THE STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DG 11-069

NORTHERN UTILITIES, INC.

DIRECT TESTIMONY OF

GEORGE R. GANTZ

EXHIBIT GRG-1

Table of Contents

I. INTRODUCTION

Q. Please state your name and business address.

A. George R. Gantz, 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. What is your position and what are your responsibilities?

A. I am a Senior Vice President of Northern Utilities, Inc., as well as Unitil Service Corp., which provides centralized utility management services to Unitil Corporation's subsidiary companies. My responsibilities include oversight for distributed energy resources policy and implementation, as well as strategic planning and other special assignments. I have oversight responsibility for the current Northern Utilities rate cases in Maine and New Hampshire, reporting to our senior executives, Mark H. Collin, Chief Financial Officer and Robert G. Schoenberger, Chief Executive Officer.

Q. Please describe your business and educational background.

A. I have over 35 years of professional experience in the utility industry including a variety of management positions with Unitil. I earned a B.S. Degree in Mathematics with Honors Humanities from Stanford University in 1973, and in the 1970's served as a research analyst with an energy consulting firm in Cambridge, Massachusetts, and as delegate and consultant to the New England Energy Congress. In 1979, I joined the New Hampshire Governor's Council on Energy as Director of Planning and Analysis, and in 1981 I moved to the staff of the New Hampshire Public Utilities Commission where my responsibilities included implementation of the P.U.R.P.A. Ratemaking Standards and utility supply and demand issues. I was hired as the Manager of Rates for the predecessor companies to Unitil in 1983, and over the years was promoted to Assistant Vice President, Vice President and Senior Vice President with varying areas of responsibility for all of the Unitil companies. These responsibilities have included Rates and Regulatory Services, Energy Supply Planning and Contracting, Customer and Business Services, Communications and Government Affairs, Strategic Planning, and Distributed Energy Resources.

Q. Have you previously testified before this Commission or other regulatory agencies?

A. I have testified many times before the New Hampshire Public Utilities Commission, the Massachusetts Department of Public Utilities, the Maine Public Utilities Commission and the Federal Energy Regulatory Commission.

Q. Please describe the Unitil Companies.

A. Unitil Corporation is a public utility holding company. Unitil Corporation's principal business is the retail distribution of electricity and natural gas throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil Corporation is the parent company of three distribution utilities: Unitil Energy Systems ("UES"), which provides electric service in the southeastern seacoast and state capital regions of New Hampshire; Fitchburg Gas

& Electric Light ("FGE"), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and Northern Utilities, Inc., ("Northern," "Unitil," or "the Company") which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine. In addition, Unitil Corporation is the parent company of Granite State Gas Transmission, Inc., an interstate natural gas pipeline company in New Hampshire and Maine. Together, Unitil Corporation's three distribution utilities service approximately 100,500 electric customers and 70,000 natural gas customers.

In addition to the operating utility subsidiaries, Unitil Corporation's other subsidiaries are: Unitil Service Corp., Unitil Power Corp., Unitil Resources, Inc. and Unitil Realty Corp. Unitil Service Corp. provides centralized services to all of the affiliates. Unitil Power Corp. is a FERC-regulated wholesale power company that formerly provided all the wholesale power requirements to Unitil Energy in New Hampshire but which is now winding down business operations and obligations in the context of electric industry restructuring. Unitil Resources, Inc. is a wholly-owned non-regulated subsidiary with two additional subsidiaries: Usource, Inc. and Usource, L.L.C. (collectively "Usource"), which provide electric and natural gas energy brokering and advisory services to large commercial and industrial customers in the northeastern United States. Unitil Realty Corp. owns the corporate office building in Hampton, New Hampshire.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview and background for this rate filing, to introduce the Company witnesses and to address several specific issues that arise in the context of this rate case including the design of the Targeted Infrastructure Replacement Adjustment (TIRA) mechanism. My testimony also supports the Company's proposal for Temporary Rates. I will also offer testimony in support of Mr. Paul M. Normand's rate design proposals including the Dual Fuel Equipment Rider Tariff.

