.
Q. And, could you please discuss the OCA's support for the Settlement Agreement.
A. (Traum) On balance, the OCA views this Settlement as providing net benefits to New Hampshire customers of EnergyNorth and Granite State Electric Company, and believes the Settlement is in the public interest. We want to recognize that the agreement is the result of

significant efforts, negotiation, and compromise among the Parties and Staff.

While the details of the benefits and the specific agreements have already been addressed in great detail, here I don't feel the need to delve into that extensively at this point. There are just a few items that I would, you know, highlight as specific agreements that we think are particularly significant and beneficial to ratepayers.

On the Granite State side, as Mr. Mullen has mentioned, part of this agreement takes care of the issue of the Company's overearnings and reliability. And, we think it does it in a very timely fashion, and it avoids the additional expense of having to have further proceedings and rate cases. It also includes a 9.67 percent return on equity as the starting point for the development of rates. And, it's also done in conjunction with improving the system reliability, develops a storm contingency reserve, and the Company agrees that they're not entitled to recover acquisition premiums from this or any prior merger, and that relates to not only the Granite State side, but also the EnergyNorth side. And, I'm not sure that had been touched on for both sides through this merger.

Again, just on a very high level, in terms of the KeySpan and EnergyNorth side, some of the things we thought were very significant and beneficial are, one has been referred to, in the first post merger rate case, the $619,000 of synergy savings that are a credit to customers, and that's in effect right off the bat. And, then, later on, the Company has to make a proving of any net synergy savings. And, I'd just like to point out that I think this is the first merger proceeding where the OCA has agreed to any recognition of future merger savings, but it's also the first time that we've been comfortable that there is a realistic approach for how those net synergy savings are to be proven. And, in effect, they are going to be proven without the loss of New Hampshire jobs, which we also view as very significant.

Another very important issue that has been touched on because of the situation in New York is what I'll call the "most favored nation" clause, and that was something that we felt was very significant. Also, of great benefit to customers are the cast iron/bare steel replacement programs, and the improvements to the Company's emergency response times and the customer service commitments.

Q. And, Mr. Traum, are the Company's energy efficiency or low income assistance programs addressed in the Settlement Agreement?

A. (Traum) Well, while the Settlement Agreement is silent on the energy efficiency and low income programs, those programs remain in place for each company post merger. So, there's certainly not going to be any reduction in those programs. And, what we feel is that the combination of Grid and KeySpan will increase the expertise and the potential efficiencies that will result in greater improvements in program areas on both the electric and the gas side.

Q. Are there any other issues in the Settlement Agreement that you'd like to discuss?

A. (Traum) At this point, I think the parties and Staff have addressed all of the highlights. I'd just like to thank everybody for all of the work that's been involved in this process.

MS. HATFIELD: Thank you. No further questions.

CHAIRMAN GETZ: Thank you. I'm going to just note at this point, our intention is to take the lunch recess by 12:15, but my understanding of the process is now it's opportunity for signatories to do cross, is that correct?

MS. BLACKMORE: Yes.

CHAIRMAN GETZ: Okay. So, Ms. Blackmore, do you have cross-examination for other members of the panel?

MS. BLACKMORE: I don't believe I have any questions for the panel.

CHAIRMAN GETZ: Thank you. Mr. Damon?

MR. DAMON: Yes. Thank you.

CROSS-EXAMINATION

BY MR. DAMON

Q. I'd like to address these primarily, initially at least, to the Joint Petitioner witnesses. First of all, just to confirm, is there any overlap in the existing service territories between Granite State and EnergyNorth?

A. (Gerwatowski) There really isn't. There's one area that there's a geographical overlap, but not a customer overlap. And, correct me if I'm wrong, it's in the Derry area. But there's not a customer overlap.

Q. Okay. Not at the present time?

A. (Gerwatowski) Right.

Q. And, how big an area is that? It's pretty small?

A. (Gerwatowski) I don't know. It's very, very small. In fact, in the petition itself, in the original petition, which is one of the marked --

MS. BLACKMORE: Exhibit 1.

BY THE WITNESS:

A. (Gerwatowski) -- marked exhibits, there's a map. And, there's a little, tiny little piece of yellow that shows that, and you can see how small it is, where the potential overlap is, if that map is correct.

BY MR. DAMON

Q. Okay. That's part of I think it's Exhibit 1?

A. (Gerwatowski) Yes. Might have been in the appendices.

MS. BLACKMORE: Appendix 1 to Exhibit 1.

BY MR. DAMON

Q. Could I ask you to summarize National Grid's experience and expertise in operating gas utilities?

A. (Gerwatowski) Sure. We use the term "National Grid" broadly as a global company. We start with the U.K. And, in the U.K., we own the high pressure transmission system that runs through England, Scotland, and Wales, I think it's all three. I haven't been out there. But there's a high pressure gas system. There is also some smaller distribution companies that National Grid runs out there as well. The rules are a little bit different, but the technologies are very, very similar.

When you come into the United States, National Grid has owned Niagara Mohawk in Upstate New York now for almost since -- since 2002, early 2002. And, they have had a gas operation up there for sometime, it's not as large as the electric operations, but it's a viable distribution company, just like EnergyNorth here in New Hampshire.
Q. Could you tell us how big of a company Niagara Mohawk is, in terms of its service to gas customers?
A. (Gerwatowski) You know, I'll have to take that as a record request. It's something that I should know, since I had spent three years out in Syracuse, but if you want the numbers, I'd double check. Can I get back to you?
MS. BLACKMORE: We may be able to find that in some of the exhibits, yes.
WITNESS GERWATOWSKI: Maybe it's in one of the exhibits. I'll have Mike check on that, if you want to go to the next question.
MR. DAMON: Okay.
BY MR. DAMON
Q. Yes. Could you also describe Grid's acquisition, I believe, of a gas utility in Rhode Island?
A. (Gerwatowski) Yes, that's right. That was a recent

acquisition. There was New England Gas Company that National Grid acquired. So that, in Rhode Island, National Grid is the only utility, other than a small municipal that's in the northwest corner called "Pascoag", and Block Island, National Grid has all electric and gas distribution service in the State of Rhode Island now.

Q. And, how many customers are served in Rhode Island?

A. (Gerwatowski) About 240,000 gas customers.

Q. The petition, on Page 17, states that Grid's and KeySpan's community ties "will be maintained and strengthened" following the merger. And, could you please explain what that statement means?

A. (Gerwatowski) I think it's more of a general statement. National Grid, the National Grid/KeySpan organization together is increasing its presence as one organization. The natural effect of that is, with an increased presence, there's an increased commitment. There's an important -- It becomes even more important to stay a part of the community. We have Bill, Bill Sherry has been up here for National Grid as a point of contact. He's going to continue in that role in the capacity as Regional President. You know, we're committed to New Hampshire. And, the fact that

National Grid has come in and acquired additional utilities, hopefully is evidence of that. I know it's a part of the overall KeySpan transaction, but we're well aware of what New Hampshire is and what it presents, and we're very happy to be here. We'd like to make it bigger, but it's not within my control.
Q. Now, if the merger does go through and closes, how does National Grid plan to give attention to New Hampshire's regulatory ease and expectations?
A. (Gerwatowski) Well, I'm kind of excited about the new position that I'll have, it's kind of an illustration of what I think will happen. We set up an organization that will be functioning under Larry Reilly, who I think a lot of you are aware, a lot of you know. And, under Larry, we'll have a regulatory function and we'll have both gas and electric. And, it's the group that I've worked very, very closely with for many years. We have a certain style in which we approach the regulatory arena and trying to address the needs of our regulators. We expect that that particular style of regulatory contact and engagement will continue, both on the electric and the gas side. So -- And, I'm going to be a part of the electric side, I'll have -- in the new organization I'll have, today, I have the New

England states, I'll also have New York on the electric side. We'll have a designated person, similar to me, reporting up the chain to Peter Flynn and to Larry Reilly on the gas side as well, and I don't know if any of you know him, his name is Gary Ahern. So, there is a commitment of the organizations to the regulatory manner of operating that will take place post merger.

Q. Is there a role expected for Mr. Sherry in respect to EnergyNorth?

A. (Gerwatowski) Absolutely. Bill has been performing function that you're well aware of, and he's going to continue in that role. He will be, essentially, I think his title will be "Regional President for New Hampshire". And, so, he will be the legislative and regulatory and community point of contact. So, when a problem arises, whether it comes from, you know, the gas side of things, from Steve or Randy, or from Tom on the electric side, Bill is going to be there to be a point of contact, to make sure that that gets immediate attention. That's the way we've tried to operate it on the electric side, and that's how we intend to do it for both organizations in New Hampshire.

Q. And, what kind of authority do you expect he will be given in that role?

A. (Gerwatowski) Well, there's kind of two ways to look at it. One is, there's the functional organization, where you're going to look in how operationally where -- who takes direction in order to engineer a particular substation or engineer the Main Replacement Program, you'll see some functions going up. And, so, in that context, you'll have engineers who have a line of authority to direct and supervise those folks. But, as a practical matter, the way we've always operated in all of our states is that there's a recognition that you need to have a point of contact and a person there who knows who the people are who have the responsibilities in those functions and is a phone call away, who has the respect and ability from -- respect from those folks and the ability of himself to be able to move things. We continue -- That's the direction we've always been operating under, and it's the direction we're going to continue in. It's not an align function, and it's not a situation where you take somebody who says "I'm the president of the organization. I have engineers reporting to me." That's not technically how it works. But, as a practical matter, what we found is the communities, our regulators, and legislative leaders want, they want a person who they can go to who they can have confidence in, they can respect his word. And, when he says "It's going to be done", it gets done. You don't have to know specifically who Bill calls in order to make it happen. But that's the way we've operated. We've operated that way in Rhode Island and Massachusetts, in a very similar vein with other folks. And, New York is a little bit more complex, but -- because it's such a large geographical territory. But, in New Hampshire, it's very manageable through Bill. And, we expect it to continue to be manageable, even though we're adding the gas side of things to it.

Q. Okay. Last Friday the Commission issued an order regarding EnergyNorth, and it involved a problem with a thermal -- so-called "thermal billing". And, the gist of that, I won't go into great details, but the gist of that was that I believe the Commission found that the Company should have come to the Commission in order to obtain approval to change its method of measuring and reporting the heat content of the gas. And, there's another docket, DG 06-122, in which, according to -- I believe according to the Audit Staff, now the Commission hasn't yet weighed in on this, but the Audit Staff had found that EnergyNorth had exceeded its short-term debt limits that had been approved by the Commission previously. But, I mean, these are just two, two types of situations that have come up in respect to the operation of EnergyNorth. And, I would like you to comment please on what management strategies and styles Grid would employ, if it acquires EnergyNorth indirectly, in order to prevent these type of problems from occurring?

A. (Gerwatowski) It should be a simple answer, but it's going to be a little more complex. First of all, I haven't been involved in the KeySpan issues personally to know what all of the nuances or what happened and trailing through where either oversight or mistakes were made, or even if there were. So, I don't want to point -- throw the KeySpan folks under the bus on this at all, because I don't know all the details. What I'd like to say, though, is that, from the National Grid perspective, the way we've always operated, we've encouraged people in our lines of command that, if they see something that isn't right, to report it, I mean come to the regulator right away. And, by saying that, I'm not suggesting that KeySpan didn't do that. I want to reiterate that I don't know the details of all those things. But I know that the culture that we've engendered on the regulatory side is always go in, when you see a problem, you go in and address it as soon as you can, and try to set up mechanisms and tickler files and other things to make sure that you're in compliance.

Now, having said that, I can't say that National Grid has not had, you know, our own speed bumps of compliance. But I hope that you'd agree with me, when we've had a problem, we have come in and addressed it immediately and as quickly as we could. And, I think that's the promise that I can make, is that we take compliance very seriously. And, as I said, I'm not trying to suggest anything on the KeySpan side by saying that. I can only tell you what National Grid's philosophy is.

Q. Can you describe the type of compliance program, if you will, that Grid has that would hopefully minimize the risk that New Hampshire's regulatory requirements are overlooked?

A. (Gerwatowski) Well, I'm not -- let me tell you about a few things that, and it will be easier for me, because it won't relate directly to the things that you raised, but let me give you an example on safety. National Grid has become one of the most safety-conscious organizations that you can have. And, I say that from a personal experience, even though I just work in an office. Is that we have a rule that most people follow, and you have a meeting and you have to have a safety talk. And, the supervisor is required to say something about safety and what -- because safety is really, really important to us. Now, that's not a compliance issue, but it's a consciousness that we've developed over time that safety is important. If people see a safety violation, they get reported. Near-misses get reported. And, it's ingrained in the culture.

