

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 29, 2012 - 10:15 a.m.

Concord, New Hampshire

NHPUC APR17'12 PM 1:32

RE: DG 11-069
NORTHERN UTILITIES, INC.:
Notice of Intent to File Rate Schedules.
(Hearing regarding permanent Rates)

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Michael D. Harrington

Sandy Deno, Clerk

APPEARANCES: Reptg. Northern Utilities, Inc.:
Gary M. Epler, Esq.

Reptg. the United Steel Workers of America
Local 12012-6:
Sean Dunne, Esq.

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Stephen R. Eckberg
Donna McFarland
Office of Consumer Advocate

Reptg. PUC Staff:
Alexander Speidel, Esq.
Stephen P. Frink, Asst. Dir./Gas & Water Div.
Robert J. Wyatt, Gas & Water Division
James J. Cunningham, Jr., Electric Division

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

ORIGINAL

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I N D E X

PAGE NO.

WITNESS PANEL: GEORGE R. GANTZ
 STEPHEN P. FRINK
(added at Page 51) ROBERT J. WYATT
(added at Page 64) JAMES J. CUNNINGHAM, JR.

Direct examination by Mr. Epler	9, 13
Direct examination by Mr. Speidel	11, 27
Interrogatories by Cmsr. Harrington	29, 34, 43, 59, 65
Interrogatories by Cmsr. Scott	39
Interrogatories by Chairman Ignatius	41, 44, 56
Direct examination by Mr. Speidel (Re: Wyatt)	51, 54
Direct examination by Mr. Speidel (Re: Cunningham)	64

* * *

CLOSING STATEMENTS BY:	PAGE NO.
Mr. Dunne	70
Ms. Hollenberg	70
Mr. Speidel	71
Mr. Epler	72

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
4	Settlement Agreement on Permanent Delivery Rates, including schedules (03-23-12)	8
5	Direct Testimony of Stephen P. Frink, including attachments (03-26-12)	8
6	Direct Testimony of Robert J. Wyatt, including attachments (03-26-12)	8
7	Direct Testimony of James J. Cunningham, Jr., including attachments (03-26-12)	8
8	RESERVED - Record Request 1, which was for bill impact of permanent rates per therm surcharges (rate case and recoupment)	43

1 CHAIRMAN IGNATIUS: "Sean Dunne". Thank
2 you very much.

3 MR. DUNNE: Thank you.

4 CHAIRMAN IGNATIUS: Ms. Hollenberg.

5 MS. HOLLENBERG: Good morning. Rorie
6 Hollenberg and Stephen Eckberg and Donna McFarland, here
7 on behalf of the Office of Consumer Advocate.

8 CHAIRMAN IGNATIUS: Good morning.

9 MR. SPEIDEL: Good morning, Chairman
10 Ignatius. Alexander Speidel, on behalf of Staff. I have
11 with me Robert Wyatt, Jim Cunningham, and also on the
12 stand, Steve Frink, who is the Assistant Director of the
13 Gas and Water Division.

14 And, if I may just briefly note, that
15 this is a little bit of a guinea pig hearing, because we
16 are going to be integrated our new rule related to
17 exhibits, Puc 203.22(e). And, it states as follows:
18 "Parties may request that the Commission mark
19 previously-submitted filings in the matter being heard as
20 an exhibit at hearing, without having to submit an
21 additional copy of such a document at hearing." What that
22 enables us to do, in cases such as this, where we have
23 very voluminous documents, that, in theory, under the old
24 version of (e), it would have to be provided to all

1 parties in the hearing room, the three Commissioners, the
2 clerk, witnesses, *etcetera*. We can simply have them
3 noticed. And, that is done and should be done by
4 acclimation of all parties. If a party were ever to
5 object, we could always revisit that and have things
6 structured as record requests. But I've had a brief
7 conversation with all the parties represented, except for
8 the Steel Workers. And, unless the Steel Workers object,
9 I'd like to proceed with that procedure today.

10 CHAIRMAN IGNATIUS: Any problem with
11 that?

12 MR. DUNNE: No objection.

13 CHAIRMAN IGNATIUS: All right. Good.

14 MR. SPEIDEL: Thank you very much.

15 CHAIRMAN IGNATIUS: Have you worked out
16 a list of exhibits already or are we just going to do that
17 as we go?

18 MR. SPEIDEL: Yes. I've worked with Ms.
19 Deno, the Clerk today, and I think we can just have them
20 listed as follows: There's Exhibits 1 through 3, which
21 are on the docketbook. Then, Exhibit 4 would be the most
22 up-to-date version of the Settlement Agreement as filed by
23 the Company, with all the attachments.

24 CHAIRMAN IGNATIUS: And just, when you

1 say "up-to-date", that worries me. But the one that we
2 have is dated --

3 CMSR. SCOTT: The 23rd.

4 MR. SPEIDEL: That's correct.

5 CHAIRMAN IGNATIUS: March 22nd.

6 MR. SPEIDEL: That is correct. I have a
7 cover letter that is dated "March 23rd, 2012", is that
8 roughly what your cover letter says? Yes. And, there are
9 certain schedules that were substituted. And, I think
10 I'll give a chance for Mr. Epler to just indicate
11 specifically what. But the final filing was made for
12 those schedules on the 27th, isn't that right, Mr. Epler?

13 MR. EPLER: Yes.

14 CHAIRMAN IGNATIUS: So, number 4 would
15 be the Settlement and all of the schedules?

16 MR. SPEIDEL: Schedules, as updated and
17 filed. Correct.

18 CMSR. HARRINGTON: Excuse me. This is
19 all part of 4? Okay.

20 MR. SPEIDEL: Number 5 would be the
21 Direct Testimony of Steve P. Frink, as filed on March 26,
22 2012. Exhibit 6 would be the Direct Testimony of Robert
23 J. Wyatt, as filed on March 26, 2012. And, Exhibit 7
24 would be the Direct Testimony of James J. Cunningham, Jr.,

1 as filed on March 26th.

2 CHAIRMAN IGNATIUS: Is that acceptable
3 to everyone?

4 MR. EPLER: Yes.

5 CHAIRMAN IGNATIUS: All right. They
6 will be marked for identification, and I understand from
7 the Settlement there was a request that everyone agree
8 that there be no dispute about the admission as permanent
9 exhibits. So, unless there's an issue as to that, they
10 will be permanent exhibits in the record.

11 (The documents, as described, were
12 herewith marked as **Exhibit 4** through
13 **Exhibit 7**, respectively, for
14 identification.)

15 CHAIRMAN IGNATIUS: Are there any other
16 exhibits to be marked?

17 MR. SPEIDEL: I believe not, actually,
18 for the purposes of today's hearing, no.

19 CHAIRMAN IGNATIUS: All right. Are
20 there any other procedural matters or are we ready to
21 begin?

22 MR. EPLER: Just, if I may, just a
23 clarification, Chairman Ignatius. So, I understand the
24 procedure. Having them marked now as permanent exhibits,

[WITNESS PANEL: Gantz~Frink]

1 do I need to have the Company's witness adopt these as the
2 Company's position or are we waiving that or --

3 CHAIRMAN IGNATIUS: No. I didn't mean
4 to jump ahead of that.

5 MR. EPLER: Okay.

6 CHAIRMAN IGNATIUS: I was just noticing
7 that you had agreed in the Settlement to not object to
8 each other's exhibits being submitted. But we'll leave
9 that out till the end, when we --

10 So, are we ready for witnesses?

11 MR. SPEIDEL: Yes.

12 (Whereupon **George R. Gantz** and
13 **Stephen P. Frink** were duly sworn by the
14 Court Reporter.)

15 **GEORGE R. GANTZ, SWORN**

16 **STEPHEN P. FRINK, SWORN**

17 **DIRECT EXAMINATION**

18 BY MR. EPLER:

19 Q. Mr. Gantz, for possibly the last time officially, on
20 behalf of the Company, can you please identify your
21 position with the Company and the role that you played
22 in this proceeding?

23 A. (Gantz) Yes. I'm George Gantz. Senior Vice President
24 with the Unitil Companies, including Senior Vice

{DG 11-069} {03-29-12}

1 President of Northern Utilities. And, I've been the
2 Company's principal case leader on this effort over the
3 last year or so, and provided that leadership
4 throughout the course of the case and the Settlement.

5 Q. You may want to move your microphone up a little bit
6 closer, if possible. And, in the course of that role
7 on behalf of Northern Utilities, did you have prepared,
8 either directly by you or under your supervision, the
9 Company's initial filing in this docket, which
10 consisted of two volumes labeled "Rate Request", that
11 include the Petition, the testimonies, and the proposed
12 tariffs, and four volumes of supplemental filing
13 materials, as required by the Commission rules, and an
14 additional volume that consisted of the cost of service
15 workpapers and the Lead/Lag Study?

16 A. (Gantz) Yes.

17 Q. And, these were filed as the initial filed position of
18 the Company, is that correct?

19 A. (Gantz) Yes.

20 Q. And, did you also participate in the settlement
21 negotiations in this proceeding?

22 A. (Gantz) Yes.

23 Q. And, do you have in front of you what has been marked
24 as Exhibit -- as, excuse me, case Exhibit Number 4,

[WITNESS PANEL: Gantz~Frink]

1 which is the cover letter, Settlement Agreement, and
2 eight exhibits attached thereto?