III. BACKGROUND

Q. Why is the Company filing this rate case?

A. Unitil Corporation completed the acquisition of Northern from NiSource in December of 2008. In the context of the regulatory approvals authorizing that acquisition, Unitil Corporation agreed to delay the filing of any base rate case for a period of two years, but also indicated its expectation that such a base rate case would be necessary in order to properly align the Company's rates with the costs of providing safe and reliable natural gas distribution services to its customers in Maine and New Hampshire. That expectation reflected the fact that the Company had not filed a rate case for many years, 10 years in the case of New Hampshire, and that the Company was and would continue to be engaged in a significant non-growth capital spending program to address the Commission's safety concerns by replacing the remaining bare steel facilities and implementing associated upgrades in the Company's natural gas distribution system.

The Company is pleased to be able to report that the acquisition of Northern by Unitil Corporation has been implemented successfully. Management and safety systems and procedures have been substantially improved. Company operations have been fully integrated and significant benefits from synergies have been achieved. The Company has also demonstrated its capabilities and commitment by maintaining excellent service quality over the past two years.

With two full years of operating experience and financial reporting completed, Unitil is now in a position to make a clear and transparent presentation to its state regulators of the costs to serve customers in order to bring its rates into line with those costs. The filing will also complete the record before the Commission with respect to the commitments made by Unitil Corporation in connection with the Commission's approval of Unitil's acquisition of Northern. The Company has decided to file rate cases simultaneously in both Maine and New Hampshire in order to minimize overall costs and to assure that all the issues including cost allocations between divisions are addressed in a transparent manner.

Finally, as the Company's financial presentation will show, the rate relief being requested at this time is critical to maintaining the Company's financial strength including healthy cash flows and debt ratios and to providing the Company with continued access to capital on reasonable terms. Without such relief, the Company's ability to sustain its excellent record of safety compliance and system investment, and to continue making the significant long term investment in bare steel replacements and associated system improvements that are necessary, would be undermined.

Q. Please summarize the rate relief being requested in this filing?

A. The Company is requesting Commission approval for an annual increase of about $3.8 Million in distribution revenues based upon a proforma test year ending December 31, 2010. This increase reflects known and measurable changes in expenses through calendar year 2011. The resulting cost of service has been analyzed with respect to class cost allocation and rate design by Mr. Normand and the resulting rates are included in the Tariff pages submitted in this proceeding. The Company has proposed an effective date of June 3, 2011, but anticipates the rates will be suspended by the Commission for investigation. As reflected in the Report of Proposed Rate Changes, the average total increase in natural gas rates including supply costs is estimated as 4.7%, with an increase for the residential heating class of 8.0% and the residential non-heating class of 12.0%.

In addition, the Company is requesting a step adjustment to be implemented in 2012, at the conclusion of this case, for the capital investments completed in calendar year 2011. The step adjustment as estimated would produce an additional annual increase of $1.43 Million in distribution revenues. The increases would be placed into effect at the conclusion of this proceeding.

The Company is proposing to implement a Targeted Infrastructure Replacement Adjustment (TIRA) mechanism for the recovery of bare steel replacement program investments completed in calendar years beginning with 2012. The first TIRA step increase would take effect on May 1, 2013, for investments completed in calendar year 2012. This adjustment is estimated to produce an annual increase in distribution revenue of $0.7 Million.

The Company is also requesting that Temporary Rates be established by the Commission during the pendency of the proceeding, commencing on or about August 1, 2011. The Company is requesting annualized revenues of $1.8 Million in Temporary Rates and has filed a Supplement 1 to the Tariff to implement Temporary Rates effective as of August 1, 2011. The award of Temporary Rates would be subject to refund or recoupment based on the Commission's final decision in this proceeding.

Q. Please briefly identify the witnesses the Company is presenting and the subjects on which they are testifying.

A. Northern's direct presentation will include testimony by Company witnesses and outside experts. As discussed above, I will summarize the rate case filing and address certain specific issues. The other witnesses filing testimony in this proceeding are as follows:

