

1 **STATE OF NEW HAMPSHIRE**

2 **PUBLIC UTILITIES COMMISSION**

3
4 **May 14, 2008** - 10:22 a.m.
5 Concord, New Hampshire

NHPUC MAY27'08 PM12:33

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7 **RE: DG 08-048**
8 **UNITIL CORPORATION AND NORTHERN**
9 **UTILITIES, INC.:**
10 **Joint Petition for Approval for**
11 **Stock Acquisition.**
12 **(Prehearing conference)**

13
14 **PRESENT:** Chairman Thomas B. Getz, Presiding
15 Commissioner Graham J. Morrison
16 Commissioner Clifton C. Below

17 Connie Fillion, Clerk

18
19 **APPEARANCES:** **Reptg. Unitil Corporation:**
20 Gary Epler, Esq.
21 Scott J. Mueller, Esq. (Dewey & LeBoeuf)
22 **Reptg. Northern Utilities, Inc.:**
23 Patricia French, Esq.
24 **Reptg. United Steel Workers - Local 12012-6:**
 Shawn J. Sullivan, Esq. (Cook & Molan)
 Reptg. Hess Corp. & Blue Flame Consulting:
 Rebecca S. Bachelder, Esq.

 COURT REPORTER: Steven E. Patnaude, LCR No. 52

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APPEARANCES: (c o n t i n u e d)

Reptg. Residential Ratepayers:

Kenneth E. Traum, Asst. Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:

Edward N. Damon, Esq.
Lynn Fabrizio, Esq.

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1 CHAIRMAN GETZ: Good morning.

2 MS. FRENCH: Good morning, Mr. Chairman,
3 Commissioners. Patricia French, on behalf of Northern
4 Utilities, from NiSource Corporate Services.

5 CMSR. BELOW: Good morning.

6 CMSR. MORRISON: Good morning.

7 CHAIRMAN GETZ: Good morning. Other
8 appearances?

9 MR. SULLIVAN: Well, I've got a petition
10 to intervene in. Shawn Sullivan, from Cook & Molan, for
11 the United Steel Workers, Local 12012, and with me is
12 David Emerton, our unit president.

13 CHAIRMAN GETZ: Good morning.

14 CMSR. MORRISON: Good morning.

15 CMSR. BELOW: Good morning.

16 MS. BACHELDER: Good morning, Mr.
17 Chairman and Commissioners. My name is Rebecca Bachelder.
18 I represent Hess Corporation and Blue Flame Consulting.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. BELOW: Good morning.

21 CMSR. MORRISON: Good morning.

22 MR. TRAUM: Good morning, Mr. Chairman,
23 Commissioners. Representing the Office of Consumer
24 Advocate, Kenneth Traum and Stephen Eckberg. And, the

attorney of record will be Meredith Hatfield. She's just unavailable this morning.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. DAMON: Good morning, Commissioners. Edward Damon, for the Staff, and me this morning are a number of Staff members, including Lynn Fabrizio, Steve Frink, and Robert Wyatt. Thank you.

CMSR. BELOW: Good morning.

CMSR. MORRISON: Good morning.

CHAIRMAN GETZ: Good morning. And, it appears that there is no one here on behalf of National Grid this morning?

MR. EPLER: Yes, Mr. Chairman. I did receive a call from National Grid's counsel, indicating that she had a conflict, and hoped that that would not affect her petition. Just for the record, Unitil has no objections to National Grid's Petition to Intervene or any of the other Petitions to Intervene.

CHAIRMAN GETZ: Okay. Thank you. Then, unless there's other procedural matters, I'm prepared to turn to the companies for their statement of position?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then,
Mr. Epler.

MR. EPLER: Thank you, Mr. Chairman.
Unitil Corporation appreciates the opportunity to appear
before the Commission in this prehearing conference, and
to meet with the Staff, the Office of Consumer Advocate,
and other parties regarding its joint petition with
Northern Utilities, under which Unitil will acquire
100 percent of the common stock of Northern from Bay State
[Gas?] Company. As you're aware, Unitil is also acquiring
11 Northern's affiliated pipeline, Granite State Gas
12 Transmission.