3 A. (Gantz) Yes, I have that.

4 Q. And, is this a true and correct copy of the Settlement
5 that has been reached in this proceeding?

6 A. (Gantz) Yes.

7 MR. SPEIDEL: Thank you, Mr. Epler.

8 BY MR. SPEIDEL:

9 Q. Mr. Frink, could you just please state your position
10 here at the Commission.

11 A. (Frink) I'm the Assistant Director of the Gas and Water
12 Division.

13 Q. And, as part of your duties as Assistant Director, did
14 you review this rate case filing?

15 A. (Frink) Yes, I did.

16 Q. And, as part of this rate case filing, have you been
17 involved in the settlement negotiations?

18 A. (Frink) Yes, I have.

19 Q. And, as part of the settlement negotiations, have you
20 reviewed the materials submitted as part of Exhibit 4?

21 A. (Frink) I did.

22 Q. Do you have any general statements you'd like to make
23 about the Settlement Agreement?

24 A. (Frink) The general statement I would like to make is,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 and you'll hear this over and over, is that this is a
2 comprehensive settlement. Everybody gave up something
3 to get something, and it satisfies everybody's
4 interests. And, in reviewing the Settlement, I would
5 just like to say that, when it got to the rate impacts,
6 I was somewhat confused on what the impacts are on the
7 individual classes. It's in there, but it's not a
8 nice, clean one-page summary. And, I was -- Staff
9 would like to request as a record request that the
10 proposed changes in rates that it provided as part of
11 the initial filing will be marked as an exhibit and to
12 provide that information. Again, you can find that
13 information in here, but it's not -- it's somewhat
14 complicated.

15 Q. So, Mr. Frink, you'd like to suggest that Staff make
16 and the Commission make a record request for a Report
17 of Proposed Rate Changes that reflects the Settlement
18 rates?

19 A. (Frink) Yes, I would.

20 MR. SPEIDEL: Thank you.

21 CHAIRMAN IGNATIUS: Is there any
22 objection to that?

23 MR. EPLER: No objection.

24 CHAIRMAN IGNATIUS: All right. I think

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 that's a good idea. And, I notice we did the same thing
2 with temporary rates as well. So, we'll require that.
3 Thank you.

4 MR. SPEIDEL: At the present time, I'd
5 like to invite Mr. Epler, if it's possible, to ask some
6 queries of Mr. Gantz.

7 MR. EPLER: Yes.

8 BY MR. EPLER:

9 Q. Mr. Gantz, can you first, just for the benefit of the
10 Commission, give some perspective on the Company's rate
11 filing and parallel proceedings that occurred in Maine?

12 A. (Gantz) Thank you. I'd be delighted. First of all,
13 I'm pleased to be here today in support of a global
14 settlement of the Northern Utilities' rate case filing
15 in this docket. This has been a critically important
16 case for the Company for a number of reasons. First,
17 it's the first rate case for this Company in ten years
18 in this jurisdiction. It was the first rate case in 28
19 years in the Maine jurisdiction. And, secondly, and
20 perhaps more significantly, this is the first rate case
21 for this Company since the acquisition of Northern
22 Utilities by Unitil in December of 2008. As part of
23 that acquisition, the Company reached a Settlement
24 Agreement with Staff, which the Commission approved,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 which allowed that acquisition to go forward. We also
2 reached a similar settlement in Maine. And, among the
3 provisions in the approval of the acquisition was a two
4 year stay-out provision, which has now passed. And, we
5 are now at a point of being able to affirmatively
6 demonstrate that the acquisition was successful. We've
7 completed the transition process and fully absorbed the
8 operations and functions and management of Northern
9 into the Unitil organization.

10 We have made significant improvements
11 and upgrades in management safety systems. We have
12 also provided significant additions to the local
13 workforce, as activities that were formerly conducted
14 by the corporate parent out of state, have been moved
15 into the state.

16 In addition, as agreed, as we presented
17 this rate case, it reflects 100 percent flow-through of
18 the synergies that have been achieved in the case to
19 ratepayers. There is no recovery of acquisition costs
20 or transition costs. We have, as agreed, used an
21 imputed debt cost in the calculation of the rate of
22 return. When we acquired Northern Utilities, we needed
23 to finance it with debt that we secured from the
24 market, and that retired debt of the predecessor owner

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 that was at a lower cost, but we are, for purposes of
2 ratemaking in this case, using the predecessor owner's
3 cost of debt in the calculation.

4 Just a little anecdote, for those that
5 were not involved, the debt that we secured to complete
6 the acquisition, the terms of that debt were circled
7 and committed the Friday before Lehman collapsed. So,
8 it was an interesting period of time. And, we then
9 succeeded in making two equity offerings successfully
10 in the ensuing six-month period, a period of intense
11 turmoil in the financial markets. So, we're glad to
12 have been done with that.

13 In addition, there is no acquisition
14 premium in this, in this case. And, we are also, for
15 purposes of ratemaking, using the predecessor's
16 accumulated deferred federal income tax in the rate
17 calculations, which is favorable to ratepayers as well.
18 So, the case -- this is the rate case -- the first rate
19 case since the acquisition. In addition, the Company
20 continues to make significant investments in non-growth
21 capital spending for bare steel replacements, and, in
22 the State of Maine, cast iron and bare steel
23 replacements. And, in that context, and in a general
24 business context, the company has a critical need for

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 rate relief, in order to maintain an appropriate level
2 of financial health, providing sufficient cash flow and
3 positive debt coverage for it to have continued access
4 to capital on favorable terms.

5 With that as background, we filed
6 essentially simultaneous rate cases in New Hampshire
7 and Maine in May of 2011. The case did include
8 significant background materials and reports a,
9 complete analysis of test year and proforma revenue
10 requirements, a depreciation study, a lead/lag study
11 was filed in the case subsequently in July. We
12 prepared -- had a consultant prepare a marginal cost
13 study, an accounting cost study, a functionalization
14 cost study. We also -- and, then, also the rate design
15 that flowed from those studies was presented in this
16 case. We also had the assistance of an outside expert
17 in the cost of capital in the case.

18 The filing of the case triggered an
19 immense fact-finding process in both the State of Maine
20 and the State of New Hampshire. We think there was
21 good cooperation, in terms of access to information,
22 from both states, to Staff and intervenors in both
23 states. There was a lot of hard work that went into
24 this case, by all that were involved, by all parties,

{DG 11-069} {03-29-12}

1 including the Staff of this Commission and the Office
2 of the Consumer Advocate. I would also mention the
3 Audit Staff at the Commission took an important role in
4 auditing the Company's test year. And, then, in
5 auditing the recoupment and rate case expense filings,
6 which have come in as a part of this settlement
7 process.

8 The filing, in both states, we sought
9 and ultimately received temporary rates. And, we
10 subsequently settled the case in Maine. And, we had an
11 affirmative decision from the Maine Commission on
12 November 29th, 2011, implementing the rate change
13 effective January 1. And, we completed the Settlement
14 in this proceeding in the January/February time frame,
15 and that's the Settlement that has now been filed and
16 it's being heard today.

17 Just to give a little overview of the
18 case in New Hampshire and in Maine, for the benefit of
19 the Commission. We originally requested, in New
20 Hampshire, a total increase, revenue requirement plus
21 step, of about 5.2 million. We were also requesting a
22 Targeted Infrastructure Replacement Adjustment
23 mechanism for continuing investments in the Bare Steel
24 Program. In Maine, our initial request was just over

[WITNESS PANEL: Gantz~Frink]

1 \$10 million, and we also requested the TIRA mechanism.

2 Temporary rates, we achieved a
3 settlement providing \$1.8 million of temporary rates in
4 New Hampshire. And, in Maine, we achieved a settlement
5 providing \$3.5 million in temporary rates.

6 The test year revenue requirement
7 increase reflected in the Settlements, in New
8 Hampshire, 2.74 million; in Maine, 7.78 million. And,
9 I should mention that the companies are comparably
10 sized in the two states. So, you can see the
11 difference between 10 years and 28 years, in terms of
12 the need for rate relief.

13 The step adjustment, post test year step
14 adjustment, in this case, is 0.9 million in New
15 Hampshire, and point 0.85 million, almost the same in
16 Maine. Yielding a total rate increase of 3.7 million
17 in New Hampshire and 8.6 million in Maine.

18 The rate of return stipulated to in New
19 Hampshire is 7.24 percent, and the corresponding rate
20 of return stipulated to in Maine was 7.41 percent.

21 In the Settlement in New Hampshire,
22 there were some significant changes and reductions in
23 the Company's proposed depreciation. Included in the
24 rate increase in Maine, there was no change in

{DG 11-069} {03-29-12}

1 depreciation from what the Company had originally
2 filed.

3 In terms of revenue allocation, the
4 revenue allocation reflected in this Settlement is a --
5 it's a cost-based analysis, with a maximum of
6 115 percent of the average applied to any single rate
7 class. In the State of Maine, it was also a cost-based
8 presentation. And, the rate increase to any one class
9 was capped at 125 percent.

10 In terms of rate design, in both states,
11 we see progress in moving rates towards costs,
12 specifically in terms of higher customer charges,
13 compared to the overall increase in both states.

14 In terms of -- and, finally, in neither
15 state is there in the Settlement a provision for a
16 Targeted Infrastructure Replacement Adjustment
17 component. So, that -- that is something that's not
18 included in either settlement.

19 I should point out that, in the State of
20 Maine, the approval of the Settlement Agreement was two
21 to one, with a dissenting opinion. And, the dissent
22 was around the fact that that Commissioner was not
23 satisfied that there was no TIRA mechanism in the final
24 agreement.

[WITNESS PANEL: Gantz~Frink]

1 So, that's the background, gives kind of
2 the overall view of the cases in the two states. And,
3 I just think that summary hopefully should cover the
4 ground.

5 Q. Okay. Could you, again, for the benefit of the
6 Commission, turn now to Exhibit 4. And just, if you
7 could just briefly walk through and touch on the terms
8 of the Settlement Agreement itself, and then identify
9 the exhibits?

