

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

NEW HAMPSHIRE GAS CORPORATION

Docket DG 09-038

**Direct Testimony
Of
Stephen P. Frink
In Support of Temporary Rates**

April 20, 2009

1 **Q. Please state your name and business addresses.**

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

5 **Q. Please summarize your educational and professional experience.**

6 A. See *Attachment SPF-1*.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony supports the Company's request for temporary rates and the waiver
9 of filing requirements related to the parent company, recommends conditional
10 approval the requested waiver of information directly related to Company
11 operations and opposes the Company's request for a waiver of notice
12 requirements. My testimony will also provide Staff's initial position regarding
13 the Company's requested increase in permanent rates.

14 **Q. What level of temporary rates did the Company propose?**

15 A. As described in the April 1, 2009 Direct Testimony of Karen Zink regarding
16 temporary rates, the Company requested temporary rates at a level that would
17 have no impact on annual gross operating revenue from that earned during the test
18 year (2008) and, therefore, should have no impact on customers' overall bills.
19 The Company requested that temporary rates take effect on May 1, 2009 on a
20 service-rendered basis, and the rate increase be applied to customers through a
21 \$0.0528 per therm increase in the head block. The increase is designed to
22 generate \$69,995 in annual revenue, replacing the annual revenue earned through
23 the deferred revenue surcharge that expires April 30, 2009.

24 **Q. Please explain the deferred revenue surcharge.**

1 A. In NHGC's prior filing for an increase in distribution rates (Docket No. DG 02-
2 003) the Company requested rates that would allow it to achieve a zero percent
3 rate of return and that it be allowed to phase in the proposed rate increase. The
4 Commission approved a settlement (Order No. 24,102 dated December 23, 2002)
5 whereby NHGC phased in the rate increase but recorded revenues based on the
6 maximum rate, with the deferred revenues being recovered through a surcharge
7 once the Company implemented the maximum rate. Once rates were raised to the
8 allowed maximum NHGC began recovering the deferred revenues over a three
9 year period which ends April 30, 2009.

10 **Q. Are the proposed temporary rates sufficient to ensure that NHGC will be**
11 **able to continue providing safe and reliable service and provide a reasonable**
12 **rate of return as shown by the reports of the Company filed with the**
13 **Commission?**

14 A. Yes. Although the Company's requested level of temporary rates yields a rate of
15 return below what is currently authorized and below the rate of return sought in
16 this proceeding, the rates will prevent a substantial loss of revenue due to the
17 expiration of the deferred revenue surcharge and will fund operations and
18 improvements at test year levels. NHGC calculated a positive test year rate of
19 return (less than 1%). Staff calculated a negative test year return (approximately
20 negative 1%) based on the unaudited 2008 annual report. See *Attachment SPF-2*.
21 Normal weather would have resulted in slightly higher earnings but the 2008
22 winter months were 1.4 percent warmer than normal thereby decreasing sales.
23 Because temporary rates are reconcilable once a decision on permanent rates is
24 issued, they should allow the Company to earn a reasonable return on its
25 investment.

1 **Q. What is a reasonable rate of return for NHGC?**

2 **A.** That will be determined by the Commission but may be something less than what
3 the Commission normally grants utilities given the nature of the service provided
4 and competition from propane dealers in NHGC's service territory. In NHGC's last
5 request for an increase in delivery rates the Company recognized the risks associated
6 with implementing a substantial rate increase and sought a zero rate of return and
7 phase in of the proposed increase. Ultimately the Commission approved a
8 settlement with a rate increase designed to provide a 4.3 percent overall rate of
9 return.

10 **Q. What has NHGC proposed for a rate of return in its request for permanent**
11 **rate?**

12 **A.** NHGC requests a rate of return of 9.625 percent.

13 **Q. What is Staff initial position regarding NHGC proposed permanent rate**
14 **increase?**

15 **A.** That the proposed increase is not reasonable. Along with providing a rate of
16 return well in excess of what the Commission has been granting other New
17 Hampshire utilities, implementing the proposed increase would likely have dire
18 consequences for NHGC. The increase will make NHGC less competitive and
19 may cause customers to leave the system, causing earnings to fall and
20 exacerbating the situation whereby rates continue to climb and more customers
21 leave the system until the customer base is no longer able to sustain the utility.
22 Under the circumstances, a survey of area propane prices should be conducted
23 and taken into consideration when determining a reasonable rate of return. In
24 addition, Staff is concerned with the estimated rate case expenses of close to
25 \$100,000 given there are only about one thousand customers to bear the cost.

