

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 07-072

INDIRECT GAS COSTS
INTEREST ON SUPPLY WORKING CAPITAL

**Response of Northern Utilities, Inc. to Public Service Company
of New Hampshire's Motion To Be Dismissed As A Necessary Party**

NOW COMES Northern Utilities, Inc. ("Northern") and respectfully submits the following response to the Motion To Be Dismissed As A Necessary Party ("Motion") filed by Public Service Company of New Hampshire ("PSNH") in the above-captioned matter.

1. At the outset, Northern would note that PSNH's Motion filed July 27, 2007 accurately represents that Northern does not oppose the Motion. See Motion, paragraph 8.

2. Northern also wishes to draw the Commission's attention to the fact that many of the reasons cited by PSNH in support of its Motion also support Northern's position on the merits in this case, i.e. that the Commission should not institute any change to the interest rate applied to Northern's supply working capital. For example:

A. Both Northern and PSNH periodically reconcile their supply costs and revenues in proceedings before this Commission. Northern's gas supply costs are recovered through its Cost of Gas ("COG") mechanism which is a fully reconciling rate. This means that to the extent the COG rate collects more revenue than is needed to meet Northern's supply costs in a particular period, any over-collection will be flowed through

to ratepayers, not to Northern's shareholders. Thus, as PSNH's Motion at paragraph 5 notes, there is no "upside" to supply service.

B. However, there is a "down side". Both PSNH and Northern are at substantial risk of not recovering their supply costs because both companies face periodic reviews by this Commission for the purpose of determining whether those supply expenses were prudently incurred. This risk of disallowance or lack of guaranteed cost recovery of supply costs is the same risk faced by both companies in a general rate proceeding in which the company's expenses are reviewed to determine their prudence. A base rate proceeding also establishes the company's overall cost of capital which compensates the company's investors for the risk associated with investing in the company. Therefore, since the risks of disallowance are the same for a general rate case as they are for a COG proceeding, Northern's supply working capital carrying rate should be the company's overall cost of capital.

C. Both PSNH and Northern may use funds from many different sources depending upon availability at any given time in order to meet supply expenses. See Motion, paragraph 6. It is therefore unreasonable and overly simplistic to impute to Northern's supply working capital a cost represented by a single source interest rate (such as short-term or prime rate).

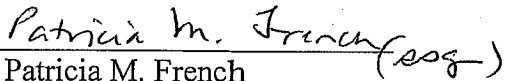
WHEREFORE, in view of the foregoing, Northern respectfully requests that the Commission note for the record in this investigative proceeding the similarities between PSNH and Northern as set forth above.

Respectfully submitted,

NORTHERN UTILITIES, INC.

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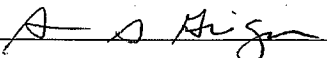
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Dated: July 31, 2007

Certificate of Service

I hereby certify that a copy of the foregoing Response has on this 31st day of July, 2007 been sent by first class mail postage prepaid to persons listed on the Service List.


Susan S. Geiger

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