10 A. (Gantz) Yes. I'd be happy to do that. Section 1 is a
11 recitation of the -- it's an introduction and
12 recitation of the procedural history in the case. So,
13 I won't go through that. The guts of the Settlement,
14 if you will, begins in Section 2, which covers the rate
15 increases being agreed to. Section 2.1 outlines the
16 components of the rate increases that are being agreed
17 to. There's an increase in the test year revenue
18 requirement of 2.7 million. There is a post test year
19 revenue requirement increase agreed to by settlement of
20 \$113,806. And, then, there is a step adjustment
21 reflecting the costs associated with non-revenue
22 producing capital spending in 2011 of \$818,819. For a
23 total of just under 3.7 million. And, that is the
24 aggregate revenue increase that will go into effect as

{DG 11-069} {03-29-12}

1 of May 1, 2012.

2 Section 2.2 is the provision relating to
3 the recoupment of the difference between permanent
4 rates and temporary rates. I should point out that, in
5 the State of Maine, they have an eight month statutory
6 timeline for rate cases. They also do not have
7 recoupment for temporary rates, or the difference
8 between permanent and temporary rates. So, that may
9 explain one of the reasons why the timeline was a
10 little bit different in the State of Maine. So,
11 Section 2.2 provides for the recoupment of the
12 difference between the test year revenue requirement
13 amounts agreed to in the final case, as compared to the
14 temporary rates. And, that recoupment amount is
15 calculated as an equal per therm surcharge to all
16 customers over a 12-month period.

17 Section 2.3 is the provision pertaining
18 to the rate case expenses, again, a recovery over a
19 12-month period. And, as I read the Commission audit,
20 I believe the final number agreed to for rate case
21 expenses was \$264,595.

22 Section 3 pertains to the cost of
23 capital and capital structure. That detail is laid out
24 in Section 3.1. For purposes of settlement, we've

[WITNESS PANEL: Gantz~Frink]

1 agreed to a common equity number at 9.5 percent, and an
2 overall rate of return of 7.24 percent.

3 Section 4 is a small section, dealing
4 with depreciation rates. And, that section references
5 an Exhibit 2, which is a one-page statement of the
6 accrual rates that have been agreed to in this case.
7 And, then, there are supporting schedules attached to
8 Exhibit 2 that provide the detailed calculation of the
9 various provisions of the depreciation adjustments.
10 So, that's depreciation and the depreciation
11 settlement.

12 Section 5 deals with rate design. And,
13 it separates the rate design into cost
14 functionalization, revenue allocation, and the design
15 of the rate components. Now, relative to the
16 functionalization, this is the work done to carefully
17 separate costs associated with gas supply from costs
18 that are associated with the distribution rates. It's
19 complex, and there are a number of exhibits that are
20 attached that describe the details.

21 Quickly, in summary, as a result of this
22 case, there is a decrease in some of the items being
23 included in the cost of gas, and corresponding increase
24 in the distribution rate components. The provisions

{DG 11-069} {03-29-12}

1 that are explained in Section 5.1 include the treatment
2 of indirect costs. That's the first paragraph, Page 7,
3 carryover to Page 8. In addition, there are provisions
4 related to the working capital allowance. That's in
5 the second paragraph on Page 8. And, finally, there is
6 a provision on Page 9 dealing with the handling of bad
7 debt expenses in the context of the cost of gas
8 proceeding. Essentially, we're tracking bad debt by
9 component, supply component, base rate component, and
10 that tracking will then be the basis for the accounting
11 in the respective components of cost.

12 Section 5.2 is an additional provision
13 dealing with the apportionment of the PUC assessment
14 between supply and distribution, which will now be put
15 into place. And, the supply component of the
16 regulatory assessment is included in a tariff component
17 referred to as the "Residential Low Income Assistance
18 and Regulatory Assessment" component, and that will be
19 subject to a reconciliation as described in that
20 paragraph.

21 Okay. Section 5.3 deals with the class
22 allocation of the revenue deficiency. And, as I
23 indicated, it's a cost-based allocation, with a maximum
24 increase for any class limited to 115 percent of the

[WITNESS PANEL: Gantz~Frink]

1 average. The exhibits are, you know, are detailed. If
2 we get any questions, we can go into the, you know,
3 look for specific pages, if the Commissioners wish.
4 But that's a basic summary of the provision.

5 And, Section 5.4 is the section that
6 deals with the specific derivation of rate components,
7 the detailed exhibits that support those calculations.
8 And, as I indicated, there's a movement towards what we
9 consider to be cost-based rates and increases in the
10 customer charge components relative to the average to
11 be reflected in the rate design.

12 Q. Mr. Gantz, if I could just -- I just want to point your
13 attention to both Section 5.3 and 5.4, the sentence
14 that indicates "adoption of [the] revenue allocation
15 for purposes of this settlement does not represent
16 agreement as to any specific methodology or calculation
17 for the derivation thereof." And, that's consistent
18 with the overall intent of the Settlement Agreement,
19 that it is a settlement agreement, and there is no --
20 adoption of any particular point should not be seen as
21 a concession or agreement by any particular party, the
22 Settlement Agreement should be taken as a whole. Is
23 that correct?

24 A. (Gantz) Yes. That is correct.

{DG 11-069} {03-29-12}

1 Q. Thank you.

2 A. (Gantz) That is correct. The Section 5.4 references
3 the exhibit where the rate design is derived in detail
4 in Exhibit 4. And, then, it also references Exhibit 5,
5 which provides a bill impact analysis by class, summer
6 and winter, for all the rate classes, based on the
7 aggregate increases in distribution rates and the
8 corresponding decrease in cost of gas rates. That
9 section also references Exhibit 6, which provides the
10 rate design for the step adjustment that will apply on
11 May 1st. And, the step adjustment is being applied as
12 an equal percentage increase to all of the distribution
13 rate components. The bill impacts associated with that
14 change are provided in Exhibit 7. There's one item
15 that's -- a rate design item that's not reflected in
16 the Settlement language, *per se*, but it's included in
17 the tariff provisions I just wanted to mention. This
18 is something that the OCA witness pointed out, and it
19 had to do with looking at the detailed bill frequencies
20 in the Heating Class and the Non-Heating Class, they
21 pointed out that the Heating Class seemed to have a
22 number of customers in the class that had patterns of
23 usage more consistent with heating usage, as opposed to
24 non-heating usage. And, based upon that, we have

[WITNESS PANEL: Gantz~Frink]

1 tightened up the language of the tariff. And, over the
2 course of the coming summer, we'll be looking at making
3 sure that customers are in the appropriate class based
4 upon that definition. I think we found that the
5 Company had not really taken a hard look at that
6 particular issue for a number of years, and it was
7 appropriate to do so at this point in time.

8 And, then, finally, Section 5.5 is a
9 provision dealing with the Company's proposed "Dual
10 Fuel Rider", indicating that we're not proceeding at
11 this time with a given provision, but we will seek to
12 address any circumstances where that issue is of
13 concern directly with the customers.

14 In addition, we'll simply point out that
15 there is no provision in here regarding "Targeted
16 Infrastructure Replacement Adjustment". While we may
17 have different opinions as to the merits thereof, that
18 is not being included in this settlement. And, so, we
19 will proceed without one.

20 Section 6 references the tariff changes,
21 both to implement the new rates, as well as some
22 adjustments to certain provisions of the tariff.
23 Exhibit 8 provides a copy of the revised tariff pages
24 in a clean version, as well as a red-lined version.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 And, then, Section 7 is the standard
2 terms of the Settlement Agreement. And, again,
3 reinforces that we may all have different reasons for
4 supporting the Settlement, but, you know, we support it
5 in aggregate and are pleased to have this case come to
6 this conclusion.

7 MR. EPLER: Okay. That's all of the
8 direct examination I have with Witness Gantz.

9 CHAIRMAN IGNATIUS: Mr. Speidel.

10 BY MR. SPEIDEL:

11 Q. Mr. Frink, would you have any additional comments or
12 no?

13 A. (Frink) Yes. I would like to say on the -- we'd rather
14 not have a split decision here in New Hampshire on the
15 Settlement. The fact is, the TIRA in Maine is much
16 more substantial. They're doing an aggressive
17 replacement program of bare steel and cast iron.
18 Whereas, in New Hampshire, it is on a much limited
19 scale. We did have an aggressive, accelerated program
20 through most of the '90s, did have, in essence, a TIRA
21 at that point in time. And, once we felt that -- once
22 the Commission felt that was under control, they
23 eliminated the mechanism that allowed for annual rate
24 increases. And, Northern has continued the program on

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 a scaled-back basis. And, that program is expected to
2 be completed within another four or five years. And,
3 that's -- so, it's not quite the same issue that it is
4 in Maine, here in New Hampshire.

5 And, also, I would like to say that the
6 filing was made using long accepted and traditional
7 ratemaking. I believe that's reflected in the rates
8 here in the Settlement. It's actually two increases,
9 and the step adjustment allows the Company to recover
10 what is a reasonable return. And, I'd say it's a
11 "reasonable return", because it's similar to what the
12 Commission has been granting in other recent rate
13 cases. But, because of the step adjustment, the
14 Company will have an opportunity to earn that return on
15 its current rate base. So, that helps reduce
16 regulatory lag. And, also, as part of this process,
17 the operations and maintenance expenses were
18 scrutinized. And, these rates reflect ongoing current
19 expenses. And, for those reasons, we feel the rates
20 are just and reasonable, and recommend Commission
21 approve it.

22 MR. SPEIDEL: Thank you.

23 CHAIRMAN IGNATIUS: Does that complete
24 your direct?

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 MR. SPEIDEL: I believe it does. I
2 believe Mr. Gantz and Mr. Frink have answered Staff's
3 general desire for some background.

4 CHAIRMAN IGNATIUS: Mr. Dunne, do you
5 have any questions for the panel?

6 MR. DUNNE: I do not.

7 CHAIRMAN IGNATIUS: Ms. Hollenberg?

8 MS. HOLLENBERG: I have no questions.
9 Thank you.

10 CHAIRMAN IGNATIUS: All right. Then,
11 there's probably no redirect from you. Are there any
12 questions from the Commissioners?