13 Unitil is excited about the opportunity
14 to expand its core distribution business in the region
15 with the acquisition of Northern and its 52,000 gas
16 customers in Maine and New Hampshire. As detailed in
17 Unitil's prefiled testimony, the proposed transaction will
18 create benefits for Northern's customers in the areas of
19 Customer Service, Field Operations, and Construction; and
20 Gas Procurement and Planning. Unitil's acquisition of
21 Northern will also generate benefits from shared services,
local management, job creation and rate stabilization.

We believe that the filing meets the
24 criteria set forth in RSA 369:8 and RSA 374:33. We are

prepared to discuss these issues with the Staff and the parties and have brought the witnesses and other personnel with us today to meet, to either answer questions from the Commission or to meet subsequently in a tech session and to respond to any inquiries.

I do note that in the order of notice parties were asked to be prepared to discuss consolidation of certain matters. Just as a preliminary initial point on that, Unitil welcomes the opportunity to discuss any issues which the Staff, the Office of Consumer Advocate, or the Commission or other parties believe may affect the Commission's evaluation of the proposed transaction. In general, we look forward to sharing our views and plans with the Staff and the parties, and hope that the pending issues or any other matters brought up may be resolved prior to closing the acquisition, so that we can move forward and focus on the implementation of the transition.

With that, if I may, I just would like to introduce to the Commission, in case there are people here you have not met before, the employees and officers that we've brought up today. Mark Collin, Senior Vice President and Chief Financial Officer; Larry Brock, Controller and Chief Accountant; Tom Meissner, Senior Vice President and Chief Operating Officer; Fran Wells, Senior

Energy Trader; David Foote, Vice President of Energy Contracts; George Gantz, Senior Vice President, Customer Services and Communications; and Karen Asbury, Director of Regulatory Services.

CHAIRMAN GETZ: It's a sea of familiar faces. Welcome.

MR. EPLER: Thank you.

8 CHAIRMAN GETZ: That concludes your statement?

10 MR. EPLER: That concludes my remarks.

11 CHAIRMAN GETZ: Thank you. Ms. French.
12 And, also, if you could just express whether you have any
13 concern or objection to the Petitions to Intervene.

14 MS. FRENCH: Northern has no objections
15 to any of the Petitions to Intervene at this time. I'm
16 also aware that Mr. Linder's office may also make a
17 Petition to Intervene, and, in advance, we will have no
18 objection to that intervention either.

19 Northern would just simply like to state
20 that the evidence adduced in this proceeding, as we go
21 through it, will demonstrate that the acquisition of
22 Northern by Unitil's regional management is in the public
23 interest. And, Northern strongly supports the
24 Commission's approval of the petition.

Northern is prepared to discuss each of the individual dockets that the Commission raised in its order of notice. Generally, Northern feels that these proceedings each can be resolved either outside or separately from this proceeding. They would be issues that would be continuing regardless of the parent ownership of this subsidiary. So, whether it's NiSource or Unitil, these issues are virtually independent of the public interest evaluation that the Commission will be rendering in this particular docket. And, I can take them one-by-one or discuss them with Staff during the tech session, whichever you prefer?

CHAIRMAN GETZ: I think a discussion with Staff, and to the extent there needs to be, and other parties, to the extent there needs to be something expressed in the -- I assume out of the tech session will be a recommendation for a procedural schedule, and if there's some particular preference or arguments about how to treat those separate issues, I recommend that we do that during that type of submittal.

MS. FRENCH: Thank you, Mr. Commissioner. Northern has nothing further at this time.

CHAIRMAN GETZ: Thank you.

Mr. Sullivan.

MR. SULLIVAN: Thank you. The group that I represent before you here is the 28-member unit of Local 12012. Most of the individuals work and live in New Hampshire. They are the people that work on the natural gas. We believe that our participation here would allow us to provide some information, actually to maybe seek out information from the other sides in an exchange that will be helpful. We are concerned with safety, efficiency and the future of natural gas in New Hampshire. Thank you.

