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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 5, 2008 - 10:05 a.m.  
Concord, New Hampshire

RE: DG 08-009  
ENERGYNORTH NATURAL GAS, INC. d/b/a  
NATIONAL GRID NEW HAMPSHIRE:  
Notice of Intent to File Rate Schedules.  
(Hearing regarding temporary rates)

PRESENT: Chairman Thomas B. Getz, Presiding  
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. National Grid New Hampshire:  
Sarah B. Knowlton, Esq.  
  
Reptg. Residential Ratepayers:  
Rorie Hollenberg, Esq.  
Meredith Hatfield, Esq., Consumer Advocate  
Kenneth E. Traum, Asst. Consumer Advocate  
Stephen Eckberg  
Office of Consumer Advocate  
  
Reptg. PUC Staff:  
Edward N. Damon, Esq.

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



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## E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

4

1

Direct Testimony of John E.  
O'Shaughnessy and Ann E. Leary  
Regarding Temporary Rates (02-25-08)

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Exhibit EN 2-2-1A: Summary of  
Pro Forma Adjustment Income  
or Expense

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Exhibit EN 2-4: Schedule 3 -  
Average Rate Base

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Exhibit EN 3-1: Overall Rate of  
Return for Ratemaking Purposes

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Direct Testimony of Ann E. Leary  
and Stephen P. Frink in Support  
of Settlement on Temporary Rates  
(07-22-08)

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{DG 08-009} [Re: Temporary Rates] (08-05-08)

1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning.  
3 We'll open the hearing in docket DG 08-009. On  
4 February 25, 2008, National Grid made a rate filing  
5 seeking a request for an increase in permanent delivery  
6 rates and also seeking to set temporary delivery rates.  
7 And, an order suspending the tariff and scheduling a  
8 prehearing conference for April 9th was issued on March  
9 14th, and a secretarial letter was issued on April 21,  
10 approving a procedural schedule, including a hearing on  
11 temporary rates for this morning.

12 Also, before -- well, is there a  
13 Ms. Wegehof here?

14 (No verbal response)

15 CHAIRMAN GETZ: Okay. All right. Then,  
16 putting that aside for a second, let's take appearances.

17 MS. KNOWLTON: Good morning, Chairman  
18 Getz and Commissioner Below. My name is Sarah Knowlton.  
19 I'm with the law firm of McLane, Graf, Raulerson &  
20 Middleton. And, I'm here today on behalf of National Grid  
21 New Hampshire. With me today from the Company is Tom  
22 O'Neill, Ann Leary, and John O'Shaughnessy.

23 CMSR. BELOW: Good morning.

24 CHAIRMAN GETZ: Good morning.

{DG 08-009} [Re: Temporary Rates] (08-05-08)

1 MS. HOLLENBERG: Good morning,  
2 Commissioners. Rorie Hollenberg, Meredith Hatfield, Ken  
3 Traum, and Steve Eckberg, here for the Office of Consumer  
4 Advocate.

5 CHAIRMAN GETZ: Good morning.

6 CMSR. BELOW: Good morning.

7 MR. DAMON: Good morning, Commissioners.  
8 Edward Damon, for the Staff, and with me this morning is  
9 Stephen Frink.

10 CHAIRMAN GETZ: Good morning.

11 CMSR. BELOW: Good morning.

12 CHAIRMAN GETZ: Okay. I understand that  
13 we have testimony from Ms. Leary and Mr. Frink in support  
14 of a settlement on temporary rates. Is there anything we  
15 need to address before we hear from the witnesses?

16 MS. KNOWLTON: I have provided a Exhibit  
17 List and five exhibits that we propose to premark for  
18 purposes of the hearing this morning.

19 CHAIRMAN GETZ: Okay. We have the  
20 Exhibit List. And, we'll mark the Exhibits 1 through 5  
21 for identification as set forth on the Exhibit List.

22 (The documents, as described, were  
23 herewith marked as Exhibit 1 through  
24 Exhibit 5, respectively, for

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 identification.)

2 MS. KNOWLTON: Thank you. And, we also  
3 will be calling Mr. O'Shaughnessy. What I would like to  
4 -- what I would propose to do is to actually put all three  
5 on as a panel, Mr. O'Shaughnessy, Ms. Leary, and  
6 Mr. Frink, because Ms. Leary and Mr. O'Shaughnessy filed  
7 temporary rate testimony in February, and then the  
8 settlement testimony was subsequently filed from Mr. Frink  
9 and Ms. Leary.

10 CHAIRMAN GETZ: Okay. Then, please  
11 proceed.

12 MS. KNOWLTON: Okay.

13 (Whereupon Ann E. Leary, John E.  
14 O'Shaughnessy, and Stephen P. Frink were  
15 duly sworn and cautioned by the Court  
16 Reporter.)