13 CMSR. HARRINGTON: I just have a couple
14 of questions.

15 BY CMSR. HARRINGTON:

16 Q. Mr. Gantz, you mentioned something on the -- there was
17 some concern over the Heating Class issue, and that
18 certain Non-Heating Class customers were -- had a use
19 pattern that was similar to the Heating Class, and that
20 there was some commitment to evaluate this. Or, what
21 exactly is the commitment there going forward?

22 A. (Gantz) Okay. Just a little bit of background. The
23 Company might -- the Company might not always know if
24 somebody converts from, you know, water or cooking use

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 of natural gas to heating. And, so, over time you
2 might see some changes in usage patterns for individual
3 customers. And, in the tariff previously, the Company
4 did not have, to my mind, a clear characterization of
5 how to categorize customers. It was more of a loose
6 kind of definition. And, so, we've now included a
7 definition that's a little bit clearer about, you know,
8 the percentage of your winter load to your summer load,
9 you know, in terms of characterizing when it is a
10 weather-sensitive load that should be included in the
11 Heating Class, as opposed to the Non-Heating Class.

12 And, so, what we'll be doing is, based
13 upon -- well, we haven't had much heating load this
14 winter. But, based upon results for this winter, we'll
15 be looking at the Non-Heating Class and identifying and
16 then contacting the customers that should be in the
17 Heating Class because of their usage characteristics,
18 and then proceed to move them over.

19 I think Mr. Debski did an analysis that
20 identified perhaps 70, was it? Seventy customers.

21 MR. DEBSKI: During the test year, it
22 was approximately between 70 and 80 customers.

23 **BY THE WITNESS:**

24 A. (Gantz) Yes. So, it was 70 to 80 customers in the test

{DG 11-069} {03-29-12}

1 year that fell into that category that probably
2 belonged in the Heating Class. So, that's the extent
3 of the issue. And, that's what we would propose to do.

4 BY CMSR. HARRINGTON:

5 Q. Okay. And, that's -- two questions. I think you said
6 that would be -- that's documented in the tariff then,
7 this new definition?

8 A. (Gantz) Yes. The new definition is in the proposed
9 tariff, yes.

10 Q. And, help me out, what's the significance of someone
11 being reclassified from Non-Heating Class to Heating
12 Class customer?

13 A. (Gantz) Well, it -- the design of the rates, based upon
14 the costs, you know, the theory is that we've got a
15 study now that's -- that's the basis for the rates as
16 designed for the Heating Class and the Non-Heating
17 Class that reflects weather-sensitive usage and
18 non-weather-sensitive usage. So, in order to ensure
19 that customers are appropriately paying their share of
20 the costs, they should be in the correct rate class.
21 And, so, that's the purpose of it.

22 Offhand, I don't recall, and we'll have
23 to see if Mr. Debski recalls, or we could do a
24 calculation to determine whether it's an increase or a

1 decrease when a customer moves, that will largely
2 depend on their overall level of usage, but it's not
3 anticipated to be a significant rate impact on a given
4 customer.

5 Q. All right. That answers my question. Thank you.
6 Getting back to this Targeted Infrastructure Recovery
7 Adjustment, and I'll just tell you, when I read the
8 Settlement Agreement, one of the things I noticed in
9 there was that, in the section that, first of all, that
10 was proposed, as well as the dual fuel adjustment.
11 And, if you look at Page 12 of the Settlement
12 Agreement, it has an explanation of -- stating that the
13 "Dual Fuel Rider is withdrawn" and why it was withdrawn
14 and what was going to be going on in the future. There
15 is no inclusion of, or at least I couldn't find
16 anything in there, as to why the Targeted
17 Infrastructure Recovery Adjustment was removed. Am I
18 reading this -- should I be taking this to mean that
19 the Company still feels that that is a program with
20 benefit, and you just -- there was concession made to
21 reach the Settlement Agreement? Why was there no
22 explanation in the Settlement Agreement as to why it
23 was removed?

24 A. (Gantz) I think the parties -- let me characterize it

[WITNESS PANEL: Gantz~Frink]

1 this way. In the interest of reaching a global
2 settlement, we removed the TIRA proposal. So, we're no
3 longer proposing a TIRA mechanism in New Hampshire.
4 And, that was something that we believed was necessary
5 in order to achieve a global settlement.

6 Q. Okay. And, what I'm saying, I'm trying to contract
7 that with the Dual Fuel Rider, which I assume you could
8 make the same statement about, you felt "it was
9 necessary to remove that to reach a global settlement",
10 and there's a section in the Settlement Agreement that
11 explains why that was done. There is no similar
12 section for the TIRA. And, my concern is, with all the
13 attention being paid to pipeline safety and the
14 explosions and stuff, is that is this something that
15 the Company feels is still necessary or is it just a
16 "nice to have" thing that you could do without?

17 A. (Gantz) I would say, based on our support of the
18 Settlement Agreement, the Company deems that at this
19 time it is not necessary.

20 CMSR. HARRINGTON: Okay. All right.
21 Those are the only questions I had of Mr. Gantz. Are we
22 doing both of them?

23 CHAIRMAN IGNATIUS: Yes.

24 MR. EPLER: Excuse me.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 CHAIRMAN IGNATIUS: Mr. Epler.

2 MR. EPLER: If I may address some to
3 Commissioner Harrington's point? Additionally, if you
4 look at Section 5.5, the Dual Fuel Rider, one of the
5 reasons it was included, specifically included here,
6 saying that it was not going to be implemented, was
7 because there also was agreement that the Company would
8 develop and propose a tariff applicable to the situations
9 it attempted to address in the Dual Fuel Rider. So, it
10 went further than just withdrawing it. There's actually
11 an agreement that we would propose something in the
12 future.

13 CMSR. HARRINGTON: All right. Thank
14 you.

15 BY CMSR. HARRINGTON:

16 Q. And, Mr. Frink, just again getting back to this TIRA, I
17 don't know if I misunderstood your terminology or
18 whatever, but it sounded as if you were talking about
19 the difference between New Hampshire and Maine, and you
20 were talking about "something was much more aggressive
21 in Maine than in New Hampshire." Now, do they both
22 have a TIRA already? It sounds like they don't, so --

23 A. (Frink) Neither one has that mechanism. New Hampshire
24 had that type of mechanism through the '90s. And, at

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 that point in time, it was considered a safety risk.
2 The pipeline safety was an issue. And, so, it was
3 decided at that point in time to implement a program
4 that would encourage the Company to replace those pipes
5 more aggressively than they already were. Now, all of
6 the gas utilities have programs to replace unprotected
7 bare steel and cast iron. And, none of them were -- in
8 New Hampshire had that mechanism prior to Northern's.
9 And, EnergyNorth continued their program throughout
10 that period without a mechanism to recover rates that
11 encouraged them to accelerate the program. Whereas,
12 Northern was given this program because it was a
13 significant investment. And, they did more spending
14 than they would have otherwise, and they reduced the
15 risks on the system. And, at that point in time, the
16 parties -- there was a settlement that the Commission
17 approved that said "Northern will continue that
18 program", which they continue to this day, "to replace
19 that at-risk pipe, but that they no longer have the
20 annual increase to recover those costs." And,
21 consequently, without that incentive, they did scale
22 back what they were spending in that program. But the
23 feeling was that that was not a risk to public safety,
24 or that it was an acceptable risk. And, so, as I said

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 Northern is continuing their program. When Unitil
2 acquired Northern in 2008, part of the conditions of
3 the Settlement Agreement were that Northern would
4 continue that program and complete it, continue that
5 program, essentially, at the current levels, which
6 would complete the program within, I think, ten years
7 or something in that range. And, they have continued
8 the program. They have knocked it down now to I think
9 it's approximately four years where they will have
10 replaced all their bare steel. They have already
11 replaced all their cast iron.

12 So, it's not -- from a safety
13 standpoint, the Company is doing, has a program and is
14 addressing that issue. It's just not recovering rates,
15 it's more a rates issue.

16 Whereas in Maine, they had an enormous
17 amount of cast iron and bare steel. They never had a
18 program to address that in the past. Fairly recently,
19 well, once Unitil acquired Northern -- well, actually,
20 I think Maine had started an investigation into that
21 issue before Unitil even acquired Northern. And, in
22 that process, when Unitil came in, I believe they
23 agreed to replace all that pipe in maybe 14 years. So,
24 they are spending an enormous amount of money. And, at

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 that time, as part of that settlement, again, the
2 Company may be better able to address that, I believe
3 Maine agreed that, you know, we'll give you a mechanism
4 to do this and to file that in your next rate case,
5 which they did. And, that is why I believe there was a
6 dissention. I think the Commissioners, at least one,
7 felt that we needed an aggressive policy and the
8 Company should be compensated for that.

9 Q. Okay. So, if I just kind of shorten that up, because
10 of the accelerated program we had in the past, and we
11 don't need to continue to have an accelerated program,
12 that kind of the normal program will take care of this,
13 and this can be -- the cost of that could be captured
14 through normal step increases?

15 A. (Frink) Well, through normal rate cases.

16 CMSR. HARRINGTON: Yes. Through normal
17 rate cases. All right. Thank you. That's all.

18 CHAIRMAN IGNATIUS: Mr. Epler, you have
19 something else?

20 MR. EPLER: Chairman Ignatius, if I may,
21 to comment upon that. I think that the Staff witness is
22 correct in most of the aspects. Just to assure the
23 Commission, the Company is not changing its investment
24 program, we're not cutting back because we didn't get the

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 TIRA. We're continuing with our program. We had sought a
2 different type of recovery through the TIRA for that
3 program. We couldn't come to agreement on it. We did
4 come to an overall agreement in this case. But, just to
5 assure you, we're continuing with the investment in that
6 program, and our target dates are along the lines as
7 suggested by the Staff witness.