Similarly, you know, compliance is a huge issue on the environmental side. We have an environmental team that's led by Joe Quazi, which I think is probably one of the best in the nation. And, I say that because we've had the experience with Joe in multiple places, and I know, when you get into the area of the gas companies, they have problems that you don't have with electric, unless electric used to have gas companies, and that's MGP sites. And, there's compliance issues associated with that. There's a team of folks that just descend upon these environmental issues that grab ahold of them, communicate with the regulators, and do what has to be done to get any problems fixed. And, the types of things that they engage in with the communities is the same.

On the regulatory side, I know that, in my department, we have tickler files, to make sure the filings get done. And, then, we try to follow up with outside the organization.

Now, having said that, as an organization grows, still you hit some speed bumps and you can make some mistakes. But I think that, when we find them, we try to put in place procedures to make sure that they don't happen again in the future. It's a cultural thing, and, again, I'm speaking from National Grid, and I expect to have that same cultural perspective employed in the context of the merged organization as we go forward.

Q. So, as I understand it, then, National Grid would have compliance with New Hampshire regulatory requirements as a priority?

A. (Gerwatowski) Absolutely. Absolutely.

Q. Despite the fact that its 84,000 customers is rather dwarfed by the --

A. (Gerwatowski) 125,000.

Q. Well, it's a total of 125.

A. (Gerwatowski) I know what you're saying.
Q. But 84 of EnergyNorth.
A. (Gerwatowski) I think one of the things that we also found, when we started growing with National Grid, is that it is -- it can happen that a smaller utility can be less on the radar screen. But I think we've learned, you know, over the last five years what -- that that can happen, and we can take steps to address it, to try to make sure that it doesn't happen now. The presence has grown, but I acknowledge that it is smaller than the large organization, but I think we do understand it's a separate state, it needs attention. Just as, no matter how big or small the state is, it needs attention. And, that's what we intend to do here with New Hampshire.
Q. Okay. And, just in terms of how the Company operates and manages its business, I mean, is communication something that is emphasized? And, here I'm thinking of, you know, New Hampshire is a small state, it has its own peculiar regulatory requirements, some of which are not commonly shared in other states. For example, can the short-term debt limitation, other states may not have it, it may not be something that is right in everyone's mind as they do business in New Hampshire,

but is there some way the Company has of understanding what those requirements are and then communicating them among employees who should know or have a need to know those things?

A. (Gerwatowski) It's a really important issue. And, I think that what we're going to need to do, as we move closer to the day one of the merger, is to really get a inventory of all the -- all of the regulatory requirements that the people within the KeySpan organization are aware of. And, then, vice versa, you know, share on the electric side. I know what we do on the electric side. I'm not as familiar with what KeySpan and EnergyNorth folks are doing. But bringing the organizations under one structure that I was talking about before is an advantage. I mentioned Larry Reilly before is the Senior Vice President who will have both the Legal Department reporting up to him and the regulatory. And, it's done for two reasons. One is, Larry's experience in the regulatory arena. Larry has also been Distribution President and served in rate functions role as a lawyer. But we've recognized, again, culturally, that the legal and the regulatory are really kind of closely working together, and they have to be together, because regulation and rates and the law all come together. And, I think that that's what we expect to see by organizing that way, to continue to operate that way.

Now, I've lost train of -- my train of thought on what your original question was as I gave that speech. But I apologize if I didn't give a complete answer.

Q. That's fine. Thank you. I'd like to move onto a different subject now. The Settlement Agreement calls for approval of the money pool and service company allocation arrangements, but then also states that "the specific arrangements are subject to Commission review pursuant to 366:1, appropriate contractual arrangements are agreed upon and intended to be implemented." So, the type of approval that you're asking the Commission for here in this Settlement Agreement, is that sort of a conceptual approval or how would you characterize it?

A. (Gerwatowski) I think, in part, you're asking a legal question. And, although that I am a lawyer by trade, I'm not a New Hampshire lawyer, I hadn't focussed on this particular question. But what we wanted to make sure is that the Commission understood that we were going to operate in the money pool. I don't think there's any intention here to have that be a broad brush that distinguishes other obligations that may arise in other dockets. Just now, at this point, when the order is issued, won't come as a surprise that there's a money pool participation. But, to the extent that there are debt limit requirements, there's no intention to skirt them by that approval. So, we're not trying to do anything jurisdictionally that's not -- that's hidden behind the words here. But I guess I'm going to also defer to counsel, as far as any more specific answer with respect to the statutory requirements.

Q. When is the change in EnergyNorth's fiscal year expected to be implemented if the Settlement Agreement is approved?

A. (Laflamme) Well, as I mentioned earlier, National Grid, PLC, the parent company, does report on the fiscal year ending March 31st. So, assuming the merger takes place or closes sometime in the fall of '07, what you would have is you would have stump period for the former KeySpan subsidiaries ending March 31st, '08, and the first full fiscal year would take place March 31st, ending March 31st of '09.

Q. So, in the fiscal year, which would start in 2008, is called the "2008 fiscal year"? Or is it the --

A. (Gerwatowski) The other way around.
A. (Laflamme) Actually, we just got an e-mail two days ago redesignating the fiscal year. We had been operating with the fiscal year designation was the year ending. So, fiscal year '08 would have been the period April 1st, '07 to March 31st, '08. We will now be referring to that as "Fiscal Year '07-08".
Q. Okay.
A. (Laflamme) Which probably makes it a lot clearer for everyone.
Q. Okay. But, the Settlement Agreement is premised on which terminology?
A. (Laflamme) The prior. So, fiscal year, with a year designation of "08", would be the year ending March 31st, '08.
Q. Now, in the petition, there is a brief mention that the Joint Petitioners propose to follow the purchase method of accounting for the merger. And, are the Joint Petitioners requesting that the Commission approve such accounting treatment or is this something that is regulated by accounting standards?
A. (Gerwatowski) It's a U.S. GAAP requirement.
A. (Laflamme) Yes. I mean, the latter is true. It's a U.S. GAAP requirement. And, we're not seeking the

Commission's approval of that.

Q. And, another question on these, what I call "subsidiary approvals" of the money pool and service company allocation arrangements, and so on, these are approvals that are requested as part of the approval of the Settlement Agreement. But, as I understand it, and correct me if I'm wrong, they are not conditions to closing the merger pursuant to the merger agreement itself?

A. (Gerwatowski) That's correct.

Q. I'd also like to ask you to comment on the rationale as to why stockholders should share in any merger savings at all?

A. (Gerwatowski) Sure. I mean, first of all, there's an investment that's being made in this new organization and entity, with the expectation that there will be administrative and general savings when that investment is made. However, I think the answer really is that this is going to, by having a sharing mechanism or aligning the interests of the Company and customers, when you go through this integration process, there is a real incentive for the company to be as creative as they can to try to be efficient, maximize the savings, and bring a more efficient organization forward in the regulatory context. To the extent that there's a share in that, so the customers are benefitting and the companies are benefitting, all the incentives are there to do the right thing, and the customers get the benefit of it. If you don't have a company piece to that, that's not to say the Company wouldn't be trying to operate more efficiently, but the financial incentive isn't there. When it's present, it really does light a fire. And, I think it's a fair way to deal with the situation, whether there's an investment that's being made in this organization from which customers are going to be benefitting. So, I think it's a fairness issue and it's also an incentive issue that makes sense.

Q.   Okay. Mr. Frink, I would like you to comment on that, and, from Staff's perspective, what is the rationale for allowing stockholders to share in merger savings?

A.   (Frink) Well, the fact is that there wouldn't be any savings without the merger, and, particularly in this case, where there are proven savings. So, to the extent, if EnergyNorth were to go forward on a stand-alone basis, then it would be, hypothetically, based on the estimates, their cost would be 1.2 million higher. Now, by sharing in that, whatever it actually turns out to be, their costs will be lower by 50 percent of what the actual savings were. So, if there are no savings, then you're paying your full cost of service. If there are savings, then you're actually getting one half, you're actually reimbursing shareholders one half of the reduction in the overall cost of service.

So, basically, without the merger, there are no savings. With the merger, customers will share in half and shareholders will share in half of those savings. But, absent any savings, there are no -- there are no savings in this deal for the Company.

Q. Mr. Traum, how do you understand the rationale for having stockholders share in merger savings?

A. (Traum) Well, I certainly agree with Mr. Frink that, absent the merger, certainly, theoretically, there is not going to be any additional savings. Due to the merger, any savings, and first have to, in effect, be proven, and, assuming that they are proven, then 50 percent of those savings will go back to ratepayers. And, if there was no merger, there wouldn't be any savings going back to ratepayers.

Q. Mr. Gerwatowski, I draw your attention also to the petition, and this is on Exhibit 1, Pages 11 and 12.

One of the benefits of the merger is said to be the "avoidance of costs that would be required absent the transaction", in other words, absent the merger. And, those are said to be different from the direct synergy savings that the Mercer Company and Mr. Levin have identified as being in the nature of synergy savings.

A. (Gerwatowski) Uh-huh.

Q. How do you distinguish one type of savings from another? In other words, the avoidance of costs that would be required absent the transaction and synergy savings?

A. (Gerwatowski) Well, here I think that in the petition was identifying a matter such as, let's say, hypothetically speaking, if EnergyNorth or the KeySpan organization would look to have to change their billing system eventually. By merging with the Company, of National Grid, who has a new CSS system going in place, it doesn't have to produce that. And, so, there's an avoided cost associated with having to build a new system or buy a new system. That's not included in the shared savings arrangements that we have here, which is A&G related that we're getting a share of. So, here's the savings that's going to flow to customers that's not even counted in the process. So, I think that's the best example of it, you know, that I can see. And, there could be other instances that we're not, you know identifying as well.

Q. And, how would you distinguish the avoidance of those type of costs and synergy savings and savings that might accrue from implementation of "best practices"?

A. (Gerwatowski) Well, actually, "best practices" is another savings that can occur. And, I distinguish it that, if you have a system situation, that's not necessarily a "best practice", it's just avoiding having to build a new system. "Best practice" would we "can you combine with the KeySpan organization that now has the benefit of perhaps some experiences in the U.K, and some of this new way of replacing or testing for main leakage or whatever, and I'm making this up now, because I'm not an engineer, but I'm trying to give an example, could come to the United States or to New Hampshire, which creates an operation savings. And, that's an adoption of a "best practice". In looking at what they're doing in the U.K. and look what they're doing in New York, what they're doing in Rhode Island, on the same issues, operational issues, you say "well, how are you doing it?" And, you share it. And, we have teams that get together and do this. We've done

it in the prior merger, and I know that's happening again. And, you have someone from the U.K, someone from New York, and you get operational people sitting there saying "how do you do it?" And, then, you decide which is the best practice. And, there's a savings that flows from that that, again, is not counted here, and it's differentiated from an avoided cost, such as in terms of the example I gave you.
Q. So, it's not counted in the Mercer study?
A. (Gerwatowski) That's right.
Q. Another question that I wanted to ask --
CHAIRMAN GETZ: Excuse me, actually, Mr. Damon, do you have much more?
MR. DAMON: Well, I have probably 15 minutes here at least.
CHAIRMAN GETZ: Okay. I think this would be a good time to take the lunch recess. Just for planning purposes, Ms. Hatfield, will you have cross for the --
MS. HATFIELD: I have one question.
CHAIRMAN GETZ: Okay. Thank you. And, then, my understanding is, after that's completed, then we'll turn to Mr. Sullivan to do his cross? Okay.
Before we break, though, in hopes of

making this more efficient, I'd like -- there's one series of questions that I wanted to ask the panel to think about over lunch, and maybe be more efficient to do it this way, is I was having some trouble moving among the documents to get a real good feel for the costs to achieve. And, it's defined in one area, and there's a couple of references about, at companywide, about 2 million -- $200 million per year in savings, but the $400 million in costs to achieve, and then allocating it down to Grid and to Granite State. And, I guess, you know, Mr. Mullen was basically I took to be saying that you weren't calculating savings for Grid, because of the rate reduction. On the other hand, I'm looking at EnergyNorth, and I'm seeing $12.8 million in savings over the ten years. I don't know if that's a current dollar number or a nominal number, and then it's comparing it to $400,000 allocation. I hope you see where I'm going. I'd like to try and get in one place what you're talking about, in terms of what constitutes the costs to achieve and how it's collected and allocated down to the two companies, I would find that very helpful, unless there's some document I've missed somewhere, but I didn't see that discussed in one area.

So, is there anything else before we break for lunch?

(No verbal response)

CHAIRMAN GETZ: Okay. Then, let's try -- hearing nothing then, let's come back at 1:30. Thank you.

(Recess taken at 12:20 p.m. and the hearing reconvened at 1:40 p.m.)

CHAIRMAN GETZ: Okay. Good afternoon. We're back on the record in docket DG 06-107. And, we will resume with Mr. Damon's cross-examination.

BY MR. DAMON

Q. One question that I would like to go back to briefly that we didn't finally address was the size of the Niagara Mohawk gas customer base?