- Mr. David Chong, Director of Financial Services for Unitil Service Corp., will present the overall revenue requirements, including various pro forma adjustments. In addition, Mr. Chong will present details of the 2012 Step Adjustment and the TIRA mechanism. Mr. Chong will also present the Company's proposal for Temporary Rates.
- Mr. Lawrence M. Brock, Unitil Corporation's Vice President and Comptroller, will provide testimony on accounting issues including taxes, cost allocations and the acquisition, and will support certain pro forma adjustments.
- Ms. Elizabeth M. Shaw, Manager of Benefits and Payroll for Unitil Service Corp., will present testimony that supports Unitil's salary and wage policies and employee and retiree benefit plans included in the Company's cost of service, including pro forma adjustments;
- Dr. Samuel C. Hadaway of FINANCO will present testimony to support and justify the proposed allowed return on equity of 10.5% for Northern Utilities; and
- Mr. Paul M. Normand of Management Applications Consulting ("MAC") will present the Allocated and Marginal Cost of Service Studies he prepared in support of the distribution base revenue responsibility and distribution rate designs he recommends in this proceeding. Mr. Normand will also present the updated depreciation study he prepared to establish

the appropriate depreciation expense for the Company's cost of service. Mr. Normand's firm is also presently conducting a lead-lag analysis for the Company which, when complete, will be utilized to update the working capital calculations in the Company's cost of service.

IV. DESIGN OF THE TIRA

Q. What is the purpose of the Targeted Infrastructure Recovery Adjustment ("TIRA") mechanism?

A. The TIRA is designed to provide an opportunity for the Company to recover the costs associated with the continuing investments in bare steel replacements and associated system enhancements under the Company's Bare Steel Replacement Program ("BSRP"). Given the size of this investment program, failure to provide prompt recognition of the associated costs in rates through an administratively efficient mechanism would result in a continuing need for base rate cases. The administrative costs and regulatory lag associated with such rate cases would undermine the financial strength of the Company, resulting in the need for postponements in the timing of investments or for recovery of higher financing and administrative costs from customers over time.

The TIRA will apply to investments made beginning in calendar year 2012. As explained in Mr. Chong's testimony, since the Company's capital investments in 2011 will be recovered in this rate case as a 2012 Step Adjustment, the TIRA provisions would begin for BSRP investments made in 2012 and thereafter. On or before February 15 of the year following the BSRP investments, the Company will file a report with the Commission on the BSRP investments completed in the prior year, along with a revenue requirements calculation. The details of the propose revenue requirement calculations are presented in Mr. Chong's testimony. The corresponding TIRA step adjustment would take place on May 1, 2013 and on May 1st each year thereafter.

Q. Please explain the key features of the TIRA mechanism.

A. The TIRA mechanism provides for an annual review by the Commission of the Company's progress in implementing the Bare Steel Replacement program, and for recovery of TIRA investment related costs in an administratively efficient and timely manner. The Commission's review is an opportunity to assure that the Company is adhering to the BSRP schedule and appropriately managing the costs. The timely recovery of the costs will insure that the Company is provided with the necessary cash flow and financial support to assure continued access to external capital on favorable terms.

The Company believes that TIRA revenue requirement and rate calculation presented by Mr. Chong is consistent with Commission policy and precedent. The revenue requirement includes provisions for return on net plant investment and associated working capital as well as taxes and depreciation, and includes offsets for accumulated depreciation, deferred taxes and an O&M offset factor reflecting the benefit of leak reductions resulting from the BSRP investments. The calculations include a provision for carrying costs for the period from December 31, the end of the investment year, and May 1, the date on which the TIRA adjustment goes into rates. The calculation bases the annual revenue increase on the net change in revenue requirements from year to year. This value is divided by the annualized distribution revenues from the prior year to determine a uniform TIRA percentage increase factor which would then be applied to each distribution rate component applicable to all firm service customers.

V. TEMPORARY RATES

Q. Please explain the Company's proposal to implement temporary rates in this proceeding.

A. The Company is recommending that temporary rates be implemented in this rate proceeding for several reasons discussed below. Temporary rates would result in a provisional increase of rates during the course of the proceeding. At the conclusion of the proceedings, the authorized temporary rates would be reconciled with the final decision on permanent rates. In the event a final decision establishing permanent rates resulted in lower rates than those awarded on a temporary basis, the amount collected in excess of the final rates would be refunded to customers. In the event a final decision resulted in higher rates, the difference would be collected on a going forward basis.

As indicated in Mr. Chong's testimony, the Company has calculated a level of temporary rates based on the pro forma test year revenues and expenses applying the last authorized cost of equity for the Company. This calculation results in a proposed annualized revenue increase of $1.8 Million, or about 47 percent of the test year revenue deficiency.