8 The situation in Maine is considerably
9 different. As the Staff witness indicated, there's
10 significant cast iron on the Maine system, as compared to
11 the New Hampshire system. And, through a series of cases
12 in Maine, the Company was proceeding in different areas of
13 replacing that. Some had occurred before Unitil acquired
14 the Company, and now there's a significant undertaking in
15 the Portland area since Unitil has acquired the Company.
16 And, again, there, the parties couldn't get to an
17 agreement on the recovery mechanism. So, the Company
18 determined that it was sufficient, given the, again, the
19 overall rate settlement there, that it would move forward
20 and is looking at its options. And, it may propose
21 something in the future. It was agreed that there was no
22 prejudice to withdrawing that. As the Staff witness
23 indicated, one of the Commissioners did want to see that,
24 but -- and it may be something that would be filed in the

{DG 11-069} {03-29-12}

1 future.

2 CMSR. HARRINGTON: All right. Thank
3 you. That helps.

4 CHAIRMAN IGNATIUS: Commissioner Scott.

5 CMSR. SCOTT: Thank you.

6 BY CMSR. SCOTT:

7 Q. For Mr. Gantz, I think. When I look at the Exhibit 4,
8 the Settlement Agreement, on Page 6, regarding
9 Section 2.3, regarding the rate case expenses, the
10 language strikes me a little bit strange. The
11 Settlement Agreement is dated "March 22nd", yet the
12 language says that "Northern shall file with the
13 Commission its proposed charge by March 15th." It just
14 struck me as, at least timewise, not in sequence. Can
15 you explain that to me?

16 A. (Gantz) Yes. Obviously, it took a little bit of time
17 to get all of this paper assembled, and, you know,
18 parties, you know, taking the time and, you know,
19 fine-tuning all the details. So, that original date
20 passed. The Company did complete its rate case expense
21 filing, it's been audited by the Commission Staff. We
22 also did complete our recoupment filing. And, I
23 believe we had one subsequent change in that that, you
24 know, we've all agreed to. So, while the dates may

1 look a little bit odd, everything, you know, is now
2 satisfied. You know, the filing of the rate case
3 expense, the filing of the recoupment is satisfied for
4 purposes of this document.

5 Q. Thank you. That's helpful. Just, without hearing
6 that, that begs the question of "was it filed and is it
7 part of the Agreement?" So, thank you.

8 To help educate me as the new
9 commissioner, I was just curious, you did outline
10 nicely in the beginning what happened in Maine,
11 compared to the New Hampshire Settlement. And, if you
12 mentioned this, I didn't catch, the return on equity
13 that you got in Maine, I was just curious?

14 A. (Gantz) There was no stipulated return on equity in
15 Maine. There were some differences of opinion about
16 inclusion or exclusion of certain rate base items and,
17 you know, whether the return -- rate of return should
18 be, you know, one number or another number. So, rather
19 than specify those numbers in the Settlement, the
20 parties agreed to an end result. And, that end result
21 was an overall rate of return of 7.41 percent.

22 So, it's fair to say, and this question
23 came up in the hearing in Maine on the Settlement, if
24 you look at the presentation, essentially, the proforma

[WITNESS PANEL: Gantz~Frink]

1 presentation of numbers in the case, and the way the
2 tax effect affects equity and not debt. And, you look
3 at that, you can do a calculation that calculates a
4 return on equity of 9.9 percent. But that's not
5 something that was, you know, accepted by the parties
6 in the stipulation. So, it's a computed number, rather
7 than a stipulated number. And, if you were to handle
8 certain of the rate base items differently, you'd come
9 out with a different return on equity number.

10 CMSR. SCOTT: Thank you. That's all I
11 had.

12 CHAIRMAN IGNATIUS: All right. Thank
13 you.

14 BY CHAIRMAN IGNATIUS:

15 Q. Sticking with the rate case surcharge for a moment,
16 have you calculated what the rate impact of that will
17 be, as well as the rate impact of the recoupment for
18 the difference between temporary rates and permanent
19 rates, if this were approved?

20 CHAIRMAN IGNATIUS: Mr. Epler.

21 MR. EPLER: Chairman Ignatius, if I may.
22 Yes, as previously indicated by Mr. Gantz, there was a
23 little bit of a iterative dynamic going on when we were
24 preparing all the final papers and finally negotiating the

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 process. What happened is, the Company went ahead and
2 filed a proposed recoupment and rate case expense charge.
3 Subsequent to actually filing that, we came to a different
4 agreement as to how to allocate those costs. And, so, the
5 Company is planning to refile that and has to do that by
6 April 2nd. So, there is something in your -- in your file
7 room, but it will be withdrawn and refiled by the Company.

8 But the amounts have been audited and
9 we're not changing those amounts. So, there are fixed
10 amounts, the Staff Audit Staff has had opportunity to
11 review those. Those will be indicated in the revised
12 filing.

13 The issue had to do with the allocation,
14 whether it was to be a class allocation or a therm
15 allocation. And, it was finally agreed to do a per therm
16 allocation, and that's why it needs to be refiled.

17 CHAIRMAN IGNATIUS: That's helpful.
18 Would it be possible in the record request to include the
19 total impact to customers when you add in those two
20 surcharges?

21 MR. EPLER: Yes. We can do that.

22 CHAIRMAN IGNATIUS: You can do them
23 separately, but maybe also add that, just so that, from a
24 customer perspective, you know, that's what they see.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 WITNESS GANTZ: Yes. And, just as an
2 editorial remark, we're very thankful that natural gas
3 supply costs are where they are today, and not where they
4 were in 2006.

5 (Record Request 1 reserved, marked as
6 Exhibit 8 for identification.)

7 BY CMSR. HARRINGTON:

8 Q. And, I'm wondering, on your dual fuel thing, what's the
9 dual fuel that people could use that's cheaper, I'd
10 like to find out?

11 A. (Gantz) Yes. I think that's a good question. And, one
12 of the reasons why, I would say in both New Hampshire
13 and Maine, we didn't feel the necessity to pursue that
14 aggressively, you know, in the context of a resolution,
15 because with the economics where they are, dual fuel
16 customers are essentially burning as much natural gas
17 as they can find.

18 However, the concern is that, at a point
19 in time where a customer, for whatever reason,
20 decreases their utilization of natural gas, but has the
21 capability of potentially instantaneously switching
22 back to natural gas, and therefore imposing a demand on
23 the Company's system, you know, when our engineers do
24 their calculation of capacity available on a line,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 they're going to look at that connected load or that
2 customer's capability and, in certain cases, it might
3 then result in the Company not being able to offer
4 natural gas supply to a new customer.

5 So, in the two states right now, we only
6 have one situation, and it's in New Hampshire, where
7 that may be an issue that the Company needs to pursue.
8 In which case, as indicated, we'll pursue it
9 individually with the customer, seek to come to a
10 resolution, and then propose something to the
11 Commission, hopefully, as an agreement with the
12 customer, but, if not, as a, you know, as a contested
13 proposal. So, that's -- we'll see where that goes over
14 the next couple of months.

15 CMSR. HARRINGTON: Thank you.

16 BY CHAIRMAN IGNATIUS:

17 Q. A couple of questions about the Bare Steel Program.
18 How many miles are left now to replace? Or, do you do
19 it in terms of miles? How much -- I know you've made
20 good progress, but what does that mean?

21 A. (Frink) We receive an annual report that goes to the
22 Safety Division that cites what's been replaced and the
23 total left remaining to be replaced. I don't have that
24 report with me, but we can certainly get that for you.

{DG 11-069} {03-29-12}

1 Q. Do you have a -- does the Company do an annual
2 projections or budget for how much it will undertake
3 and even specifically identify the areas to be worked
4 on in the coming year?

5 A. (Frink) They do. As a matter of fact, when this
6 program was first instituted, there's a priority chart
7 that essentially rates each project and the risk
8 factors. And, at that time, when it first came -- when
9 we adopted that mechanism, the risk factor, I think
10 "15" was considered bad, but below that was acceptable,
11 and they had perhaps their systems are in the 30s.
12 And, so, that list of projects that got every year, or
13 the ones that would float to the top for various
14 reasons, those are the ones that get replaced. So,
15 every year they come in and show what they're planning
16 to replace and what they have replaced, what's
17 remaining, what the level of risk is. And, again,
18 after ten years in the program, it got down to where
19 everything was under 15. All the cast iron has been
20 replaced. I don't think there's much left. We do have
21 those reports. We can provide that information. I
22 know it's not significant, in both the timeline -- and
23 for comparisons, EnergyNorth, we're looking at 20, 30
24 years to replace all of their bare steel and cast iron.

[WITNESS PANEL: Gantz~Frink]

1 So, relative to the other natural gas utility, Northern
2 is in very good shape.

3 Q. And, Northern is projecting about four years to get to
4 the end point?

5 A. (Frink) That's correct.

6 Q. You don't need to supply the details on that. That's
7 just a good context, I appreciate that. The reference,
8 Mr. Frink, in your testimony to, I'm looking at Page 9,
9 to the "Step Adjustment for 2011 Non-Growth Capital
10 Investments", seemed like a complicated way of getting
11 to the right level using percentages, instead of just
12 actual investments.

13 A. (Frink) Yes.

14 Q. So, can you help me out with that?

15 A. (Frink) That is true. And, as already stated by
16 Mr. Gantz, that the settlement process went into was
17 fairly lengthy and took some time. But, at the time
18 when we reached the settlement, it was the very
19 beginning of January. And, we haven't seen any of the
20 numbers, the Company hadn't done an analysis as to what
21 was non-revenue, what's -- what's non-growth and what
22 was revenue producing. So, to get a reasonable proxy,
23 we simply accepted the number for settlement purposes
24 and said "well, break it out." And, then, we did --

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 the Staff Audit team did do an audit of that number
2 that was provided that we had agreed to in settlement.
3 They found some -- maybe some plant that wasn't in
4 service or some issues. The Company and the Audit
5 Staff reached an agreement. And, they -- the non --
6 well, the total investment was reduced, and that's what
7 the Settlement reflects. So, those numbers have been
8 audited. All that plant is in service. And, as to
9 what's exactly non-revenue producing versus revenue
10 producing, that analysis still hasn't been done, and
11 the Settlement doesn't provide for that to be done, but
12 it could go either way. The fact is, it was a fair way
13 to come up with a proxy.