A. (Gerwatowski) Approximately 568,000 gas distribution customers.

Q. Thank you. I would like to take up the Chairman's suggestions now and sort of go back and talk a little bit more detail about synergy savings, costs to achieve. And, maybe the way to do this would be to go through the synergy savings first, and then costs to achieve, and then the net, and then follow up with a little bit more detail perhaps in how these things play into both the Granite State and EnergyNorth aspects to the settlement.

A. (Laflamme) Certainly. And, I'll try and explain that as best as I can. And, actually, there is an exhibit in the original petition. It's tabbed "JGC-1". It's towards the back of the book.

Q. Okay. Yes. And, first of all, Mr. Laflamme, let me just ask you in general, what are "synergy savings"?

A. (Laflamme) The "synergy savings" are savings that are expected to be produced by the merger. Mr. Levin provided some testimony and actually supported a number of -- a "steady-state" number of $200 million annually.

Q. Now, that $200 million annually, that is on a total system wide basis, I think it was?

A. (Laflamme) That is correct. And, it gets allocated to all of the operating subsidiaries.

Q. Okay. And, what did Mr. Levin base his estimate of $200 million "steady-state" savings?

A. (Laflamme) I don't have the exact numbers, but the Integration Team actually provided a range of savings, with different confidence levels. The "$200 million" number I think was closer to the high range, but, based on experience in prior mergers, NEES and EUA, New England Electric System and Eastern Utilities, and subsequently National Grid and New England Electric System, experience has been that we are generally at the high end or even exceed the range.

Q. Now, in terms of "steady-state" savings, can you describe that concept?

A. (Laflamme) It simply means an annual amount of savings. I think I alluded earlier to the fact that, generally, it takes a number of years to achieve a "steady-state" saving number. But the assumption is that it was $200 million in today's dollars. So, the $200 million gets escalated, as well as allocated to the subsidiary companies, which I will discuss momentarily, when we get to the exhibit.

Q. Okay. Well, why don't you do that.

A. (Laflamme) Oh, okay. If everybody is on that exhibit, it's four pages, and I think it's probably best to work back to front. So, Page 4 of 4 actually represents --

Q. Okay. Now, let me just interrupt.

A. (Laflamme) Sure.

Q. You're on Page 106 of Exhibit 1?

A. (Laflamme) That is correct.

Q. Okay. Thank you.

A. (Laflamme) So, Page 4 actually indicates the percentage factors that are applied to both costs to achieve, as illustrated in Column (A), and a synergy multiplier, illustrated in Column (B). The synergy multiplier is

-- assumes that, in the first year, we would achieve 50 percent of the savings, the "steady-state" savings, as I indicated, the $200 million number; two-thirds by the second year; some 83 percent in year three; and full "steady-state" by year four. What this chart indicates is that we've assumed a two and a half percent inflation rate to arrive at Column (B), which is simply the phase-in percentages times the allocation -- I mean, the inflation amounts by year. So, if we flip quickly to Page 1, Page 103 of the document, and look at, you know, that this page is broken out into three distinct groupings, line numbered 1 to 17. But, in the very top is "Synergies", the middle portion is "Cost to achieve", and the last portion are the "Net". It's simply synergies, minus costs to achieve.

So, if you look in the column titled "1", you'll see "100 million" as the total. That's the $200 million of "steady-state" savings, times the synergy multiplier in Column (B) of Page 106 that we just looked at. The second number "136" then is the 68 percent of the 200, and so forth. So that you see that by year four, when we're actually achieving 100 percent of our "steady-state" $200 million savings, the number has grown with inflation to $215 million under the column titled number "4".

Moving to Page 3 of 4, or Page 105 of the document -- I'll correct myself. Can we move one page forward, to Page 2. We're talking about synergies here. That's 104 of the document. What this does is it simply allocates the "steady-state" synergy number of 200 million to each of the individual subsidiary companies, based on revenues, T&D revenues, and delivery revenues of 2004, which represent the percentage values shown in Column (B). So, as you can see, in Column (C), based again on that "steady-state" number of 200 million, this would be the resulting allocation of those dollars to the individual subsidiaries. Also, on Line 14, you'll see a designation of "unregulated", because the savings will be allocated to unregulated businesses as well.

These percentage amounts in Column (B) are also applied to the total amounts on Page 103, the kind of busy table, to arrive at the individual allocations by company. So, if we just pick a year, if we pick 2004, and if we were to take EnergyNorth, which on Page 104 indicates an allocation of 0.78 percent, if we apply 0.78 percent to the $215 million number that's reflected in the total of Page 103, you'd arrive at a number of 1 million, if I'm following with my eye correctly, $1,650,000. And, that application is applied to all years for all companies.

Moving to the CTA, the calculation is very similar, with one exception. If we go back to Page 106, which is Page 4 of 4 of the exhibit, the cost to achieve percentages are actually percentages that were agreed to in the last National Grid merger, the Niagara Mohawk merger. So consequently, these percentages of 30 -- starting with 38.49 percent and moving down to 2.25 percent by Year 10, is an estimate of how the costs to achieve the merger will actually be incurred. Those amounts are applied to the $400 million amount, which I will talk about in a moment, and are included in the second batch of numbers on Page 103, or Page 1 of 4 of this exhibit. So, consequently, 38.49 percent of 400 million is reflected as the total on Page -- on the second of the group in numbers, line 17, and allocated based on the same revenue allocation as the synergy savings are allocated. So, each of the annual totals are based on the percentages reflected in Column (A) of Page 106, times the 400 million.

Q. And, what is the allocation based on?

A. (Laflamme) It's based on 2004 T&D distribution revenues.
Q. And, was this allocation method accepted in the Niagara Mohawk merger?
A. (Laflamme) Yes, it was.
Q. And, why should this Commission assume that it's properly applicable to a different merger?
A. (Laflamme) Because, in actuality, the savings will be allocated. I mean, certainly, some savings will be direct. But the savings, by and large, will be allocated amongst the operating companies. And, operating revenues is a fair indicator of how costs will actually flow to each of the individual subsidiary companies. I mean, clearly, it is an estimate of how costs will eventually find their way back to each of the operating companies. But, certainly, in New York, and the Commission in New York felt it was a reasonable method to estimate, and the Company feels the same.
Q. Okay. Now, the $200 million "steady-state" savings, that's an annual number, is that right?
A. (Laflamme) That is correct.
Q. And, what is that figure or that estimate based on? How is it -- or, to put another way, how is that figure arrived at? And, I think there are some documents in

Exhibit 1 which speak to that.

A. (Laflamme) Yes. And, certainly, there was some testimony provided by Mr. Levin, I believe, and Mr. Hoffman, which, and I don't want to speak for them, which support the $200 million number. Today, we filed as an exhibit the final integration study for synergy savings, which I believe still supports a range that supports the $200 million annual number. The Integration Team, and I'm not completely involved with that, but it was a group of very many company employees that actually, of both KeySpan and National Grid, that actually took a look at the operations, from soup to nuts, and determined, again, with levels of potential outcomes, estimated synergies. And, it was in the range, I think in the final, and I don't have a copy here, I think it was within 160 million to 213 million, or something like that, based on confidence levels.

Q. So, the estimate of "steady-state" savings is treated in Exhibit 1, but it's also true, is it not, that its treated in Exhibit 2, which I believe is the update to the Merger Integration Team study, and it was filed with the Commission on December 20th, 2006?

WITNESS GERWATOWSKI: Which one was that, the second exhibit that you referred to, to make sure we have it up here?

MR. DAMON: It's called "Merger Integration Team Update".

MS. BLACKMORE: I believe that's it. Do you need the testimony?

WITNESS GERWATOWSKI: I don't think we have it up here, no.

BY MR. DAMON

Q. It consists of testimony, as well as some attached attachments to the testimony.

A. (Laflamme) Yes, that's correct. And, the package that I was just handed actually shows total O&M savings with a range of 153 at the low end and 208 million on the high end. Again, that's based on some confidence levels.

Q. Okay. Now, I believe you also just testified, but correct me if I'm wrong, that the final Integration Team Report, which has been marked as "Exhibit 6", although there's no testimony attached to that, your testimony is that that is consistent with that $200 million "steady-state" figure, is that correct?

A. (Laflamme) That is correct. And, I was going from memory a moment ago. But, as I look at it, I do have a copy of that, that exhibit. The new high end and low end estimates are 215 million for the high end and 160 million for the low end. So, they are fairly consistent with the preliminary report that was provided in December, and still support the $200 million "steady-state" number.

Q. Okay. Could I ask you to elaborate on the process that led to these estimates through these studies?

A. (Gerwatowski) Just at a very high level. There were teams that were set up in each function, in each area where they were targeted for the savings, I believe were targeted for savings. And, there were the employees for the Company, both KeySpan and National Grid would have come together in these teams and would have been given the overall instructions on what estimates were coming from and being guided by Mercer. And, they would, in their function, they would go through point by point those areas where the savings would be achieved. They would have to take into account how many reductions would take place in administrative and general, how many full-time employment positions would probably likely be removed from that function over time through voluntary severance processes. There would also be the consolidation of various functions. And, they were charged to do estimates in each of their functions, and then report back by function. And, I think, when you see the exhibit that we provided here, there's actually -- it's not just one PowerPoint presentation, it's PowerPoint presentations, plural, that are back to back for each one of the functions. And, unfortunately, it's not tabbed, so it's not easily found where the split is. But there are numerous tasks of our integration teams, and they would each have their own report for the level of savings that they were confirming through their analysis and that integration process. I can't remember how many teams there were, but, if you multiply thumb through, you'll find a page like this in the middle, which would have been the new -- a separator for each team, we start over again. And, I just have to go look. And, I'm not sure how many teams there were. It may be summarized here. But that was the process that the Company engaged in over time after the merger announcement.

Q. So, it's fair to say that was an intensive effort by personnel from both Grid and KeySpan to identify potential merger savings?

A. (Gerwatowski) Absolutely. It was a very time-consuming effort that a lot of people -- and a lot of people put a lot of time and effort into.

Q. Now, the $400 million, which, as I understand it, is a one-time estimate of savings -- of costs to achieve those savings, is that correct?

A. (Laflamme) That is correct. And, that number was developed based on a multiplier of two times of "steady-state" savings. That multiplier was a number that had been experienced in our prior -- in National Grid's prior mergers, and was deemed to be fairly accurate. In fact, it was based on the actual costs to achieve from those mergers.

Just one important caveat here is, that as has been indicated earlier, for purposes of this New Hampshire proceeding, the $400 million estimate is simply a placeholder from which to begin our amortization of the costs to achieve. On both the gas side and the electric side, we will be separately tracking, reporting, and updating the annual amortization amount in a fashion that will amortize the actual costs to achieve by the end of the ten year period. So, because the costs to achieve will not be -- they are one-time, but they're not all incurred one time. And, as the exhibit indicated, there is a percentage of costs that are incurred on a number of years, in order for us to accurately amortize and get a levelized amortization of those, we had to start with an estimate. And, the $400 million was the estimate that the Settling Parties agreed to use.

Q. Okay. And, that $400 million estimate is included in Mr. Levin's testimony in Exhibit 1, is it not?

A. (Laflamme) I believe that's correct.

Q. Now, in his -- in the updated testimony of Mr. Levin and his partner, which is Exhibit 2, that report also confirms that $400 million estimate as well, is that not true?

A. (Laflamme) I believe that's correct.

Q. Now, does the final Integration Team Report, does that get into the question of costs to achieve and whether that $400 million estimate is reasonable or not?

A. (Laflamme) I'm not certain. I'm just kind of scanning the contents here, to see if there is costs to achieve information.

MS. BLACKMORE: I don't believe that there is actually any costs to achieve of the total figures in the presentation, the final presentation of the Merger Integration Team.

BY THE WITNESS:

A. (Gerwatowski) I'm not sure that the presentations were keying on the costs to achieve element. But, just before we answer the question, just wanted to double check by taking a look at it.

BY MR. DAMON

Q. Well, I can rephrase that question. My understanding is that does not deal with costs to achieve, but only the synergy savings that are realistically and reasonably expected?

A. (Gerwatowski) I'm sorry, Ed. There are some slides here that are indicating some costs to achieve.

Q. Okay.

A. (Gerwatowski) So, in order to be accurate about the answer, I just wanted to make sure we weren't stating anything inaccurately. On the costs to achieve, Ed, it seems that there are some team presentations which do designate some costs to achieve, others that haven't. I don't think that the major purpose of this particular presentation was to focus on the costs to achieve. It was focussing on what the savings would be, the gross savings. And, that was really, as a part of the process, when we go forward to achieve the savings, the costs do get taken into account. But I don't think that was the main purpose of the presentation.

So, while you find some of the

presentations having it as a part of their presentation, its not all. And, I actually, in looking over at someone who was involved in one of the teams, is shaking her head over there. I think Sharry is confirming that I'm stating this accurately, and was directly involved in one of the teams.