Q. Please explain why the Company believes temporary rates are appropriate and justified in this proceeding.

A. Given that 10 years have elapsed since the last base rate case, the relatively low growth experienced by the Company and the size of the Company's ongoing construction program, particularly for bare steel and related upgrades, the Company is experiencing a period of financial stress. As noted in Mr. Chong's testimony, the Company experienced poor financial performance in 2010 and, barring rate relief, expects continued deterioration in its financial performance. An acceleration of the receipt of appropriate rate relief through the granting of temporary rates will help to reduce this financial stress. The practical consequences of the granting of temporary rates would be an improvement in the Company's cash flow in 2011, with a consequent reduction in the need for outside financing to sustain the Company's construction program, and additional support for the Company's debt ratio, a factor which has a direct influence on the cost of the Company's outside financing. The benefits of temporary rates to the Company's financial position would be immediate, but the benefits of improved cash flow and strengthened debt ratio are factors which benefit customers through lower rates over the long term by reducing the need for external financing and lowering the cost of outside financing.

VI. RATE CASE EXPENSES

Q. Please explain the Company's proposal relative to the recovery of its rate case expense.

A. The Company is seeking recovery of the costs associated with outside legal and outside consulting expertise which it has engaged to assist in the development, filing and completion of the Company's base rate cases in Maine and New Hampshire. The Company has taken various efforts to control such costs, including the reliance to the maximum extent possible on its own internal resources. With the exception of the specialized areas of depreciation, lead-lag and return on equity, the Company's cost of service is presented entirely by Company employees who have been assigned to these duties in addition to their normal responsibilities. In addition, the Company is conducting simultaneous rate cases in the two states in order to achieve a measure of efficiency and cost savings in the proceedings. These efficiencies include the prudent and effective use of the Company's internal personnel, but they are also reflected in the prices for consulting services as negotiated by the Company, and they should continue to be realized in the conduct of these proceedings through the course of 2011.

In selecting its outside consultants and attorneys, the Company conducted an efficient but selective solicitation process, building on recently concluded and more extensive consulting solicitations. During 2010, Unitil conducted an extensive competitive solicitation for outside consulting services in conjunction with its planned rate case filings in Massachusetts and for its electric distribution affiliate in New Hampshire. Through that solicitation process, the Company selected three qualified firms on the basis of their competitive cost proposals, to provide expert testimony and assistance in those rate cases. The New Hampshire electric rate case has recently concluded and the Massachusetts rate cases, including both electric and gas distribution, is moving into the briefing stage.

For the gas rate cases in New Hampshire and Maine, the Company solicited the three firms selected in the 2010 competitive solicitation, and on the basis of the proposed content and pricing, selected FINANCO's Dr. Hadaway and MAC's Mr. Normand to support the rate case filings in both states.

Relative to legal representation, the Company sought a proposal from Orr and Reno. Based on the quality of the firm, their extensive knowledge of the Company and the regulatory environment in New Hampshire and on the pricing proposal, Orr and Reno was selected to provide outside legal representation in this proceeding.

Based on the various proposals, the Company completed an estimate of the rate case costs for this proceeding. The estimate, which totals $591,250, is shown in Mr. Chong's testimony as Schedule RevReq-7. This estimate includes a provision for Commission experts in this proceeding at a projected level of $75,000. This estimate will be updated throughout the course of this proceeding.

VII. RATE DESIGN ISSUES

Q. Please summarize the Company's approach to rate design.

A. As a natural gas distribution company, Unitil faces two competing factors in addressing rate design. One is that its costs of distribution are largely fixed costs that do not vary by season or on the basis of weather. The second is that its revenues are largely dependent on commodity-based charges that are highly seasonal and weather dependent. This inherent conflict is addressed in the rate design context by seeking to base rates as much as possible on marginal costs of service, and by balancing the recovery of costs through the respective fixed and variable components of the rates. However, moving entirely to marginal cost based rates that are appropriately allocated to fixed cost rate components would result in significant and unacceptable rate impact for certain customers and customer classes.

Consequently, the Company must use a principle of gradualism in making rate design changes in order to move rate designs in the right direction, consistent with marginal cost results, while avoiding unacceptably large impacts on any one group of customers.

Mr. Normand's rate design proposals are intended to balance these competing objectives by moving individual rate components towards the appropriate level without causing unacceptable impacts to any one group of customers. In addition to adjusting class revenue allocation, Mr. Normand is proposing to increase the fixed customer charges while reducing the block differentials.