14 Q. And, all of it, even though that final analysis may not
15 be complete in every case, you are certain that all of
16 it is used and useful and in provision of utility
17 service?

18 A. (Frink) Yes.

19 Q. Mr. Frink, you said that the settlement was reached
20 using traditional ratemaking methods. There is one
21 point, I can't remember if it was your testimony or
22 someone else, that said that, "rather than using a
23 13-month average, there was an end of test year balance
24 used", is that right?

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 A. (Frink) That is right. And, that seems to be a fairly
2 common practice these days. There was a point where
3 Staff, in particular, and the OCA were very strict as
4 to, and the Commission, that it should be a 13-month
5 average. I think, in the more recent years, to reflect
6 more current rate base, that, I know in electric and
7 gas and water, we've moved more towards using a
8 year-end rate base.

9 Q. And, in this case, you're comfortable that that's the
10 appropriate way to go as part of this Settlement?

11 A. (Frink) Yes. And, the fact that we have a step
12 adjustment to further bring in investments beyond
13 December 31st, 2010, no, I absolutely believe that's
14 fair and reasonable. And that, again, the goal is to
15 give the Company an opportunity to earn their allowed
16 rate of return and hopefully avoid having another rate
17 case in the near future.

18 Q. Although, there is, in your testimony I think, the
19 expectation that, by 2014, the Company would be back,
20 in part because of certain debt circumstances from
21 growing out of the merger?

22 A. (Frink) There is a stay-out provision in Maine, we
23 didn't ask for one in New Hampshire, as part of the
24 Settlement, that they wouldn't file for -- that

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 Northern won't file for a rate case in Maine with the
2 rates effective before January 1st, 2014. But the fact
3 is, the Company is under -- using a cost of capital and
4 capital structure a rate that was stipulated to as part
5 of the merger, it isn't their actual cost. And, so,
6 the reality is, once that condition comes off, and it
7 was tied to the debt that was replaced, that debt would
8 have matured on -- in June of 2013. And, so, at that
9 point in time, using the actual capital structure of
10 the debt, then it's likely to increase the revenue
11 requirement significantly enough to where it's likely
12 that the Company would file a rate case. I do believe
13 the Company is also looking at going to the market and
14 restructuring their -- issuing more debt possibly and
15 equity. And, so, I think, within the next couple of
16 years, they may do that as well, all of which would
17 bode for a rate case in the not-too-distant future.

18 CHAIRMAN IGNATIUS: All right. Thank
19 you. I have no other questions. Any redirect, Mr. Epler?

20 MR. EPLER: No thank you.

21 CHAIRMAN IGNATIUS: All right. Then,
22 you're excused. Thank you for your testimony. Are we
23 hearing from the other two Staff witnesses?

24 MR. SPEIDEL: I believe not, as a matter

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Frink]

1 of fact, unless the Commissioners would like to interview
2 them?

3 CHAIRMAN IGNATIUS: I did have one
4 question of Mr. Wyatt or Mr. Gantz or Mr. Chong, I don't
5 know who wants to take it. And, that is, on the changes
6 to the rate design, and there's a change in how the blocks
7 work and change somewhat different seasonally, what the
8 impact customers will see? Is it significant enough that
9 someone's bill is going to be markedly different than what
10 they would have expected in certain seasons? And, I don't
11 know, Mr. Gantz, if you're comfortable, while your still
12 there, responding to that or Mr. Wyatt or someone else?

13 MS. HOLLENBERG: Excuse me. Are you
14 inquiring about the fact that in certain -- in the summer
15 season, for instance, we went from two blocks to one, is
16 that your question?

17 CHAIRMAN IGNATIUS: Yes.

18 MS. HOLLENBERG: Okay.

19 CHAIRMAN IGNATIUS: And, specifically,
20 in Mr. Wyatt's testimony at Page 11, there's a discussion
21 about the changing rate structure and the monthly charge,
22 and sounded like a seasonal split, a seasonal difference.

23 MR. SPEIDEL: Perhaps we can call
24 Mr. Wyatt to the stand, so he can answer directly as well?

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 CHAIRMAN IGNATIUS: That would be great.

2 MR. SPEIDEL: I call Robert Wyatt to the
3 stand.

4 (Whereupon *Robert J. Wyatt* was duly
5 sworn by the Court Reporter.)

6 **ROBERT J. WYATT, SWORN**

7 **DIRECT EXAMINATION**

8 BY MR. SPEIDEL:

9 Q. Just a couple of preliminaries, Mr. Wyatt. What is
10 your position with the Commission?

11 A. (Wyatt) I am a Utility Analyst for the Commission.
12 I've been with the Commission for ten years.

13 Q. As part of your responsibilities as a utility analyst,
14 did you participate in the review of the rate case
15 filing made by the Company?

16 A. (Wyatt) Yes, I did.

17 Q. And, did you participate in the settlement negotiations
18 related to this Settlement Agreement?

19 A. (Wyatt) Yes, I did.

20 MR. SPEIDEL: Thank you very much.

21 WITNESS WYATT: Okay. I'll try to
22 answer your question.

23 CHAIRMAN IGNATIUS: Thank you.

24 **BY THE WITNESS:**

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 A. (Wyatt) I want to first point you to one of the
2 exhibits in the Settlement Agreement. And, that
3 exhibit is Settlement Exhibit Number 7. I don't know
4 if you have easy access to that, because it's a pretty
5 thick package.

6 A. (Gantz) Yes. It would be Bates 477.

7 A. (Wyatt) Okay.

8 CHAIRMAN IGNATIUS: All right.

9 **BY THE WITNESS:**

10 A. (Wyatt) Let me get to the right page here. First, I'm
11 going to start right with Page 1 of 20, and this is the
12 Residential Heating Customer class. The bill
13 comparison for rates that will be in effect beginning
14 May 1 of this year. And, the top half of this matrix
15 includes both delivery and supply costs.

16 MR. EPLER: Excuse me. Can we just
17 pause the hearing for a second?

18 CHAIRMAN IGNATIUS: Sure.

19 MR. EPLER: Because I'm not sure if we
20 have the correct exhibit. But may I approach the witness
21 bench?

22 CHAIRMAN IGNATIUS: Yes, of course. We
23 can go off the record, if you need to.

24 MR. EPLER: Thank you.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 (Atty. Epler conferring with the
2 witnesses.)

3 CHAIRMAN IGNATIUS: All right. Can we
4 go back on the record?

5 MR. EPLER: Yes.

6 WITNESS WYATT: Okay. My apologies for
7 the interruption.

8 CHAIRMAN IGNATIUS: That's all right.

9 **BY THE WITNESS:**

10 A. (Wyatt) It's better to look at Exhibit 5 of the
11 Settlement Agreement, to show you the difference
12 between test year, when the headblock and the tailblock
13 were different for these classes, and that I referenced
14 in my testimony.

15 A. (Gantz) Right. This is Bates 456.

16 A. (Wyatt) Okay. So, this first page in this exhibit is
17 the Residential Heating Customers for the winter
18 period. Now, in the winter period, if you look down at
19 "Present Rates" versus "Proposed Rates", you will see
20 there still is a difference in the tailblock versus the
21 headblock. The distribution charge for proposed rates,
22 for the first 50, and then there's a different rate for
23 rates -- or, for usage beyond the 50 therms. Now, if
24 you turn to the next page, it's -- there still is a

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 differentiation between the two rates, it was the
2 non-heat component customers, I believe, where we --

3 A. (Gantz) Page 2, "Proposed Rates"?

4 A. (Wyatt) Correct.

5 A. (Gantz) Shows the same block rate in the first and the
6 tailblock.

7 A. (Wyatt) Oh. I'm sorry. I'm still getting used to our
8 new printers printing on both sides of the page, and I
9 skipped to Page 3 by mistake.

10 BY MR. SPEIDEL:

11 Q. Now, Mr. Wyatt, just for the benefit of the written
12 record of this transcript, when you refer to the
13 "headblock", you're referring to "Distribution Charge -
14 First 50 therms"? And, when you --

15 A. (Wyatt) Yes.

16 Q. And, when you refer to the "Distribution Charge -
17 excess 50 therms", you're using the shorthand term
18 "tailblock"?

19 A. (Wyatt) That is correct.

20 MR. SPEIDEL: Thank you.

21 **BY THE WITNESS:**

22 A. (Wyatt) So, during the settlement discussions, we met
23 with the Company and with the OCA's witness expert on
24 rate design, and we looked at the frequency analysis,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 some of the statistical analysis that the OCA's witness
2 provided for the discussion. And, the differentiation
3 between the blocks didn't seem to make as much sense
4 for these classes, for the residential classes. So, a
5 proposal was made to change the rate design to have the
6 same tailblock as the headblock. And, this schedule,
7 on Page 2 of 20, for the Residential Heating Customer,
8 for the summer period, we're talking summer period
9 right now, when there's less usage, you can see the
10 difference between present rates and current rate in
11 the top half of the -- or present rates and the
12 proposed rates. And, the difference, for instance, for
13 an average monthly usage 19.12 therms, which is in the
14 middle of that upper half, the rate impact would be
15 12.7 percent.