Q. Well, that's a roundabout way of asking a question, which is, does the Company believe that the estimates of the synergy savings of "steady-state" $200 million a year, and costs to achieve of one-time $400 million, based on the most recent currently available information, does the Company or do the Joint Petitioners have confidence that those numbers are realistic and reasonable?

A. (Gerwatowski) Yes. And, in fact, one of the reasons why I'll say that as well is that, in the New York docket, this very month we filed testimony there confirming these same numbers. And, in that analysis, which I reviewed before coming to the hearing, it confirmed the range that we had for the savings, as well as the $400,000 estimate for the costs to achieve. So, I feel confident in saying that. I just -- We were just fumbling here with this particular document, because we wanted to leave -- I didn't think it was in here. But, absolutely, I could state that confidently. As of today, as far as we've gone with the updating that we've done, the Company still feels those are good numbers as a basis for the estimate.

Q. Now, in the Settlement Agreement, there is a definition of "costs to achieve", and I believe it appears in both the Granite State portion and the EnergyNorth portion. And, I believe it's the same. And, on Page 92 and 93 of Exhibit 3, I believe there is a definition of "costs to achieve".

A. (Gerwatowski) What page did you reference, Ed?

Q. 92 and 93, of the Settlement Agreement.

A. (Gerwatowski) Yes. Yes.

Q. Okay. That's in -- that's Subsection 3?

A. (Gerwatowski) Yes.

Q. Okay. And, my question to you would be, is that definition consistent and coextensive with the costs to achieve that were described in Mr. Levin's testimony contained in the original petition and in his updated testimony?

A. (Gerwatowski) Yes.

Q. So, that that definition is meant to capture the synergies or the costs to achieve that he had estimated originally?

A. (Gerwatowski) It's consistent, yes.
Q. And coextensive. I mean, it's not -- it doesn't take into account more costs than that?
A. (Gerwatowski) That's right. That's right. Yes, we were trying to remain completely consistent. In fact, when we were working on this definition, we consulted with Mr. Levin at the time.
Q. Could you tell us what is the status of the development of an overall implementation plan for these synergy savings to be achieved?
A. (Gerwatowski) Well, I'm not being flip when I say this, I'm trying to put it in elementary steps. But we can't achieve the savings until the merger takes place and closes. But, having said that, there are -- there's a new organizational structure, there's been a hand-off from the Integration Teams to those new officers and management that was actually made at the same meeting where this presentation was made. And, those folks that have charge of the various functions have already started their organizational activities and are consulting with folks in both KeySpan and National Grid's side to start laying in place what the organization will be on day one. So, there is a process occurring now to try to set all these things in

motion. And, during that time period as well, there's an evaluation that would take place by the managers and looking at the various estimates of cost savings here at various confidence levels. Because, frankly, there are some costs here which are really "stretch goals", as they like to call them in the U.K. And, there will be an attempt to try to achieve those, but recognize that some of them are going to be much more difficult than others. And, it's part of the role of each manager in their function to assess the savings that can be achieved and how they organize those functions and move forward.

And, so, I think it's a process that's underway. And, I'm not privy to what's going on in each and every one of the functions. That's a very, very high level, and hopefully accurate statement in each and every respect.

Q. Mr. Frink, could I ask you a couple of questions. You heard the testimony about how these estimates were derived, both the synergy savings and costs to achieve. And, how does the Staff evaluate whether those are realistic and appropriate to be used, in terms of the rate elements of the EnergyNorth portion of the Settlement?

A. (Frink) Those costs were presented early in the process, there was discovery done on them. We had a technical session with Mr. Levin, a couple, actually, and they were looked at in detail. Again, their estimates were -- we looked at the allocations, which was based on 2005 revenues, looking at weather normalization for gas revenues versus electric revenues. And, we looked at a lot of it in a lot of different ways. We looked at the weighting of the estimated costs, a third for the low confidence and 100 percent for the high confidence, that sort of thing. And, it seems reasonable.

The Settlement itself, as far as EnergyNorth goes, because it requires proven savings, it places less emphasis and risk on what the estimated costs are. We want good estimates. That's going to serve to reduce costs in the initial rate filing. But whether they achieve or don't achieve them, customers, the stockholders will only share in proven savings. So, while we did look at it, there's only so much you could do when you're looking at estimates. And, we're fairly comfortable with what we heard and saw. And, the Settlement itself doesn't leave it to estimates. So, in the end, it will come down to what the actual

savings are and the actual costs to achieve.
Q. Well, could you differentiate, though, between how this is treated at the first rate case and the second rate case?
A. (Frink) In the first rate case, we're using the estimates. As has been pointed out earlier, the costs to achieve are higher in the earlier years. The "steady-state" isn't estimated to be achieved until year four or five. Again, a lot of the upfront costs are -- upfront costs, they get severance packages and so forth. So, early on, they're unlikely to achieve the savings that their actually going to get credited for in the annual savings that will be experienced in the first year. But the thought is this is an annual -- over the ten years, this is what the annual savings will be. And, the Company has agreed to give customers the benefit of that, realizing that they're not going to -- actually, it's not expected to achieve those savings. But that, over the course of several years, they will be getting their share of it if those savings are realized. So, there's an estimate used in the first rate case, and that rate case comes very quickly following the merger. And, then, in a future rate case, or in year five, there will be -- we'll know at

that point what the actual costs to achieve are, with great certainty, and the savings as well.

And, at that point, there will be an analysis done. And, those will be the proven savings, and that is what the Company, the shareholders get to share in at that point. That's -- There's a cost of service determined at that point in time, well, if it's a rate case within the first five years, there will be a cost of service. At some point, there will be a cost of service done, and proven savings, one half of the proven savings will go to -- customers will reimburse, will pay the Company for that, half of the proven savings. And, it's a one-time adjustment when they come in for a following rate case. The third rate case, it will be strictly a cost of service. So, estimated savings in the first rate case to the benefit of ratepayers, proven savings in the second rate case, again, benefits both customers and shareholders. And, then, actual cost of service from the next rate case on.

And, also, I would mention one thing, one thing we haven't raised before is that, if the Company comes in for a rate case in Year 10, and adds on the savings in year ten, there was a concern that those -- that increase in the cost -- to the cost of service would carry on beyond Year 10. To address that, there's a sharing mechanism that, if they do overearn after year 10, with the electric. There would be a credit back to customers for that overearnings so. Again, the idea with the whole merger is that it's a ten year -- the savings issue will be addressed in the ten years. And, the one-time opportunity for the Company to earn on one half of the savings.

Q. Okay. Mr. Mullen, from Granite State Electric's -- or, from the Staff's point of view regarding Granite State Electric, I mean, how do you view the costs to achieve and the reasonableness, etcetera?

A. (Mullen) As the other members of the panel have mentioned, right now, the main thing is that we are comfortable that there are reasonable estimates of what the costs to achieve are going to be. They will be trued up in the future. And, so, we're not just relying on the estimates and going forward with those, and that's -- that's not the last word.

Regarding the savings, and let me see if I can address the Chairman's concern earlier, about how these are being dealt with for Granite State. I think I said something to the effect of "we're not getting into the savings on the Granite State side", and let me clarify that a little bit. What I meant to say by that is, due to the existence of the Five Year Rate Plan and the earnings sharing mechanism, where the earnings sharing mechanism allows the Company to earn up to 11 percent and retain the 1.33 percent difference over the 9.67, that allows the Company to retain savings up to that. Any earnings over 11 percent, the savings are shared 50/50. Well, so, to the extent the Company achieves savings, those results will be reflected in their earnings, whatever the savings are. So, going forward, if they achieve more savings, they get those. We, because, again, under the Five Year Plan and the earnings sharing mechanism, we don't have to separately track those. They will be whatever they will be. Now, after the end of the Rate Plan, any calculation of the Company's earnings, there will not be -- the savings will be totally reflected in there. So, when we calculate the Company's earnings and say we wanted to recalculate rates, all of the savings will be reflected in the bottom line, and that's what rates will be set on going forward. So, from there on, it's like a strict cost of service.

A. (Gerwatowski) Could we just add something a little bit to that?

A. (LaFlamme) Yes, just to clarify a little bit, and I agree with everything that was said, I think the main distinction between the gas and the electric side is that, to the extent that Granite State next changes its rates after the Rate Plan Period, which is the Five-Year Period that has, you know, limited changes, and we clearly are not coming in for a base rate change or base rate increase. After the Rate Plan, those five years, if Granite State or when Granite State changes its rates, there is no allowance for savings. So, 100 percent of the savings that would be embedded in the cost of service at that time, 100 percent of it goes back to customers. And, that is really the major distinction. On the gas side, because we're providing them, the customers with an upfront credit for 50 percent, until the second rate case, when we do a second rate case that actually has the savings in it, the Company is allowed to add back its 50 percent share. So, ultimately, the -- on the gas side, your cost of service for the ten year period, or until a third rate case is filed, really represents your cost of service, plus 50 percent of proven savings. On the electric side, the Rate Plan for the first five years, the Company captures its share of savings for the period after the Rate Plan, when rates change, customers capture 100 percent of the savings.

Q. At this point, I'm going to move on with my questions. We can certainly come back to the subject, if they want. But can the Joint Petitioners comment on the size of the market premium that is represented by the purchase, the acquisition cost for this transaction?

A. (Laflamme) I could comment on that clearly. I believe. In the testimony of Mr. Cochrane, and I certainly don't profess to be a finance expert, but I think there was an exhibit or several exhibits that actually mentioned the size of the market premium, and there may be a footnote in there to suggest there was a 16 percent market premium. And, really, I think the intent of that discussion in the exhibits was simply to indicate that the size of the market premium that National Grid was paying for KeySpan was well within the range experienced by other major merger transactions.

Other than that, I'm not sure how important the market premium is in a regulatory environment. Clearly, the market premium is a premium above what the price of the stock was trading at at some point in time. It does not attempt to value the amount above book value, which really is what the rates are set on. And, actually, that is what of a moot point in this transaction as well, because both the gas plans and the electric plans have agreed not to seek recovery of acquisition premium.

Q. Just to keep going on this subject, is the source of funds that is used to finance the merger, where is that coming from?

A. (Laflamme) The cash transaction, which I believe is $7.2 billion or thereabouts, based on $42 a share offer, will be financed with debt at the parent company, National Grid PLC level, with no recourse to the operating companies. So, none of that debt will be pushed down to either EnergyNorth or Granite State. It will be all financed by the parent company.

Q. And, I have probably one last question, but, if the Settlement Agreement is approved, how will the rate changes for Granite State be implemented?

A. (Gerwatowski) When the Commission approves, assuming the Commission approves the Settlement, 30 days from that date we will, within that time period, within the 30 days, we'll file compliance tariffs, prior to the date that they go into effect. Then, the rates would go into effect 30 days from the issuance of that order.

But we get the compliance filing in before then, so they can review the tariffs and make sure they're consistent with the Settlement, which has some exhibits which support how we're going to calculate the rate reduction.

MR. DAMON: Okay. I have no further questions. Thank you.

CHAIRMAN GETZ: Thank you. Ms. Hatfield.

MS. HATFIELD: Thank you.

BY MS. HATFIELD

Q. Mr. Gerwatowski, I just have one question for you. In your joint testimony, on Page 6 of 42, and you testified to this previously, about how the $2.2 million rate reduction would work for Granite State customers. And, I'm wondering if you could just give us a little bit more information about the impact on the average residential customer's bill resulting from that rate reduction?

A. (Gerwatowski) Sure. Ultimately, after the two phases of the reduction are in place, as of January 1st, 2008, the total bill reduction for the typical 500 kWh residential customer would be approximately 2.6 percent.

Q. Thank you.
A. (Gerwatowski) And, there are some -- that's on a total bill. There are some, in the settlement itself, there is an exhibit which provides a rate impact for the first phase. And, the total -- the total reduction on the distribution, although this is not a bill impact, is 9 percent.

MS. HATFIELD: Thank you.

CHAIRMAN GETZ: Mr. Sullivan.

MR. SULLIVAN: Thank you. I will direct my inquiry to the panel as a whole. And, to the extent that you need some help from somewhere else, feel free to say so.

BY MR. SULLIVAN
Q. My first issue, and my primary issue, if you will draw attention to Page 99 of 117 pages of this proposal. It's Section (I), has to do with the "Marking of Underground Facilities". And, whoever would like to field this question, would they explain the rationale for guaranteeing the use of in-house personnel for any time period, relative to mark-outs?
A. (Gerwatowski) I could start from the Companies perspective. The rationale was to please the Staff, who asked for it. So, they asked for a commitment

regarding that issue, and this is what we offered.

Q. And, I guess, do we have an agreement that there is a safety issue requiring the use of in-house only or is that just a concession?