CHAIRMAN GETZ: Thank you. Ms. Bachelder.

MS. BACHELDER: Good morning. Hess is a natural gas supplier to customers in New Hampshire, Maine, and Massachusetts. And, we are also currently parties to DG 06-098, which is one of the potential roll-in cases, and we also are shippers on Granite State Pipeline. So, we have some concerns about these potential roll-in cases in this proceeding. If they are included in this proceeding, we will continue to participate. If they are not, then we would likely withdraw our intervention. But our intervention is predicated on the inclusion of 06-098 and the derating of Granite State into the distribution service territory.

1 CHAIRMAN GETZ: Thank you.

2 MS. BACHELDER: Thank you.

3 CHAIRMAN GETZ: Mr. Traum.

4 MR. TRAUM: Thank you, sir. First, the
5 OCA does not object to either of the requests for
6 intervention, and, similar to Northern, if Mr. Linder, on
behalf of a low income client, determines that he'd like
to participate, as long it doesn't impede the progress,
the OCA certainly does not object to his intervention.

In general, we'll be looking into what
I'll call the "regular" or "standard" issues of a change
in utility ownership, including the impact of such on
ratepayers, employees, the Company's going forth finances,
14 pensions and OPEB, transaction costs, customer services,
15 be looking at a most favored nation status, since
16 certainly the same parallel process will be going on in
Maine, the length of the TSA, and safety issues. And,
somewhat a unique issue in this case is due to the fact
that the Granite State Pipeline is part of this
transaction. And, we'll be interested in looking at and
exploring Unitil's expertise to run an interstate
pipeline, and also the fact that the affiliation of that
pipeline with NiSource and Bay State is going to
disappear, and what impact that may have on customers of

New Hampshire in the long run. Thank you.

CHAIRMAN GETZ: Thank you. Mr. Damon.

MR. DAMON: Thank you. Staff, too, does not object to the Petitions to Intervene. I would assume, however, in respect to National Grid's petition, that it would be participating as utilities are typically allowed to participate in dockets of other utilities in proceedings before the Commission.

Regarding this docket, Staff's positions have yet to be developed. As a preliminary matter, Staff believes that the petition itself falls well short of demonstrating on its face that the proposed acquisition will not have an adverse impact on rates, terms, service or operation the of New Hampshire utilities involved in the transaction. Accordingly, further proceedings are appropriate pursuant to RSA 369:8, II(b). And, the Joint Petitioners themselves have agreed to waived any rights to a preliminary determination of "no adverse effects" and "no net harm" standards, although they seek a final order by October 1, which is approximately within the 180 day time frame they say applies under RSA 369:8, II(b).

To promote the efficient and orderly resolution of this docket, Staff believes that the issue of adverse effects within the meaning of the statute

1 should be deferred pending the Commission's ultimate
2 resolution of all issues in the docket, notwithstanding
3 the tight statutory deadlines. And, Staff will work with
4 the Joint Petitioners and Intervenors in the technical
5 session to develop a suitable procedural schedule.
6 However, Staff does not agree that the October 1 date is
7 necessarily cast in stone.

8 Unitil is proposing to refinance
9 Northern, eliminating the current cost structure and its
10 weighted cost of capital with a yet to be determined
11 capital structure and weighted cost of capital. According
12 to the petition, Northern will be seeking authority for
13 the debt portion of the financing in a separate petition
14 to be filed at some unspecified time during the course of
15 this proceeding. This refinancing could have a profound
16 impact on future rates. And, without knowing the terms
17 and conditions of the new financing, it is impossible to
18 determine what that impact will be.

19 In order to rule on the petition in this
20 docket, the Commission is entitled to know the
21 circumstances surrounding the financing and the proposed
22 terms, and to be able to evaluate the effects of the
23 proposed acquisition as a whole. Without that
24 information, Staff does not believe the Company has made a

1 detailed representation that the proposed transaction will
2 not have an adverse effect, *etcetera*, as required by RSA
3 369:8, II(b). In Staff's view, any statutory clock
4 imposed by that statute pre-supposes that such a detailed
5 representation has been made.