16 MS. HOLLENBERG: Excuse me, Chairman
17 Ignatius. I'm sorry.

18 CHAIRMAN IGNATIUS: Yes.

19 MS. HOLLENBERG: I'm sorry. I didn't
20 know if you were done yet. I just wanted to make a
21 statement. But I will wait until the witness is done, if
22 he's --

23 **BY THE WITNESS:**

24 A. (Wyatt) I guess, at this point, I would just like to

{DG 11-069} {03-29-12}

1 make sure I've answered your question or what kind of
2 clarity can I add?

3 BY CHAIRMAN IGNATIUS:

4 Q. So, for the summer, the proposal for summer rates,
5 rather than going from a fairly steep drop from the
6 first 50 therms to the excess of 50 therms, under the
7 proposal, it will remain the same rate, regardless of
8 the amount of usage, is that right?

9 A. (Wyatt) That's correct.

10 A. (Gantz) And, if I could sort of, we don't have our
11 expert, Paul Norman, here, but I think the way he would
12 characterize that, the overall design, is we've
13 increased the customer charge, which does create some,
14 you know, some increasing burden, if you will, to the
15 smaller customers on the percentage increase basis, and
16 maybe a little bit of a benefit to the large users, you
17 know, again, percentagewise and relatively, by
18 increasing or flattening the tailblock, you know,
19 bringing those blocks together, it brings up the
20 increase to those large users a little bit. So,
21 there's, if you look at the pattern of the differences,
22 for example, for Page 2, that summer rate for the
23 Heating Customer, you know, the small usage has a high
24 percentage increase, because of the customer charge

[WITNESS PANEL: Gantz~Wyatt]

1 increase, and then that declines as they get larger.
2 But, at the very last level, it comes back up again.
3 The percentage increase comes up from 8.1 to
4 8.5 percent. So, that's showing the impact of
5 eliminating that lower tailblock. It just brings that
6 large user, in terms of percentage impact, up a bit.
7 And, I think it's safe to say that the tweaking of the
8 tailblocks, eliminating the block differential, or, in
9 the case of the winter rate, decreasing that block
10 differential, has relatively minor impacts on how those
11 increases distribute across different customers of
12 different sizes.

13 The bigger impact is the change in the
14 customer charge, because that's, you know, that's a
15 significant impact. So, the tailblock changes are
16 relatively minor and are, in a sense, a mitigation,
17 minor though it may be, to bring those larger users,
18 you know, up a little bit, relative to customers that
19 use less.

20 Q. All right. And, Mr. Frink, did you say that an average
21 residential user is somewhere in the sort of 19 therms
22 per month? That doesn't sound right.

23 MR. SPEIDEL: You mean "Mr. Wyatt",
24 Chairman Ignatius?

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 CHAIRMAN IGNATIUS: I'm sorry, yes.

2 What did I say?

3 MR. SPEIDEL: "Mr. Frink".

4 CHAIRMAN IGNATIUS: Yes. Sorry. Mr.
5 Wyatt.

6 **BY THE WITNESS:**

7 A. (Wyatt) Well, in the example, in the matrix in the
8 upper half of the page, say, in the meddle of the
9 summer, a Heating Class Customer may use 19 -- that
10 does use 19 therms per month, the impact would be
11 12.7 percent.

12 A. (Gantz) And, this is based upon a bill frequency. So,
13 that is at the -- the 19 therms is at the 60th
14 percentile testimony. And, the 50th percentile is
15 actually just a little bit lower than that, at the
16 15.7. So, this is based on an actual distribution of
17 the bills.

18 **BY CHAIRMAN IGNATIUS:**

19 Q. All right. This is getting too complicated. Somebody
20 tell me, for winter, and I was looking at the wrong
21 one, for winter, what is a ballpark that you use for an
22 average Residential Heating Customer per month?

23 A. (Gantz) Again, using this presentation, we would look
24 at the 50th percentile level, which is about 75 therms.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 And, this is on Page 1 now, or Bates 456, an increase
2 for that customer of \$6.55, or 5.2 percent. And, that
3 is including delivery and supply.

4 CHAIRMAN IGNATIUS: Thank you. Those
5 are all my questions. Commissioner Harrington.

6 MS. HOLLENBERG: Excuse me.

7 BY CMSR. HARRINGTON:

8 Q. Well, now that I have to admit I haven't studied every
9 single line of every chart, it's thousands of pages,
10 but now this one was brought up, just maybe a
11 clarifying question. Since we're on 456, let's go
12 there. Just for example, taking the -- in "Delivery
13 and Supply", and then you have "Distribution Only", the
14 "60%" line there, which is "92.72" therms, you go
15 across, it shows a increase under the proposed rates of
16 "\$7.86". Now, if you go down to "Distribution Only",
17 at the same level, "92.72", shows a "Distribution Only"
18 increase of "\$7.03". Now, I understand the \$7.03 is
19 attributed just to costs for upkeep of the pipe and all
20 the things associated with the distribution of the gas.
21 Is it correct to assume that the difference between the
22 7.03 and the 7.86 is an increase in the price of gas
23 that would -- to a "delivery and supply" customer?
24 And, I thought gas prices have been going down. So,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Wyatt]

1 I'm just not quite sure what I'm missing there.

2 A. (Gantz) Yes, that's a good question. The supply costs
3 that are assumed for this comparison are not changing.
4 But, if you look down at the bottom of the page, you
5 see the "present rates" and the "proposed rates", and
6 you see the "LDAC" is a rate component that reflects
7 certain items, including the --

8 Q. I'm sorry, did you say "LD" or "LB"?

9 CHAIRMAN IGNATIUS: "LD".

10 CMSR. HARRINGTON: "LD", okay. I'm
11 sorry.

12 A. (Gantz) Yes. "Local Distribution Adjustment Charge".

13 BY CMSR. HARRINGTON:

14 Q. Yes. Okay.

15 A. (Gantz) That's the one that has, for example, the Low
16 Income and Regulatory Assessment component that is
17 referred to in the Settlement is in that component, and
18 then there's a cost of gas component as well. So,
19 those -- those items are affected by the changes in the
20 rate treatment for the settlement, some things moving
21 back and forth between those items. And, so, there's
22 an increase in those components. So, when you look at
23 the total delivery, plus supply, it's got those
24 increases in it. But, if you look at delivery or

{DG 11-069} {03-29-12}

1 distribution only, it doesn't have those in it. So,
2 that's why you have the \$7.03, opposed to the \$7.86.

3 Q. So, the 83 cents there is attributed to an increase in
4 costs that are charged to people that get supply, but
5 not due to the cost of the actual gas going up?

6 A. (Gantz) Correct.

7 Q. Okay. Thank you. I didn't quite get that. And, I had
8 one other question, and I'm not sure who -- where this
9 should go, so I'll just put it out and the right person
10 should answer it. This is just, I think I know the
11 answer, but I'm not sure. In the Settlement Agreement,
12 on Page 4, under "Distribution Rate Change", very, very
13 bottom of the page, it says "The May 1st, 2012 revenue
14 increase consists of a revenue deficiency of
15 \$2,742,525", and then it goes on to say other things.
16 Is that 2,700,000, *etcetera*, is that simply due to the
17 fact that the rate -- it's been ten years since there's
18 been a rate case, and that's the accumulative under,
19 or, I guess, revenue deficiency over that time?

20 A. (Gantz) Well, in -- a simple answer is "yes". But the
21 calculation of that number is, first of all, based upon
22 the test year financial performance of the Company,
23 revenues, costs in all the various categories, the
24 level of rate base that's in effect. So, all of those

1 things will have changed from ten years before. So,
2 it's not -- it's not merely sort of an update, it's
3 really a recasting of the entire costs and revenue of
4 the Company based upon that test year.

5 Q. Okay.

6 A. (Gantz) Then, there are proforma adjustments to the
7 costs in that test year for known and measurable
8 changes, increases in salary, specific expense items,
9 property taxes was one item that significantly changed.
10 So, those known and measurable changes are then
11 proformed in to come up with the total revenue
12 requirement in the test year. That revenue requirement
13 is then compared with the revenues. And, you end up
14 with a revenue deficiency.

15 Exhibit 1 to the Settlement Agreement,
16 which is at Page -- Bates Page 016, you know, these are
17 the schedules that carry through all those calculations
18 in excruciating detail. But, you know, what these
19 schedules try to do, they're all referenced as
20 "Schedule RevReq", so this is "Schedule RevReq-1",
21 which is a summary. And, then, down in the body of the
22 schedule, with all that detail of what that test year
23 looked like, and then what the specific proforma
24 adjustments were to that test year. So, it all builds

[WITNESS PANEL: Gantz~Wyatt]

1 up to the numbers that are summarized here.

2 CMSR. HARRINGTON: Okay. Thank you.

3 MS. HOLLENBERG: Excuse me, Chairman
4 Ignatius?

5 CHAIRMAN IGNATIUS: Just one moment
6 please.

7 MS. HOLLENBERG: Okay.

8 (Chairman and Commissioners conferring.)

9 CHAIRMAN IGNATIUS: All right. I think
10 we're probably done with you. But, Ms. Hollenberg.

11 MS. HOLLENBERG: I just wanted to make a
12 comment about your question, about the flat rates in the
13 summer season. If you do refer to, and, if my witness
14 were here, I would have him testify to this, but just to
15 direct you to Bates Page 000457, which is in the same
16 exhibit you were looking at before, Exhibit 5. It's
17 Page 2 of 20. And, if you look at the top portion of the
18 page, you'll see that, beside the "90%" of bills, you see
19 that they use an average monthly usage of "38.74" therms,
20 which is below the 50 therms in the summer. And, it was
21 our thought that, given that that heat-sensitive usage or
22 weather-sensitive usage didn't occur in the summer, it
23 didn't make sense to have a declining block in the summer.

24 CHAIRMAN IGNATIUS: All right. Thank

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 you.

2 MS. HOLLENBERG: Thank you.

3 CHAIRMAN IGNATIUS: All right. I think
4 nothing else for these two witnesses. I think
5 Commissioner Harrington may have a question of
6 Mr. Cunningham.