A. (Gerwatowski) No. No, that's not an agreement that there's a safety issue. I think it is a concession that, to the extent that anyone here in New Hampshire had a safety concern, we had -- we were establishing a mechanism where that safety concern could be addressed.

Q. And, potentially, isn't one of those mechanisms to come, before you come in to do business in this state, to address those concerns and show us how it is that your proposals would be safe and not result in a degradation of service?

A. (Gerwatowski) Well, I would agree with you if, on day one, we were planning on breaking from our usual practice in New Hampshire. But, in this instance, we're proposing not to break with our past practice for at least two years, and maybe even longer. And, the provision really is only saying that, if, for whatever reason, the Company believes that it would like to change that practice, there is a process set up to notify the Staff well in advance, and, if there are concerns, get it addressed.

Q. Am I correct that, on the gas side in New Hampshire, and I think I am correct, that the in-house personnel for marking is -- that's the way it's always been, but that National Grid, they almost exclusively use outside contractors to perform this?
A. (Gerwatowski) I'm not sure that that's a fair statement, because there's a difference between electric and gas practices. And, so, I don't know whether you're distinguishing electric and gas.
Q. Does -- Well, with regard to gas, that's my concern, and gas in New Hampshire, I am concerned with the -- an outside company not used to dealing with underground facilities being able to demonstrate at any time how it can be safe or at least as safe as it is now. Does anybody know what National Grid's ultimate policy is relative to underground gas?
A. (Gerwatowski) Well, when you say "what is National Grid's underground policy?", there's a different practice in the various states. And, we honor what the regulatory environment would, you know, prefer or allow. And, we have different practices that are occurring in the different areas of our both prospective and existing service territories.
Q. I have seen that there's been a reference to this

merger -- Mercer group, and there's been integration teams. And, my question is, has any of the Joint Petitioners identified any criticisms of the current in-house marking program relative to accuracy or safety?

A. (Gerwatowski) I don't know the answer to the question, whether there's anything that's been identified in that regard.

Q. Does anybody know?

A. (Frink) Well, the Staff isn't one of the Petitioners, but the Staff is very satisfied with the marking out of EnergyNorth's lines to date. They have a good history. And, Staff asked for this, this piece of the Settlement, to ensure that it would continue. And, we don't -- for EnergyNorth, we can't compare it to what the results have been for using outside contractors for it. But we do know that the current practice works very well. So, until the -- EnergyNorth has always had the opportunity to, as far as the Commission is concerned, could have gone to outside contractors. There's nothing to prohibit it from doing that here at the Commission. But, again, based on the history of EnergyNorth's mark-outs, we would rather not see a change. We have a good history there that we're comfortable with. It's not to say that something else wouldn't be appropriate, but they're going to have to demonstrate that it would be.

Q. And, perhaps, in following up on that, isn't it more efficient to deal with that contingency now, prior to letting them in and conducting business here as a joint company?

A. (Frink) Well, that's the -- it's not really ripe, that issue hasn't come before us yet. You know, again, the evaluation wasn't done to see what the impact might be from going to -- using outside contractors. Until they propose that type of a way of marking out their lines, it's really not the time to address it.

Q. In terms of them addressing the joint proposal and talking about how they're going to maintain the level of service or whether the proposal will not result in a degradation of service, how can we say that we've addressed that issue without talking about that issue now?

A. (Frink) Well, we know, for two years, there won't be a change in how they mark out lines. So, there will not be any change in that component for at least two years. At the end of two years, they may or may not propose some change. And, if -- we don't know at this point, because we haven't really looked at it, as to whether that's going to be a degradation of service or not. If the Company comes forth and says "we prefer to use outside labor for this", they would have to demonstrate to us that that would be as safe and as cost-effective. There's a lot of things that would go into it. But they haven't made that proposal. Just the opposite, they have agreed to not make any changes at this point in time.

Again, they're not -- there's no degradation of service, there's no change in how they're doing things, at least for two years. And, in two years, if that's something they want to do, then we're going to have to consider it. And, at that time, we would look at it and see if it would result in a degradation of service. But, again, until it's actually been proposed, put forth, it's kind of tough to evaluate it.

A. (Gerwatowski) May I also add something here? I don't believe this is a merger issue, because we're not coming in as part of the merger proposing to change anything. The question of whether EnergyNorth would hire outside contractors preexisted the merger petition. What we've done by this merger is, in fact, made a commitment that didn't exist before. And, so, it's not really a merger-caused issue, I guess is what I'm trying to say.

A. (Frink) And, I would back that up. Absent the merger, there's no reason at all EnergyNorth couldn't come in tomorrow, as far as the Commission is concerned, and -- well, it could actually implement that change without even coming to the Commission. So, whether there's a merger or not, there's -- there could be a change in how they do the mark-outs. It's not -- That's not our role. We'll look at the safety and the results of that transaction, but typically we're not that -- that's the Company doing their business.

Q. Anyway, again, when we talk about the series of mergers, and I see this as Part 2 of the gas company, and we're talking and trying to find ways to stave off degradations in service, why isn't it appropriate to deal with it now, rather than through some unknown mechanism down the road? Let me follow that with, how could there not be a degradation of service for someone who has tipped us off as saying "we're looking at outside people to come in and work on an in-house facility and in-house pipes"? How is that not a degradation of service issue?

A. (Gerwatowski) You asked the question, Shawn, that, you know, "why isn't it something that we should be looking at?" I mean, let's just assume for the moment that we all decide "let's have litigation over this". Well, the Company's position is, we're not proposing to do it, but we want to defend the practice, even though we're not proposing to do it, just in case we decide to do it three years from now, and that's what we'd be litigating. And, that just seems completely inefficient. And, so, I think that the answer really is, we'll agree to two years, and there's a process set up to litigate it, if it ever is necessary, because we're not even proposing to do it. And, so, I think that's really the answer that I would give to the question.
Q. Now, in two years, my in-house people, who have worked on this for -- the system has been around for probably over one hundred years, and have that inside institutional knowledge, and sometimes that's the only way that they ever get things done, when it comes to determining mark-outs. Now, in light of the fact that we're going to be working on our facilities and knowing where the pipes are going and covering them, how could you ever hope to catch up to the growing gap in our

institutional knowledge? When is that ever going to be something that's close to even?

A. (Gerwatowski) I'm not sure that I understand the question, perhaps because I'm not close enough to the details of how it works.

Q. And, in terms of efficiency, if we -- aren't we just earmarking a subject for litigation down the road, when we should be using our administrative, legal, time resources to resolve the issues now?

A. (Gerwatowski) I tried to answer that question a couple of questions ago.

Q. And, can you answer those questions now, in terms of the relative level of service that outside versus in-house people do? Can you answer that today?

A. (Gerwatowski) Not until we have a concrete proposal on what we would be proposing to do in New Hampshire. I don't want to try to get what sounds like a circular thing again, okay. In the absence of having something concrete in front of us, there's nothing for us to be proposing and litigating.

Q. All right. And, can you --

MS. BLACKMORE: At this point, I think I'd like to just raise an objection to continuing the discussion, in terms of raising issues that we've already heard from the panel are not really ripe for discussion, in terms of safety. We are not making a proposal at this point. So, I don't think it's relevant to discuss hypothetical situations about how or whether it will be safe to make such a change at this point.

CHAIRMAN GETZ: Well, I got the impression, Mr. Sullivan, you were about to move on to a different question. Was I correct?

MR. SULLIVAN: I was pretty well done at that point.

MS. BLACKMORE: Okay.

MR. SULLIVAN: So, that would make the objection moot, but I do appreciate it. And, the only other thing I'd like to do is just take an opportunity to speak with Mr. Spottiswood, who is here, and has sponsored some testimony himself, to see if there are any follow-ups that he has to the questions that I've asked.

CHAIRMAN GETZ: Take a second, please.

(Atty. Sullivan conferring with Mr. Spottiswood.)

MR. SULLIVAN: I have no further questions at this time.

CHAIRMAN GETZ: Okay. And, my understanding then is that Mr. Spottiswood was going to take the stand, is that correct?

MR. SULLIVAN: Yes, he has some prefiled testimony that he'll be speaking in support of, and it's along the same lines as my cross-examination questions. At the Board's convenience, we'll take that --

CHAIRMAN GETZ: I just wanted to verify that that's where we were headed.

CMSR. BELOW: Yes, I have some questions.

BY CMSR. BELOW

Q. I think in Mr. Laflamme's, maybe it was Mr. Gerwatowski, made a comment early on that the "service company allocation formula for KeySpan was more robust than that for National Grid." Could you elaborate on that? How is KeySpan's allocation formula more robust?

A. (Laflamme) Yes. Simply stated, they use a three-prong allocation process. So, within their -- within their family of companies, they take a look at revenues, O&M expenses, and assets or investment, to determine what the individual company allocation would be, for predominantly A&G expenses, items that can't be either directly charged to a particular company because somebody in the Service Corporation is actually working on a KeySpan Energy Delivery New York item or a Long Island item or a Boston Gas item.

The National Grid methodology is a one-tier allocation process. So, it simply looks at O&M. I think both Companies feel that the use of a three-prong approach actually is a better indicator for the relative size of all the Companies.

Q. And, "A&G" is "Administrative and General" costs?

A. (Laflamme) That is correct.

Q. Okay. On the gas rate, Merger Rate Agreement, on Page 87 of 117 of Exhibit 3, just to be clear, the Settlement -- the Rate Agreement Settlement requires the Company, in this case EnergyNorth, to make a rate case filing within six months of the merger closing date, correct?

A. (Witness Laflamme nodding affirmatively)

Q. But it also requires that, as part of that rate case filing, the Company will request temporary rates that would not begin, not commence until a minimum of 12 months after the merger closing date?

A. (Laflamme) Correct.

Q. And, so, the effect of that, say, hypothetically, the rate case filing was three months after the merger closing date, temporary rates could not -- new temporary rates could not go into effect for at least, well, nine months later from the rate case filing, 12 months later from the merger closing date. And, it's that provision that fixes rates for a minimum of 12 months after the merger closing date?

A. (Laflamme) That's correct.

Q. Correct. Okay. Okay. As you may or may not be aware, the day before this Settlement was filed, on May 15th -- 14th, this Commission issued an order of notice in DE 07-064 regarding rate mechanisms for energy efficiencies and an investigation into the merits of instituting for electric utilities appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing the obstacle to -- obstacles to encouraging investment in energy efficiencies. And, that's an investigation at this point, we haven't even had the prehearing conference on that yet. But I have some questions as to both intent and effect of the Settlement Agreement with regard to possible matters that might be investigated and considered in that other proceeding.

And, I guess the first question -- And, this is really for all three parties to the Settlement represented here. And, the first question is with regard to intent. Was there any explicit discussion or consideration of things like possible revenue decoupling mechanisms in the settlement discussions and how the Settlement might or might not bear on those future possibilities?

A. (Gerwatowski) May I start? We did not have a specific discussion about decoupling, per se. But what we did try to anticipate was that the Commission would take actions in its normal course that would affect the Company. And, there's an intention that the "Exogenous Event" provision of our agreement could be implicated, such that, just hypothetically speaking, if the Commission adopted a decoupling order, and we have various options, obviously, it could take into account long-term plans or it couldn't, like you say "you have to do it tomorrow", we would look to the Exogenous Event provision and determine what kind of an impact that would have on the expectations that were embedded in the agreement. And, then, we'd be sitting with the Staff to try to figure out a way to adjust around it and take that into account, provided the $100,000 threshold is met.

By way of example, if we were removing, the Company today might be looking -- have agreed to the arrangement based on a traditional load forecast and what we've been seeing for load growth, and that's a part of the reason why we're able to agree to a long-term plan. If we had to start decoupling tomorrow, so that you couldn't, so that you'd be locked in, you'd have to factor in something maybe up front to take into account that our revenues are decoupled from what actually happens when you do energy efficiency, and we'd be in a discussion about the application of the Exogenous Event provision.

So, I don't think there's anything here that precludes the Commission from ordering decoupling in any context. I think that it's covered by that provision, as far as taking into account what was its impact on this settlement.

Q. Mr. Mullen?

A. (Mullen) I would say, from Staff's perspective, revenue decoupling was not particularly discussed on its own, in terms of the effect of these provisions or the intent of these provisions. There's more of a discussion in terms of certain types of things that are outside the Company's control and how it could affect it. And, I think, as I mentioned in my testimony, it's kind of a risk-sharing for Granite State to, you know, go forward for five years and have just limited opportunities to adjust its rates. This is a way of dealing with some of the things that are beyond its control. But, you know, we didn't specifically talk about "revenue decoupling". It's something that I suppose, depending on whatever happens in that proceeding, could fall under one of these provisions, but that's about the extent of that.