6 Unitil's natural gas utility operations
7 are limited to a small system in Massachusetts serving
8 15,000 customers, whereas Northern is currently part of
9 the NiSource family, which owns and operates gas utilities
10 serving approximately 2.5 million natural gas customers.
11 Northern itself has about 52,000 customers in New
12 Hampshire and Maine. While Unitil will retain Northern
13 employees, virtually all of Northern's gas purchasing and
14 dispatch functions, as well as regulatory, engineering,
15 accounting and customer service, are performed by
16 personnel employed by Northern service company affiliates
17 who are not being transferred to Unitil, at least as far
18 as we know. Unitil will be adding 40 employees, but Staff
19 will need to explore whether the staffing changes are
20 likely to have an adverse impact on Northern's rates,
21 services or operations within New Hampshire, and whether
22 Unitil's claim of synergy savings has any substance.

23 There are several open dockets involving
24 Northern before both the New Hampshire and Maine

1 Commissions, as well as certain undocketed issues, the
2 resolution of which may be relevant to the question of
3 whether the petition should be granted. Of particular
4 concern is the special capacity contract between Northern
5 and Granite State Gas Transmission System that is due to
6 expire on October 31. Granite's revenue requirements are
7 met almost entirely by Northern and Bay State Gas, both
8 Granite affiliates. And, due to Northern's physical
9 pipeline interconnects, all of its interstate pipeline
10 supply must pass through the Granite system. Bay State
11 does not have similar constraints and is expected to stop
12 contracting for capacity on Granite, leaving the
13 possibility of stranded costs. Who will bear those costs?
14 And, to what extent was that a consideration in the
15 Granite purchase price?

16 There are also outstanding safety
17 concerns. Northern has previously entered into affiliate
18 agreements with Granite regarding operating and
19 maintenance responsibilities for metering and regulator
20 equipment at locations where Granite delivers gas to
21 Northern and also regarding Northern's purchase of certain
22 of Granite's metering and regulator equipment. The Maine
23 Commission has approved the operating and maintenance
24 agreement. But, otherwise, the Commissions in Maine and

New Hampshire have yet to fully rule on the agreements. And, the questions there are "Will those agreements satisfy safety concerns?" and "What is the cost impact?"

In conjunction with the Maine Commission, Staff expects to retain a consultant to provide advice on the costs of service for Granite under FERC jurisdiction versus state jurisdiction, and the relative advantages and disadvantages of each.

10 In addition, Northern is required to
11 meet certain customer safety [service?] standards or pay
12 fines for failing to meet those standards. Does Unitil
have the resources and ability to meet those customer
service and reporting standards?

On the electric side, the main issues deal with the costs and potential savings related to the transaction. Specifically, Staff will examine how the estimated costs and savings were determined and how they
18 will impact Unitil Energy System's rates going forward.
19 Additionally, the planned debt and equity issuances must
20 be reviewed to determine potential impacts at the parent
and subsidiary levels.

In summary, Staff intends to thoroughly review the numerous issues raised by the petition and attempt to resolve, as appropriate, the outstanding

1 Northern issues prior to a Commission decision on the
2 petition.

3 CHAIRMAN GETZ: Thank you. Okay. Let
4 me take care of this administrative matter. Inasmuch as
5 United Steel Workers, National Grid, and Hess Corporation
6 have demonstrated rights, duties, privileges, immunities,
7 or other interests affected by this proceeding, and there
8 are no objections, we will grant the Petitions to
Intervene. With respect to National Grid, we note that
10 they -- that intervention will be subject to the
11 limitation set forth in its Petition to Intervene.

12 Anything else we need to address this
13 morning before you go into the technical session?

14 (No verbal response)

15 CHAIRMAN GETZ: Hearing nothing, then we
16 will close the prehearing conference and await a
17 recommendation from the parties with respect to the
18 procedural schedule. Thank you, everyone.

19 **(Whereupon the prehearing conference**
20 **ended at 10:41 a.m. and the Parties and**
21 **Staff meet subsequently in a technical**
22 **session.)**

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