1 Staff also notes that the permanent rate filing has made very few revenue and
2 expense adjustments and believes a thorough review may reveal that the earnings
3 picture may not be as bad as portrayed.

4 **Q. Did NHGC request a waiver of certain filing requirements?**

5 **A.** Yes. NHGC requested a waiver of certain portions of Puc 1604.01(a), and
6 1203.02(c), which require the filing of certain information by any utility applying
7 for rate relief. NHGC asserts that complying with the filing requirements would
8 be unnecessarily burdensome and would result in unnecessary added rate case
9 expense. NHGC believes that a waiver of Puc 1203.02(c) is appropriate because
10 the intent of the rule, sufficient notice to customers of the proposed rate increase,
11 can be achieved through display ads in local newspapers, and publication of the
12 order of notice.

13 **Q. Does Staff support NHGC's request for a waiver of certain Puc 1604.01(a)**
14 **filing requirements?**

15 **A.** Staff supports a conditional waiver. Staff does not object to NHGC's request for
16 a waiver of provisions of PUC 1604.01 related to filing certain information about
17 the parent company. Since the parent company is a very large international
18 energy company it's reasonable to assume that the information regarding the
19 parent company required pursuant to the Commission rules is of little or no
20 relevance to the Commission's review of NHGC. Regarding NHGC's request for
21 a waiver of information directly related to the operations of NHGC, such as cost
22 of service and depreciation studies, Staff recognizes that such studies can be
23 expensive and share's the Company's concern regarding the potential rate impact,
24 but those studies are relevant to the Commission review. Staff will attempt to
25 address the cost of service and depreciation issues absent such studies but reserves

1 it right to request such studies be undertaken if deemed essential to the
2 Commission's review.

3 **Q. Does Staff support NHGC's request for a waiver of Puc Rule 1203.02(a), the**
4 **requirement whereby each customer is to be provided a clear and concise**
5 **statement of the rate schedules and applicability with 30 days from the date**
6 **of the filing?**

7 **A.** No. Staff believes the 30 day requirement should be waived but that the other
8 notice requirements pursuant to the rule should be complied with. Because the
9 filing was made April 1 and NHGC issues bills early in the month, satisfying the
10 notice requirement in the May bills will provide notice only slightly outside the
11 30 day requirement. Including notice through a bill insert would eliminate
12 mailing costs and should not significantly increase rate case expense. Also, due
13 to the delay in customer notice and expedited procedural schedule, Staff
14 recommends that the Commission allow additional time for customers to file for
15 intervention.

16 **Q. Does this conclude your testimony?**

17 **A.** Yes.

Stephen P. Frink

Educational & Professional Experience

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

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

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

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

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

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

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

NEW HAMPSHIRE GAS CORPORATION
RATE OF RETURN
Rate of Return Year Ending 12/31/08

<u>PLANT</u>	<u>DECEMBER 31,</u>		Average
	2007	2008	
GROSS PLANT	3,468,488	3,650,935	
LESS: CWIP	(75,556)	0	
LESS: Property Held for Future Use	(418,384)	(418,384)	
PLANT IN SERVICE	<u>2,974,548</u>	<u>3,232,551</u>	3,103,550
LESS: Accumulated Depreciation	(1,176,281)	(1,198,348)	<u>(1,187,315)</u>
NET AVERAGE PLANT IN SERVICE			1,916,235
<u>WORKING CAPITAL</u>			
Materials and Supplies	251,881	296,647	274,264
Prepayments	72,373	87,958	80,166
Deferred Taxes	(117,297)	(203,171)	(160,234)
Customer Deposits	(49,959)	(60,942)	(55,451)
OPERATION AND MAINTENANCE		3,132,862	
LESS purchased gas:		<u>(2,324,216)</u>	
		808,646	
CASH WORKING CAPITAL 2.5 MONTH (75/365DAYS)			<u>166,160</u>
TOTAL WORKING CAPITAL			304,905
AVERAGE RATE BASE			<u>2,221,140</u>
NET OPERATING INCOME			(34,261)
RATE OF RETURN			-1.54%

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