Q. Mr. Traum.

A. (Traum) And, I would agree that, certainly, in my eyes, revenue decoupling was not on the table at the point when we were negotiating this. In terms of whether or not it could be shoehorned into one of the Exogenous clauses, that's something that I think we reserve judgment on at this point in time. And, certainly, in revenue decoupling or any approaches to incent more energy efficiency, there are different ways to look at it. And, in all likelihood, this panel won't be in complete agreement when we get to that.

Q. Okay. Well, to take this a step further, that helps to clarify intent, but let's dig into the effect a little bit more. Because just observing the document, there's a couple of things that could bear on this. Page 19 of 117 of Exhibit 3, the provision says "the distribution component of Granite State's rates shall be frozen from the effective date through the end of the Rate Plan Period." That's with a couple of, you know, conditions that precede that. And, then, on Page 25 of 117, under (D), "Traditional Cost of Service Rate Making After Rate Plan Period", states "After the Rate Plan Period", this is somewhat parse, but "After the Rate Plan Period, distribution rate changes may occurred under traditional cost of service (COS) principles", and it goes on and says "As such, the Company is permitted to file a COS rate case to change distribution rates effective January 2013."

And, then, on Page -- the next page, 26 of 117, Item (3), "Revenue Neutral Rate Design", there's a statement that "Nothing in this settlement shall preclude the consideration of a request with the Commission to make distribution rate design changes that are revenue neutral to the Company."

A few sort of observations, and then the question. Does the effect of the language about the "cost of service principles" imply that -- that after the Rate Plan Period, that rate changes would only occur under traditional cost of service principles, which may, you know, part of which may or may not be fully applicable under some mechanisms for energy efficiency. And, also, the revenue neutral rate design changes, some decoupling type mechanisms may have an effect of revenue requirement neutrality, at least in some rough way over some period of time, but it may or may not result in revenue -- rate revenue neutrality, rate neutrality -- or "revenue neutrality", I should say, over shorter periods of time or even longer periods of time. I mean, there's, you know, various permutations.

And, so, you know, I guess the question is, is the effect of this possibly to preclude either during the Rate Plan period, which is a Five-Year Period, or even possibly to some extent beyond that, to constrain how distribution rates are set, in a way that might preclude some decoupling type mechanism?

A. (Gerwatowski) May I take that, Commissioner?

Q. Yes. And, I'll add one more thing to consider as you respond. When I read over the Exogenous factors, I didn't see anything there that would obviously accommodate some of the concepts that have been implemented in other states, for instance, because it talks about a "state-initiated cost change of more than $100,000" or a "reallocation of costs among supply, transmission, and distribution". And, as the order of notice points out, it's these kinds of rate mechanisms are more geared towards trying to weaken the link between sales volume and profitability or meeting revenue requirements.

A. (Gerwatowski) I think, in the first instance, the reference to the "traditional cost of service ratemaking" after the plan, that is not intended to effect, in any way, a revenue decoupling, which I would see as a rate design issue. I think we were really talking about the difference between being able to file a traditional revenue requirement and getting a rate adjustment. So, I can state flatly that, when the Rate Plan is over, there is nothing in there that has any impact on or is affected by a revenue decoupling order that requires a new rate design.

And, I think one thing that is fundamental that I don't think actually presents an obstacle to the Commission for revenue decoupling, but it's important to have in mind here is that, in agreeing to a Five Year Rate Plan, we absolutely took into account the history that we have had on the load growth, because that does help, help a company avoid a rate case. You know you're going to get additional revenues in. And, so, when we agree to a Five Year Rate Plan, we absolutely internally looked at what the history has been for load growth and said "This is okay. By the combination of the savings and the load growth that you'd expect to get in the Granite State territory, we can operate our business fine with that expectation."

Now, having said that, that doesn't mean that you couldn't implement a revenue decoupling mechanism. I think there are ways to implement revenue decoupling so that we're clearly decoupled from that load growth, but yet make an adjustment to this plan in the context of an exogenous event, which compensates in a way that keeps us neutral from what actually happens within energy efficiency.

So, I am -- I'm trying to, and it's important to recognize what our intentions were, but I also want to recognize that there is no intention here to prevent a new direction that the Commission wants to go in with regard to a rate design issue like that. But, in fact, it was material to us that we would have an opportunity to capture some additional revenue as a result of what naturally occurs in our service territory. I don't know if I've answered your question?

Q. That helps. Just another thing to consider as we get a couple more responses. I think in that order of notice we raised the question of whether such mechanisms or some such mechanisms, like revenue decoupling, would, under New Hampshire law, be an alternative form of regulation that somewhat departs from traditional -- at least some elements of traditional cost of service regulation. We don't know the answer to that, but that, you know, I'm sort of raising the question because it's an open question.

So, Mr. Mullen or Traum?

A. (Mullen) Well, as for the alternative forms of regulation, I guess, you know, it remains to be seen what happens in that proceeding and what potential mechanisms may or may not come out of it. In terms of the agreement here, as Mr. Gerwatowski stated, you know, there was no intent to try and preclude the Commission from being able to go in one direction or anything like that. It was just a matter of trying to determine the risk-sharing provisions of this Settlement Agreement. And, that's how we were going about it.

A. (Traum) I guess I'd break it into two parts. I'd agree with Ron that, at the end of the Five Year Rate Plan Period, the word "traditional" I don't think is one that we have to hang or set our hats on. But, with regards to the Rate Agreement for the five years, one thing that was critical in there was the 9.7 -- 9.67 percent return on equity. And, that's based on the kind of risk that shareholders have under the traditional mechanism or the mechanism approved here. Under a lot of decoupling mechanisms, there can be risks shifted to ratepayers from stockholders. And, if the Commission were to do something on that broad a scale, I think that would be in conflict with the five year agreement we're reaching here.

Q. Okay. Another question to consider, well, is on Page 12 of 117, one of the provisions of the Settlement Agreement is, under VI(1), is that "This Settlement is expressly conditioned upon the Commission's acceptance of all of its provisions, without change or condition." If the Commission does make any changes or conditions, I'm paraphrasing here, then any of the Settling Parties -- that any of the Settling Parties and Staff do not agree to, then the whole thing can be sort of void.

So, I guess, you know, a question to consider is whether some harmonizing with this other proceeding might be something that the parties might consider as a possible condition or even amendment to the Settlement Agreement? Just, I mean, I'm speaking just for myself in the hypothetical, but because we do have this other proceeding where there does appear to be potentially some conflict.

A. (Gerwatowski) Do you mean that the parties would convene another negotiating session, taking into account the decoupling proceeding and then offer something to the Commission on what the effect would be on the agreement if, in fact, there was a decoupling order, is that what you mean?

Q. Potentially, yes.

MR. DAMON: Could I request a brief recess, so that at least the Staff could talk with the Staff witnesses about this point? This is an extremely important question, and one that we really haven't come in here prepared to answer in detail, at least from the Staff's witnesses' point of view.

CHAIRMAN GETZ: Well, let's see, want to move onto some other questions, and then, when the Bench is done with its questions, that maybe a good time to take a brief recess to discuss these.

CMSR. BELOW: I appreciate that. I'm

putting people on the spot that's beyond where they want to be on their own.

BY CMSR. BELOW

Q. One more question. In Mr. Mullen's, in your testimony, on Page 4 of your prefiled testimony, you expressed -- you expressed the concern that "Staff had observed over earnings for the calendar year 2006 amounting to over $2 million for Granite State." And, then, you went on the next page, on Page 5, you started to describe the "2.2 million annual distribution rate reduction". Would it be fair to say that there's some rough justice between those two numbers? That there's the agreement on the reduction in distribution rate reflects in part some attempt to create some rough justice as to an apparent overearnings situation?

A. (Mullen) Yes, that's a fair statement.

Q. Mr. Traum? Mr. Gerwatowski?

A. (Traum) I would certainly agree with that.

A. (Gerwatowski) Yes. Yes, that's right.

CMSR. BELOW: All right. Thank you.

CHAIRMAN GETZ: All right. First of all, thank you, Mr. Damon and the panel, for following up and explaining more, in more detail, the "cost to achieve" issues. I just have two issues I wanted to pursue.

BY CHAIRMAN GETZ

Q. First, for Mr. Mullen and Mr. Traum, with respect to Granite State Electric and the -- and I guess it's two questions. The first is, would it be fair to conclude that the introduction of these Exogenous Event provisions would typically have the effect of reducing the risk that a company would face in earning its allowed return?

A. (Mullen) Yes. There's some risk reduction there, yes.

A. (Traum) I would agree with that, recognizing this is a Five Year Plan, and it's symmetric and it can also go the other way.

Q. And, is it your position that, even in light of that reduced risk or in correlation to that reduced risk, that the 9.67 agreed upon return on equity is a reasonable return in relation to those risks?

A. (Traum) For this kind of a plan, yes.

A. (Mullen) I would agree. And, again, I would repeat what Mr. Traum just said. The Exogenous Event clauses work two ways, if the costs are going up or if costs are going down.

Q. Okay. Thank you. And, the other issue was, I guess, for the entire panel. Going back to some -- there were some consumer comments filed on February 21, two filings by New Hampshire Legal Assistance, on behalf of The Way Home and Pamela Locke, and then there was a comment filed by the Community Action Agencies on March 6th. And, I guess the way I would summarize those, those three comments, was that they're asking that at least the existing commitment to the low income energy efficiency programs by KeySpan be maintained. And, then, I guess that they would also prefer that they be increased. And, my question is, during the negotiations, were these comments taken into consideration and what's the end effect of the Settlement Agreement with respect to the issues raised by New Hampshire Legal Assistance and Community Action Agencies?

A. (Traum) Certainly, if I may? Those were issues that were discussed in the settlement talks. And, the Settlement is silent on energy efficiency and low income programs, but the underlying assumption is that the level of activity by the Company is going to -- is not going to decrease. There's going to be no net harm. And, as I had said earlier, we think that the combination of the two companies is going to increase the expertise and potential efficiencies of providing these kinds of programs, which is we expect will be a net gain.

A. (Mullen) And, if I could just add on the electric side, one thing the low income customers, along with all other customers, will be getting is a significant rate decrease, too. So, that can't be forgotten either.

CHAIRMAN GETZ: Okay. Then, I guess before we allow opportunity for redirect, we'll also allow -- take a recess so the folks can discuss the issue of the effect of the decoupling or the effect of this merger agreement on potential actions that may occur as a part of docket 07-064. So, we will take a brief recess. Thank you.

(Recess taken at 3:01 p.m. and the hearing reconvened at 3:21 p.m.)

CHAIRMAN GETZ: Mr. Damon, do you have something to report?

MR. DAMON: No. But, if Commissioner Below could continue his line of questioning, we'd be prepared to answer that.

WITNESS GERWATOWSKI: I was nominated to make a comment on behalf of the parties, --

CMSR. BELOW: Okay.

WITNESS GERWATOWSKI: -- if that helps?

CMSR. BELOW: Sure.

WITNESS GERWATOWSKI: And, I hope I can do it justice. I'm sure they will chime in if I don't have it precise enough.

A. (Gerwatowski) But we convened and discussed the issues you raised, which are very important ones, they're good questions. And, here's how I would frame where we are. First of all, this was a very complex and delicately negotiated agreement, with many, many components. And, while it looks like you can read the electric side independent of the gas side, there were trade-offs that were going on in this negotiation that are really hard to go and try to redo in another context. So, there's a reluctance on our part to want to try to go off and renegotiate.

Secondly, I think we're all in agreement that the Commission is not precluded from moving forward, this agreement is not intended to preclude the Commission from issuing a decoupling order and require Granite State to decouple revenues in some way. However, there are many variations on that theme that could take place and there are many different mechanisms that could be imposed and -- or made a part of the regulations or regulations could take into account long-term plans. It could decouple revenues and have other lost revenue mechanisms associated with it. And, so, there are a various range of outcomes that could occur, some outcomes that would have really no impact on the benefit of the bargain that was negotiated, others that could, that may trigger exogenous events, which then we would have to go back, as parties to the agreement, look at it, and sort out how to come back and make a proposal to make an adjustment. But it's far uncertain as to whether we would even get to that point.

So, where we are is we think we have an agreement which was written, has taken into account, not necessarily revenue decoupling, but the possibility that the Commission could have any kind of docket to change regulations. And, we would prefer to leave things as they stand and commit that this doesn't preclude the Commission from delving into this area and requiring decoupling. We just need to see what the ultimate outcome is at that time to determine whether it triggers provisions in this agreement which would have us come back and make some adjustments regarding the benefit of the bargain.

Hopefully, I've stated that accurately enough.