Q. Why is the focus on increasing the fixed customer charges important in this proceeding?

A. The focus on fixed costs is particularly important in the context of this rate case for two reasons. First, the rate case is being driven in large measure by the Company's increasing plant in service and associated expenses – these are fixed costs. It is appropriate to seek recovery of these costs in the fixed rate components. In addition, moving toward fixed costs will indirectly support the Company's ongoing construction program by slightly increasing the security of the revenue stream. This security translates to stable and sustainable cash flow and recovery of costs which will help the Company maintain access to capital on favorable terms. Over the long term, this will allow the Company to meet its service and safety obligations and investment requirements at the overall lowest costs of service to customers.

Q. Please explain how these considerations apply to the proposed 2012 step adjustment and the TIRA mechanism being proposed in this proceeding.

A. The above considerations have been applied to the rate calculation method for the Company's proposed step adjustment as well as the TIRA. In both cases, it is important to realize that the majority of the Company's plant investments, specifically including the BSRP costs, are fixed costs which do not vary with changes in consumption or sales. Thus, these are costs that should be at least in some measure allocated to the fixed component of rates. Applying all of the costs in this manner would, however, lead to impacts in some customer segments which would be unacceptably high. Therefore, in order to balance the goal of fixed cost recovery against the risk of unacceptable variations in bill impacts, the Company is proposing to allocate the proposed 2012 step adjustment and the TIRA, equally to all distribution rate components. This is accomplished by calculating the percentage increase in distribution revenues each of the respective rate changes entails, and applying that percentage to each distribution rate component equally, including both fixed and variable components.

Q. Please explain the Company's proposal for a Dual Fuel Equipment Rider Tariff.

A. The Company is proposing a Dual Fuel Equipment Rider in its Commercial and Industrial Tariffs to address a concern relative to the potential impact of dual fuel customers on its plans, operations and revenues. The Company does have a number of customers that have equipment which enables them to switch from natural gas to one or more alternate fuels, sometimes with little or no notice. However, the Company does not have any mechanism in its Tariff at present to assure that such customers can be provided with an assurance of continuing access to the Company's natural gas delivery system in return for an assurance from the Customer that they will provide an appropriate level of revenues to the Company. At present these customers are principally utilizing natural gas due to its inherent economic advantages, so the introduction of the Dual Provision is being proposed as a forward-looking change in the Tariff.

The concern which is being addressed in the Dual Fuel provision arises in the context of a customer that can switch from an alternate fuel to natural gas delivery service with little or no notice. One concern is that such customers may, for a period of time, use little or no natural gas, but have an expectation that the Company's system is still and always will be available to them to use at any time. However, if the Company is not aware of that expectation, it could allocate the under-utilized system capacity to other customers, resulting in a significant operational or economic constraint for the dual fuel customer, or an operational problem for the Company if the customer unilaterally switched back to natural gas. In addition, it is unreasonable to provide a customer with continuing access to capacity on the Company's delivery system if the customer is not paying for it. Over time this could result in other customers picking up the costs associated with facilities that are de facto reserved for the benefit of the non-paying customer.

The Dual Fuel proposal corrects the deficiency on the Company's Tariff by introducing a mechanism by which the Company can apply an appropriate Minimum Daily Quantity (MDQ) to a dual fuel customer. By pricing this MDQ at the appropriate marginal cost rate, the Company will assure the customer of the continued availability of the delivery system capacity, allowing the customer to optimize its fuel choice at their sole discretion, while assuring that the costs associated with the Company's delivery system capacity is paid for by the customer. In the case where the customer uses natural gas, the MDQ provisions would have no effect. In the case where the customer uses its alternative fuel, the MDQ provision would provide for a minimum level of annual revenues to the Company.

Q. Is the Company proposing any other ratemaking changes in this proceeding?

A. Yes. The Company notes that in its Test Year costs of service, as presented by Mr. Chong, the bad debt expense only includes the bad debts directly associated with its distribution rates, and excludes bad debts associated with the Costs of Gas. However, the past practice reflected in the Cost of Gas proceedings has been to use a fixed percentage factor for the allowance for bad debts associated with the gas supply. In the context of the Company's next Cost of Gas proceeding, to be effective November 1, 2011, the Company will be proposing an adjustment to recover actual supply related bad debt in the Cost of Gas proceedings. To be consistent with the treatment of bad debts in the base rate case, the Cost of Gas calculations should reflect the actual bad debts incurred by the Company.

VIII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.