7 MR. SPEIDEL: Okay. So, I call James
8 Cunningham to the stand.

9 CHAIRMAN IGNATIUS: We don't want anyone
10 to feel left out of the fun today.

11 (Whereupon *James J. Cunningham, Jr.*, was
12 duly sworn by the Court Reporter.)

13 **JAMES J. CUNNINGHAM, JR., SWORN**

14 **DIRECT EXAMINATION**

15 BY MR. SPEIDEL:

16 Q. Mr. Cunningham, what is your position at the
17 Commission?

18 A. (Cunningham) I'm a Utility Analyst.

19 Q. And, as part of your responsibility as a utility
20 analyst, were you involved in the review of the
21 Company's rate filing?

22 A. (Cunningham) Yes, I was.

23 Q. And, what areas specifically?

24 A. (Cunningham) I reviewed the Company's proposed

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 depreciation expenses, pensions, PBOPs, medical costs,
2 and 401k expenses.

3 Q. And, as part of your review of those specific matters,
4 you were involved in settlement negotiations related to
5 those matters, is that right?

6 A. (Cunningham) Yes, I was.

7 MR. SPEIDEL: Thank you very much.

8 CMSR. HARRINGTON: Yes. Thank you.

9 BY CMSR. HARRINGTON:

10 Q. On Page 4 of your testimony, there's a question about
11 "Please summarize the Settlement Agreement pertaining
12 to pensions and post employment benefits other than
13 pensions", and you use an acronym here of "PBOPs". I'm
14 just trying to get straight on this. It says that it
15 "provides for [469,000] for pension and [597,000 and
16 some change] for PBOPs [in] 2011." Then, further down,
17 it says, "Over and above these amounts, expected
18 increases for 2012 are [113,000] incorporated in the
19 2011 revenue requirement, for the purpose of
20 settlement." I'm just trying to figure out how this
21 works. You're saying, if the amount in 2011, let's
22 just say for pension, is "469,394", then, in 2012,
23 you're expecting it to be that amount, with an increase
24 of 113,000 for 2012?

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 A. (Cunningham) For the pension portion of it, if you were
2 to start with that "\$469,394", you would add "56,742".
3 For the PBOPs, --

4 Q. Oh, I'm sorry. That's a total number.

5 A. (Cunningham) Yes. For the PBOPs portion, it would be
6 "597,389", plus "57,064".

7 Q. And, those amounts would make the Company basically
8 whole through the end of 2012, is that what this was
9 trying to accomplish?

10 A. (Cunningham) Well, it was a settlement adjustment that
11 contemplated looking at what the potential impact was
12 for 2012. And, when we first asked this question, it
13 was based on the reasonableness of our position for
14 2011. We did notice some significant increases in
15 PBOPs. So, during the very late part -- stages of the
16 settlement discussions, we asked for an update for
17 PBOPs expenses for the year 2012, to check in to see if
18 these costs would continue to rise or we were way out
19 of whack in the unique 2011 projections. And, what we
20 found out was that discount rates were continuing to
21 slide down. And, as a result of the discount rates
22 continuing to fall, expenses continue to increase.

23 So, for purposes of settlement, what was
24 done, since the -- we asked the Company to go back to

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 its actuarial firm to calculate what the impact of the
2 declining discount rates would be on the settlement.
3 And, they came back with an estimate of \$113,000 would
4 be the impact of declining discount rates, and split
5 between the two categories, pensions and PBOPs, the
6 increases were "56,742" and "57,064".

7 Q. Well, you just have to educate me here. I can
8 understand how the discount rate going down would
9 affect the return on the pension and hence require
10 additional funding. But how does it affect the -- oh,
11 this is post employee benefits other than pensions, so
12 that would basically -- this is all coming out of the
13 pension fund, could be health insurance or something
14 like that?

15 A. (Cunningham) For retirees, yes.

16 Q. Okay. All right. And, those are estimated costs then
17 for 2012?

18 A. (Cunningham) Right. Based on the actuarial study,
19 which includes a lot of demographic data, ages of
20 people, male, female.

21 Q. And, then, sometime in the future, this will be trued
22 up to what was actually spent? Well, let's just say
23 the estimates were off and the discount rates don't go
24 down as much as expected, or they go down more,

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 sometime in the future these will be adjusted to
2 true-up --

3 A. (Cunningham) Actually, the way it works, it's my
4 understanding the way it works, is that the
5 actuarialist in December of each year makes an estimate
6 based on all the demographic data, of what the Company
7 should be booking each month for pension and PBOPs
8 expenses. And, barring any significant changes to that
9 estimate, the Company will actually book those
10 expenses.

11 A. (Gantz) Yes. And, I can confirm that those are the
12 expenses that the Company will be booking based upon
13 that actuarial report for the year. So, those are
14 known expenses for the year. I should also add that
15 this is one of those settlement items where different
16 parties may have a different perception of how one
17 might attribute, you know, the reasons for including or
18 excluding things. And, that's why, in the Settlement
19 itself, it's referred to as simply a "post test year
20 settlement adjustment". I think Mr. Cunningham has
21 given the Staff's position as to a justification for
22 that amount, but not all the parties might have exactly
23 the same explanation or rationale.

24 MS. HOLLENBERG: Thank you, Mr. Gantz.

{DG 11-069} {03-29-12}

[WITNESS PANEL: Gantz~Cunningham]

1 MR. SPEIDEL: Yes. And, in general
2 terms, it's sort of, we've baked a pie, and it's a good
3 pie, and we've presented it to the Commission. But, when
4 you start asking about the ingredients, we're trying to
5 maintain a sense of respect for each others' positions
6 during the process. So, --

7 CMSR. HARRINGTON: Okay. I just was
8 trying to follow the logic in this. But, thank you. I
9 think you've addressed my question.

10 CHAIRMAN IGNATIUS: All right. No other
11 questions. Thank you. Do we have any other witnesses?

12 (No verbal response)

13 CHAIRMAN IGNATIUS: And, any other
14 procedural matters to address?

15 (No verbal response)

16 MS. HOLLENBERG: Just to thank Mr. Gantz
17 for his service.

18 CHAIRMAN IGNATIUS: Well, yes. I did
19 want to say something before we go, and I'm sure you're
20 hearing this from all fronts, but --

21 MR. GANTZ: Are we off the record?

22 CHAIRMAN IGNATIUS: No, we're on the
23 record. No, I just wanted to say, we know you're
24 retiring, I don't know your exact date. But my experience

{DG 11-069} {03-29-12}

1 in working together, in various capacities, has always
2 been very positive. You've always been helpful and
3 thoughtful and very forthright. And, it's something that
4 we value. It's your good training starting out here as a
5 member of the PUC Staff, I think. And, obviously, we wish
6 you the best. Thank you.

7 MR. GANTZ: Thank you.

8 CHAIRMAN IGNATIUS: We have an
9 opportunity for closings. And, I assume the understanding
10 about exhibits becoming permanent parts of the record
11 still stands. So, we will make those exhibits to the
12 docket. Anything other than prior to closings?

13 (No verbal response)

14 CHAIRMAN IGNATIUS: Mr. Dunne, do you
15 have any closing statement?

16 MR. DUNNE: Only to this regard. On
17 behalf of the Union, we want to thank the Commission for
18 allowing us to intervene in this matter. And, say that we
19 do request that the Commission approve the proposed
20 Settlement Agreement. Thank you.

21 CHAIRMAN IGNATIUS: Thank you.
22 Ms. Hollenberg.

23 MS. HOLLENBERG: Thank you. The OCA
24 supports the proposed settlement and asks that the

1 Commission approve it as filed. We'd also like to express
2 our appreciation for all the parties in this docket, for
3 their collaboration and continual good faith efforts to
4 come to a resolution that met everyone's needs. Thank
5 you.

6 CHAIRMAN IGNATIUS: Thank you.
7 Mr. Speidel.

8 MR. SPEIDEL: Thank you, Commissioners.
9 Staff also supports the approval of the Settlement
10 Agreement as filed. We believe that the Settlement
11 provides for just and reasonable rates for ratepayers of
12 the Northern company. Moreover, we would also like to
13 laud the professionalism and hard work and cooperation of
14 the other parties in this case in the Settlement
15 Agreement. Of course, we can give our thanks and
16 appreciation to the Company and to the Office of Consumer
17 Advocate. We've gone through a long process, produced
18 this Settlement Agreement. But we've had the goal of
19 having a global settlement in mind from the beginning.
20 So, you have the last mile and then you have the last foot
21 and then the last inch, and it can take a little bit of
22 time. But we wanted to minimize the amount of moving
23 parts that the Commission had to consider as in dispute or
24 in conflict.

1 So, we thank the Commission also for its
2 patience during this process. And, again, we support the
3 Settlement.

4 CHAIRMAN IGNATIUS: Thank you.
5 Mr. Epler.

6 MR. EPLER: Yes. I just want to echo
7 those comments on behalf of the Company. We believe the
8 Settlement Agreement is a just -- results in just and
9 reasonable rates. And, we also appreciate the efforts and
10 hard work of all the parties to that process to get us to
11 a final document.

12 CHAIRMAN IGNATIUS: Well, it's clear
13 that there's been a lot of effort with a sense of
14 collaboration and how to get to the right result. And,
15 you can just tell the way it reads and the way it all came
16 together. So, we appreciate that. Is there a -- how long
17 do you think it will take for the record request on rate
18 impacts?

19 MR. EPLER: By end of the day tomorrow.

20 CHAIRMAN IGNATIUS: That's pretty good.
21 It doesn't need to be that fast, but if it's in by early
22 next week would be great.

23 All right. If there's anything else?

24 (No verbal response)

1 CHAIRMAN IGNATIUS: If nothing, we
2 appreciate your work in this case, and we will take it
3 under advisement.

4 (Whereupon the hearing ended at 11:55
5 a.m.)

6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24