A. (Mullen) I would just agree with Mr. Gerwatowski's statement.
A. (Traum) I think I'm going to agree also. The docket that's been mentioned, it only came out -- the order of notice only came out after the parties in this Merger Agreement had spent countless hours in negotiations. Remember, this was filed, I believe, back last August, and the agreement was basically reached before the order of notice even came out. And, then, even the order of notice is, I think, is much broader than decoupling. It's to look at rate mechanisms for energy efficiency. And, that could mean many things, as Ron has alluded to, that may or may well not have an impact on this Settlement Agreement. So, would rather just hold off and say, you know, we'd appreciate the Commission approving the settlement document as is.

CMSR. BELOW: Okay. Thank you.

CHAIRMAN GETZ: Is there anything in the nature of redirect or additional questions for the panel?

MS. BLACKMORE: No, I don't have any redirect. But I would just like to point out that Exhibit 6 is not actually confidential, even though the actual paper says "confidential" on it. At one point in time that information was being kept confidential, but I think it's been released now.

CHAIRMAN GETZ: Thank you. Well, then, if there's nothing else for the panel, then the witnesses are excused. Thank you very much. So, Mr. Sullivan, if Mr. Spottiswood could take the stand and you could conduct your direct please.

MR. SULLIVAN: Yes. Thank you.

(Whereupon Kevin Spottiswood was duly sworn and cautioned by the Court Reporter.)

MR. SULLIVAN: With the Board's permission, if I could stand while I do this?

CHAIRMAN GETZ: Please.

MR. SULLIVAN: I'm much more comfortable.

KEVIN SPOTTISWOOD, SWORN

DIRECT EXAMINATION

BY MR. SULLIVAN

Q. Mr. Spottiswood, would you give us your full name please.

A. My name is Kevin Spottiswood.

Q. And, in what capacity are you here on behalf of the union?

A. I am speaking on behalf of -- I'm Unit Chair for Local

12012-3.
Q. And, about how many union members does that comprise here in New Hampshire?
A. I'm sorry, it's around 65 members.
Q. And, what is your -- who do you work for?
A. I work for KeySpan.
Q. And, what is your title?
A. I am a Street Technician, MSF A-Technician, Foreman.
Q. And, for those of us who may not know what you actually do on a day-to-day basis, explain what your job is within KeySpan.
A. I've been at KeySpan for 17 years, and I'm a foreman of a crew. We respond, we respond to emergencies, do mark-outs, do installations of that sort. So, there's a multiple of jobs that we do out in the field.
Q. Have you, yourself, performed or observed any mark-outs of underground gas pipes?
A. Yes, I have.
Q. And, in conjunction with this proceeding or this docket, have you prepared any written testimony?
A. Yes, I have.

MR. SULLIVAN: And, if I could, if the Board would accept my prefiled testimony as marked for ID, and I think it's Exhibit 9.

CHAIRMAN GETZ: It will be so marked.

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

MR. SULLIVAN: Thank you.

BY MR. SULLIVAN

Q. Mr. Spottiswood, I'm going to draw your attention to the portion of the Settlement Agreement that references the marking of underground facilities. Do you remember that section?

A. Yes, I do.

Q. Would you explain, in terms of the effect of that section on the overall Settlement, where do you stand, in terms of opposed or in agreement, with the overall Settlement?

A. Well, I'm opposed to outsourcing mark-outs, as you may expect. I think, when it was first proposed, it was proposed as to keeping it in-house, and it wasn't proposed by the union, and it was proposed by the Staff. We agreed with that. We liked that. And, then, the Company came back with a two-year limitation before they could come to the table and talk to the union, but they could come to the -- and they had to notify the Staff six months prior to that.

Q. Now, Kevin, if I could, just to give some context to this, exactly what is the -- what do the in-house marking people do?

A. Well, in the New Hampshire area, there's six, six to seven people that mark out facilities on a, you know, weekly basis. Everybody can do it, everybody's trained to do it. But, on a weekly basis, their job title is the six or seven in that crew that receive mark-outs or damage prevention notices via computer, and they go out and mark out the facilities for contractors or homeowners or whoever else that request a mark-out.

Q. And, what are the safety issues that you're concerned with?

A. Some of my concerns are, in that crew, I mean, we average probably 15 years of experience in the Company. You know, in some situations, it's very cut and dry, you go out there and you tie onto a service and you can mark out a service, sometimes you have to mark out developments, you know, miles of main or services and whatever. But there's a lot of instances out there, and, remember, where you have a one hundred plus year old system that, you know, records aren't -- we don't have the records, you know, tracer wire isn't there. There's a lot of unseen situations that arise during the day that you have to either, you know, rely on your experience or, you know, you have to take some extra time to investigate and to actually -- to get the mark-out done correctly. There's a lot of unseen circumstances out there due to, you know, errors in the system, errors in operation, or whatever that we come across that we have overcome.

Q. Have you had an opportunity to observe mark-out personnel from other utilities in action?

A. I can only -- I've been associated with some of the other guys, but it's only electric and cable. Nobody that I know of or have I ever seen have done mark-outs for gas. And, they do have situations, I know, like this past week, we did some mark-outs or we do -- we call in some DigSafes for our work, our nonemergency work. And, one of my concerns, and it happened this week, is the company that we called to do the mark-out for us or that does the electrical mark-out or whatever, actually called us back and asked us to put off our jobs, because they didn't have the manpower to get the job done at this present time. So, they asked if we could postpone our work so they could catch up on theirs. And, I kind of found that as being kind of odd.

Q. One of the things that you probably heard discussed during the cross-examine portion was that the notion that we could deal with this issue in two years or so, do you remember that?
A. Yes, I do.
Q. What concerns do you have about addressing this type of an issue two or more years from now?
A. I don't know where "two years" ever came from. I guess it was the Company proposal on the -- keeping the mark-outs in-house. And, I guess my concern would be, or I guess it's funny that, the way I look at it is, it's a very integral part of our business, you know? And, I've never used this forum as a union company forum. I've never asked for wage increases or bodies or anything like that. I'm speaking on behalf of safety and safety only. The Company is willing to invest a lot of money to increase their response time, bodies, supervisors, equipment, the whole nine yards. They're willing to invest money and putting new pipe in the ground in excess of what we've done in the past. And, I don't know why they can't commit on this or to say for a longer period of time, when there's no money involved, as part of start-up costs, it's there. We do it today. And, I have a hard time with that. I really

-- I'm not sure why that is.

Q. In terms of the actual head-to-head match-up, do you anticipate two years from now that there will be any significant changes in mark-out procedures or technology?

A. If there is, great. Super. We've, you know, we do -- you know, technology changes all the time. We conform with the technology. If something is out there that's better, you know, they bring it to us and we use it, we do it, and we accept it. So, I don't know why technology would prevent us from doing it. We change with technology on a consistent basis.

Q. In the future, if a docket ever were to be opened on the issue of mark-outs, do you intend to be involved?

A. Yes, I do intend to be involved.

Q. Can you envision any circumstances where the outside contractors would have access to some technology or knowledge that you don't have access to?

A. I would hope not again. I would hope we would be given the same ways and means that they would be given. Like I said, I think we can do the job and do the job better. There's people that have been doing it for year and years and years. I'm not sure how I'm going to be -- I would be hard-pressed to be convinced to

have somebody come here that hasn't done our system before, and that somebody can do a better job than I could for being here 17 years. I take my job serious. There's a lot of prep work in doing that type of work. We were merged through three companies prior to KeySpan, the Eastern Enterprises, there's three divisions, records were different in each division. So, there's a lot of differences, and somebody would have to really, really do a lot of convincing to show me and to prove to me that it would be better, not cheaper, but better for safety sake.
Q. Do you use gas in your own home?
A. I use propane.
Q. Do you, on a weekly or monthly basis, handle live gas?
A. Yes.
Q. Is that something you feel should be avoided, if you can?
A. Yes. Yes. Absolutely.
Q. Do you think that, in your own mind, there's any reason to wait for the Commission to address this issue for two years?
A. I don't. I think it's a forum that, you know, like we've done with the other items, you know, the response time, the cast iron and bare steel replacement, I don't

know why we would have to wait. It's a commitment. The Company shows that its safety is the number one priority, and it was shown. And, you know, just for the short period of time that National Grid's been coming into the yards, I truly believe that. So, I don't think we should wait. I mean, that's why I'm here today. I mean, I just think it's a forum, and, like I said, that it was brought up prior to me bringing it up. So, I just don't people to think it's a union, you know, company issue, it's not. It's a safety issue. And, you know, there's no reason that we couldn't address it for the long term, opposed to, you know, putting a window on it.

Q. And, if, during the cross-examination phase, if someone wants to ask you questions about your experiences of in-house marking versus outside contractor marking, are you willing to address those questions?

A. Absolutely.

MR. SULLIVAN: I have no further questions of this witness. I would, however, move to strike Exhibit 9 as ID and move it as a full exhibit.

CHAIRMAN GETZ: Okay. We'll address all of the exhibits at the close of the proceeding.

MR. SULLIVAN: Very efficient. Thank

you.

CHAIRMAN GETZ: Ms. Blackmore?

MS. BLACKMORE: I have no questions for the witness.

CHAIRMAN GETZ: Mr. Damon?

MR. DAMON: Yes, just one.

CROSS-EXAMINATION

BY MR. DAMON

Q. Mr. Spottiswood, the Settlement Agreement, starting on Page 96, contains a number of reliability and safety measures that the Joint Petitioners have committed to adopting, some of them in relation to a merger and some of them independent of a merger closing, actually. And, other than the provision regarding the marking of underground facilities, do you feel that these other provisions are reasonable ones to pursue and do you support them?

A. Yes. I think the mark-out issue is something I definitely wanted to pursue. There was a clause still left in there that they have the right. And, as it was pointed earlier, that, if they come to the distribution side of the business, to the production side of the business, or any other type of business, we would have to sit down and negotiate. And, we left that in there.

We didn't, you know, like I said, it wasn't a union company thing. The Bare Steel Program, they're replacing bare steel, that that's a good thing, that's a real good thing. Cast iron, again, that's another good thing.

I think I brought it up in the prior testimony or some of the workshops, that my big concern was some of the people that were doing the job I don't think I had issues with that. I don't think they were as qualified as some of the people as they could have been doing the job, and we've had some instances in the past where, you know, some of the product that's been put in the ground hasn't been put in the ground properly. And, it's near and dear to me, because I'm the one that has to respond to something that was installed incorrectly by somebody that should have been putting it in correctly. I think you guys have addressed that. You've addressed the issue with the supervisors are, you know, the load is lessened for the supervisors. I think the Company is addressing it as far as they're starting to hire some inspectors to go out there and inspect some of the work that's being installed. So, absolutely, I think we're definitely on the right track as far as that stuff goes.

MR. DAMON: Thank you.

CHAIRMAN GETZ: Mr. Traum?

MR. TRAUM: No thank you.

BY CMSR. MORRISON

Q. Mr. Spottiswood, --

A. Yes.

Q. -- could you in enlighten me as to some of the technology involved in finding underground gas lines?

A. Sure. We have old map books that a lot of the trucks contain. There's some in some of the rooms I think on each property. That kind of contains the old system, like the old cast iron system, some of the, you know, bare steel. I think it was last updated in the maybe '90s, '80s or '90s, I'm not 100 percent sure, I apologize for that. But, when KeySpan took over, what we ended up doing was went into a computerized system. What we do now is we'll -- somebody will do a job or somebody will put in a piece of pipe, they will take a record, give it to the supervisor, the supervisor will then pass it, we'll do some casbuilting, and then it will pass down to master records and it will get put into the computer system. And, in order to find, say, 27 Jones Street, you punch it up on a computer, 27 Jones Street, if you've done everything right, will punch up and you can find, you know, the plastic service or bare steel service or if there's any repairs that have been done to this service, if it's been retired.

But our own, you know, and that's -- and then we go out and, I'm sorry, I jump around a lot, but then we'd go out and we also have filing cabinets that we can find there's a paper copy of the records in there. And, then, we go out, we either, if there was a tracer wire there, in some cases there's not, you know, plastic pipe with no tracer wire, you have to use the records that you found. You have to -- If there is tracer wire there, there's instruments that we use that we can tie on to this equipment, mark it out, out to the main, or however many services are on that street or mains are on that street.

But most of our knowledge comes out of our computer system, because, when we go out for calls, that's basically what we have to fall back on. You're out in the field anyways, you get a call, you're not going to drive back to the shop, you're going to go out to the site and do the job that, you know, whatever is requested from you.

Q. So, you've got some -- is there a system on the truck

or in your group that allows you to link remotely up to a computer system, it tells you about the site as best it knows?
A. Yes.
Q. Do you have any kind of technology that peers into the ground and can find a pipe that's used?
A. Peers into the ground?
Q. You know, looks into the ground?
A. No. Not to my knowledge anyway. What you do is, you have a locator.
Q. Uh-huh.
A. If you can locate -- If you can find a piece of the pipe, if it's steel, --
Q. Yes.
A. -- you can attach a positive ground to it, and negative ground, you ground somewhere, and you can actually transmit an FM signal through that pipe and you can locate underground.
Q. Okay. So, that's how you do it, through an FM signal?
A. Through an FM signal.
Q. Now, when you bring in -- when you replace a pipe or when you find a pipe that previously you didn't know was there, does that get put into a global positioning system?

A. No GPS. No.
Q. No GPS?
A. No.
Q. So, it's that low tech?
A. At this point, it's low tech. And, granted, that's, you know, for the last 10, 20 years, we put tracer wire over plastic. But then there was a spell in between that we used -- we didn't use wire, we used metallic tape.
Q. Yes.
A. If that metallic tape is now corroded, it doesn't send a signal, you can't transmit an FM signal through a plastic pipe.
Q. Sure.
A. So, you know, you're against the odds there. Or, if you have a record, that's good. Or, if that record has been updated, that's good. But that doesn't always happen. That's the problem. There's a lot of instances out there where that record may not even be in existence. You know, there's issues, situations out there where, you know, you go out there blind. And, you --I'm sorry, go ahead.
Q. When was the last time your crew was wrong?
A. Wrong? My crew? I'll be honest with you, I don't do

as much as the mark-out people do.
Q. Uh-huh.
A. I don't know, to be honest with you. I don't know how, if I'm going out to mark out a service to do retirement, I think we'd pretty much be -- I think we'd be right, if I had every ways and mean to find it, and they give us the ways and means and the time to find it. I did mark-outs last week. I didn't get a call this week, so, so far so good.
Q. You didn't see it on the television then.
A. I would see Randy next week, I think, if I was wrong. So far so good.
CMSR. MORRISON: All right. Thank you.
CHAIRMAN GETZ: Good afternoon, Mr. Spottiswood.
THE WITNESS: Good afternoon.
CHAIRMAN GETZ: I just have a couple of follow-ups.
BY CHAIRMAN GETZ
Q. I mean, there's one thing in your testimony, it says that "The proposed settlement would conditionally permit the use of outside contractors to mark out the company's underground gas lines." When you say "conditionally permit the use of outside contractors",

were you talking about the two year provision to come back and ask for permission?

A. Yes. In my -- As I went through this process, I've kind of researched what has happened in some of the other facilities. And, in the Niagara Mohawk merger, mark-outs were privatized, they were given out to an outside contractor. And, that's kind of all I have to go with right now, is, you know, their short history of the mergers. And, I guess that's what I'm concerned with, you know, that it's going to follow us up into the New Hampshire region.

Q. But I take it that you're not concerned about safety over the next two years, because it will be the same six or seven?

A. Right. Right. And, the way we do it is, it's a seniority, it's a bidding process. If a person leaves for a job, you bid for that job, but it's based on seniority. And, so, you know, you get a lot of senior people going this type of work. So, people that have been here, like I said, on average, 15 and 16 years. So, I am not concerned. I think the people who are doing the job right now do a heck of a job. And, we do like 15,000 mark-outs a year, roughly on average. And, I think our hits per thousand, I don't know exactly what they are, but I've been told they've been very, very good per thousand.

Q. So, would it be a fairer way for me to characterize your position is that, basically, you just can't conceive of any possible set of circumstances where outside contractors could do as good a job as inside personnel, so why don't we just acknowledge that now and preclude outside contractors from ever being used for marking out?

A. Yes. Yes. I mean, I know what I went through when I came into this department to learn how to do that. I was very uncomfortable. But I had people to fall back on. I had people that were there for years and years and years to help me, guide me along. Now, I feel comfortable, when a situation arises, I feel I can handle that situation. I don't know where their comfort zone, how long it would take them to get their comfort zone. And, I don't think that we're in a position to, you know, there's -- I don't think we're in a position to let that happen. I don't think we're in a position or we don't have the time for people to become "comfortable" with a system they have never been and seen before.

So, I think that's where I base it on

safety. I just don't think somebody could come in here, without knowing our system, without, you know, that's one hundred plus years old, that could do as efficient job as somebody that's been doing it for 15, 16 years. I just -- I have a hard time believing that that's the case.

CHAIRMAN GETZ: Mr. Sullivan, any redirect?

MR. SULLIVAN: No redirect. Thank you.

CHAIRMAN GETZ: Okay. Anything further for Mr. Spottiswood?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then thank you.

THE WITNESS: Thank you very much.

CHAIRMAN GETZ: You're excused. Is there any objection to striking the identifications and entering the exhibits as full exhibits?

MR. SULLIVAN: No.

CHAIRMAN GETZ: Then, hearing no objection, they will be admitted as full exhibits. Is there anything else that we need to address before providing the opportunity for closing statements?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then, we'll start with you, Mr. Sullivan.

MR. SULLIVAN: Thank you. I feel comfortable that I can just summarize Mr. Spottiswood's testimony, that we can conceive of no rational set of circumstances whereby outside contractor mark-outs would be acceptable to us. We are the people, and Kevin is the person now, I've done it before, who's chased down the live gas lines, found the leaks and the collateral damage and repaired it. And, that's stressful enough.

My feeling is that we're just leaving and creating a loose end, which could potentially unravel the whole bunch. Things that you have heard are that, "well, there's a mechanism we can deal with it. We can put it off for some other day." I don't think that's the right way to do it. You've heard from Mr. Spottiswood that, at least in his sense, that it's the National Grid way to deal with these things with outside contractors in other places it had an issue. And, I think he's quite forthright in telling you that he has appeared in these proceedings and spoken against that from the beginning.

I don't think it's right to open the door, let them in with the promise that "everything will be okay and we'll prove it up to you later." I'm concerned that they have not, have not or cannot prove it up to you now. They have chosen a different tact. I do appreciate the Staff's efforts to put some strings on the merger. But, having them come up and prove something up later on, I don't think that you should just put the stew out there until you have all the component parts to that stew and cook it. I don't think you wait. I don't think it's administratively efficient to give a telltale sign that something is coming down the pike, i.e. the outside contractors, and create a disjointed process for resolving this issue.

I think that the Commission has no greater power to fix and remedy this situation for all time than they do right now. I think the information is available, the technology is available to the petitioners, so that they could make a showing to you that their way of doing things is as good or better than what they're doing now. I did take some measure of satisfaction that Mr. Gerwatowski, he used an excellent phrase that I think is worth talking about, I think his phrase was "trying to do things that are at least as good or better". And, I think that's something that I'd like the Commission to capture and make them tell us that what their long-term plan is or the options they would like available to them is to be something that is at least as good or better. And, the time is now.

I'm opposed to a settlement which is not complete. I'm opposed to a settlement which leaves loose ends. And, I don't see any rational reason why we can't close this out, never have to come back again, never open another docket, spend the money, spend the time, to have a fight, which I think has been raised by this Settlement. I think it's in everyone's best interest to get an understanding of how the Commission demands that you'll do business in this state, and that you work from there. I don't think you do it the other way around. And, I think we're leaving the back door open for a safety issue to creep back in. And, I'd request that the Board not approve the Settlement, reopen at least a limited portion of this to deal with this issue, and then I'll be happy with whatever the Commission has to say on it. We'll all live with it and we'll move on. Thank you all for your time.

CHAIRMAN GETZ: Mr. Traum.

MR. TRAUM: Thank you, sir. I'll be very brief. The OCA supports the Settlement for the reasons that I stated while on the stand. With regards to the Mr. Spottiswood's position, we have deferred to the greater expertise of the Commission's Gas Safety team on this particular issue. Thank you.

CHAIRMAN GETZ: Mr. Damon.

MR. DAMON: Of course, the Staff also supports approval of the Settlement Agreement. I think, in the Commission's deliberations, it would consider the dual aspects of the Settlement Agreement; one relates to the merger and merger contingent aspects and the other relates to the non-merger contingent aspects. And, certainly, for the reasons set forth in Staff's testimony this morning, we think that both the elements of the Settlement Agreement, as to both Granite State and EnergyNorth, are in the public interest and the Settlement Agreement should therefore be approved.

The Settlement Agreement does not require the Commission to adopt the precise standard of review in this case, whether it's a no -- "no harm" or "net benefit" standard. But Staff would argue that the Settlement Agreement would satisfy both standards, and would satisfy that standard both as a whole and with its constituent elements related to EnergyNorth and Granite State as well.

In this docket, in addition to the Staff and the Joint Petitioners, the union participated actively in the technical sessions and settlement discussions, and, of course, the OCA did as well. So, this is a docket in which diverging interests were represented and represented continuously throughout. The process itself has been ongoing since last August, when the petition was filed, and a great amount of discovery was done. And, I think that's reflected in some of the preliminary information that's contained in the Settlement Agreement and some of the testimony. Not only that, but there were lengthy and numerous settlement discussions that had resulted in this Settlement Agreement. So that the process itself I think was extensive, and the circumstances involving the merger, and those that are not contingent on the closing of the merger, were carefully examined.

In terms of the results, I think that the Commission has heard a number of points in support of the Settlement Agreement. On the Granite State side, of course, you have the immediate or near immediate rate reductions. You have the promise of a certain degree of rate stability. You have reliability enhancements that are important to reliability. And, you have the maintenance, in effect, of customer service that should be at an adequate level.

With respect to EnergyNorth, it appears

from the per books analysis that the Company would be entitled to file a rate case immediately. It has agreed in this Settlement Agreement to postpone that in effect for I think a year, effectively up to a year. It does allow for net synergy savings to be reflected in the cost of service. And, this idea of sharing synergy savings, I believe the general concept was reviewed by the Commission in the ConEd/NU merger docket around the turn of the century, and I think the Commission found that that was a possible way to resolve the merger approval in that case.

In the second rate case on the EnergyNorth side, the proven net synergy savings will -- 50 percent of those will go toward shareholders, but they have to be proven. And, again, on the EnergyNorth side, you have the safety and reliability enhancements, the improvements to customer service and response times -- and improvements to the response times as well.

So, this is quite an extensive Settlement Agreement that covers a lot of ground. And, we think that the balance of it protects customers and looks out for the Company's legitimate interests as well.

Now, this morning I asked Mr. Gerwatowski a number of questions about his Company's view towards the importance of complying with local regulatory requirements. And, I was satisfied from his comments that Grid, if it acquires EnergyNorth, will, in fact, take a lot of measures to make sure that that happens. So, Staff is encouraged by that.

One difficulty, I think, in any merger situation, one risk that the customers in the franchise territories have is the loss of local control or the feeling of local control, at any rate, to some out-of-state interest and so on. We don't think, in this case, that that is implicated to any great extent, particularly because the control of EnergyNorth, in effect, went outside New Hampshire back in 2000. And, the Company has committed to have Mr. Sherry be a primary contact person for both the electric side and gas side businesses. And, we think that that should help alleviate concerns in that regard.

Regarding the mark-out issue, yes, the Settlement Agreement doesn't resolve that for all time today, but it does resolve a number of other issues related to reliability and safety. And, Staff thinks that, on balance, the Settlement Agreement ought not to be disapproved as a result of that provision. The question of whether mark-outs should be outsourced is fully preserved for a future proceeding, if the Company decides that that's the way to go.

Finally, I'll just mentioned that the low income programs, you know, the Settlement Agreement does not include the relief that the Legal Assistance and the CAP agencies requested, regarding budgets and so on. However, I think the petition itself stresses that Grid is committed to low income and energy efficiency type programs. And, so, the Staff does not have great concerns that those areas of responsibility will be overlooked in any way.

So, on balance, and for all these reasons, and the reasons that we've alluded to in testimony this morning, the Staff fully supports this Settlement Agreement. In terms of the "revenue decoupling" issue that Commissioner Below raised, again, we feel that that bridge can be crossed when and if we get to it.

CHAIRMAN GETZ: Thank you. Ms. Blackmore.

MS. BLACKMORE: I'd like to reiterate the Joint Petitioners' support of the Settlement, and respectfully request that the Commission approve the merger on the terms set forth in the comprehensive settlement that was reached between the Companies, the

Commission Staff, and the Office of Consumer Advocate.

I'd also like to point out that the Company has not put forth a plan to change mark-out procedures. And, as such, we don't view this as an area where there's a loose end that needs to be addressed at this point. Should the Company seek to change this process in the future, we would follow the established process set forth in the Settlement.

The Settlement is the result of many, many months of negotiations among the Settling Parties and Staff. And, we think it produces a fair result that we believe provides benefits to both Granite State and EnergyNorth customers. We also believe that the merger meets any of the applicable statutory standards for the Commission's approval and that it's in the public interest. We'd like to respectfully request that the Commission issue an order approving the merger and the Settlement as soon as is reasonably practical, given that we would be able to implement a significant rate reduction for Granite State customers soon thereafter. We very much appreciate the session today and the opportunity to provide answers to your questions. Thank you.

CHAIRMAN GETZ: All right. Thank you, everyone. We'll close the hearing and take the matter under advisement.

(Hearing ended at 4:03 p.m.)