17 ANN E. LEARY, SWORN

18 JOHN E. O'SHAUGHNESSY, SWORN

19 STEPHEN P. FRINK, SWORN

20 DIRECT EXAMINATION

21 BY MS. KNOWLTON:

22 Q. I'll start with you, Ms. Leary. Would you state your  
23 full name for the record please.

24 A. (Leary) Yes. My name is Ann Leary.

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

- 1 Q. And, by whom are you employed?
- 2 A. (Leary) National Grid New Hampshire.
- 3 Q. In what capacity?
- 4 A. (Leary) I am Manager of Pricing for gas in New England.
- 5 Q. How long have you held that position?
- 6 A. (Leary) I've held that position with numerous legacy  
7 companies with the Company for approximately 15 years.
- 8 Q. And, would you briefly describe your educational  
9 background.
- 10 A. (Leary) Yes, I have a Bachelors of Science degree in  
11 Mechanical Engineering from Cornell University.
- 12 Q. Thank you. Mr. O'Shaughnessy, would you state your  
13 full name for the record please.
- 14 A. (O'Shaughnessy) John O'Shaughnessy.
- 15 Q. By whom are you employed?
- 16 A. (O'Shaughnessy) National Grid New Hampshire.
- 17 Q. In what capacity?
- 18 A. (O'Shaughnessy) I'm currently the Director of Revenue  
19 Requirements for Gas Distribution.
- 20 Q. How long have you held that position?
- 21 A. (O'Shaughnessy) For about three and a half years.
- 22 Q. What did you do prior to that?
- 23 A. (O'Shaughnessy) I had a number of different jobs in the  
24 legacy companies, mostly within finance and the

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 information systems.

2 Q. And, would you briefly describe your educational  
3 background for the Commission please.

4 A. (O'Shaughnessy) I have a Bachelor of Science degree in  
5 Accounting from C. W. Post University. And, I also  
6 hold an Associate's degree in Engineering and an  
7 Associate's of Applied Science in Accounting. And, I'm  
8 a Certified Public Accountant in the State of New York.

9 Q. Thank you. Mr. Frink, would you state your full name  
10 for the record please.

11 A. (Frink) Stephen Frink.

12 Q. And, by whom are you employed?

13 A. (Frink) The Commission.

14 Q. In what capacity?

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

17 Q. How long have you held that position?

18 A. (Frink) Approximately five years.

19 Q. And, what did you do prior to that?

20 A. (Frink) I've been with the Commission for approximately  
21 18 years, from auditing, to analyst, to my current  
22 position.

23 Q. Would you briefly describe your educational background.

24 A. (Frink) I have a BA from the University of New

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 Hampshire and an MBA from the University of New  
2 Hampshire.

3 Q. Thank you. I'll start with you, Ms. Leary and Mr.  
4 O'Shaughnessy. If you would look at what's been  
5 premarked for identification as "Exhibit 1". This is  
6 the February 25th, 2008 testimony that you filed in  
7 support of the Company's request for temporary rates.  
8 Do you have that in front of you?

9 A. (O'Shaughnessy) Yes.

10 A. (Leary) Yes, we do.

11 Q. Are you familiar with that testimony, Ms. Leary?

12 A. (Leary) Yes, I am.

13 Q. Mr. O'Shaughnessy?

14 A. (O'Shaughnessy) Yes, I am.

15 Q. And, was it prepared by you or under your direction?

16 A. (Leary) Yes, it was.

17 A. (O'Shaughnessy) Yes, it was.

18 Q. Mr. O'Shaughnessy, if you would -- if you could  
19 generally describe what the Company's request for  
20 temporary rates was as it was stated in that  
21 February 25th testimony.

22 A. (O'Shaughnessy) The Company is requesting approximately  
23 \$6.6 million, represents a 3.75 percent increase in  
24 overall bills. Was calculated as 50 percent of our

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 test year rate base and the test year operating income,  
2 with no pro forma adjustments.

3 Q. And, if you would look at -- actually, if we skip to  
4 Exhibit 3, EN 2-4, Schedule 3, "Average Rate Base". Do  
5 you have that in front of you? Has "Exhibit 3" marked  
6 at the top right-hand corner?

7 A. (O'Shaughnessy) Yes, I do.

8 Q. Was that, Mr. O'Shaughnessy, was that prepared by you  
9 or under your direction?

10 A. (O'Shaughnessy) Yes, it was.

11 Q. And, would you -- can you explain what this exhibit  
12 shows?

13 A. (O'Shaughnessy) This shows our average test year rate  
14 base of \$148 million, comprises basically of gas plant  
15 in service, noninterest bearing CWIP, a reserve for --  
16 also a reserve for depreciation, and at the bottom we  
17 have property base adjustments of 36 million.

18 Q. Okay. And, is this what your request for temporary  
19 rates is based on? Is this the rate base that's  
20 reflected in the schedule?

21 A. (O'Shaughnessy) Yes, it is.

22 Q. And, what overall rate of return did you use in  
23 calculating that --

24 A. (O'Shaughnessy) 9.26.

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

- 1 Q. -- for purposes of temporary rates?
- 2 A. (O'Shaughnessy) 9.26 percent.
- 3 Q. And, how did you derive that number?
- 4 A. (O'Shaughnessy) It's based on an imputed common equity  
5 ratio of 50/50, cost of common equity of 11 and a half  
6 percent and cost of long-term debt of 7.02.
- 7 Q. And, is that reflected on what we've premarked for  
8 identification as "Exhibit 4"?
- 9 A. (O'Shaughnessy) Yes, it is.
- 10 Q. Did you prepare that or was it prepared under your  
11 direction?
- 12 A. (O'Shaughnessy) Yes, it was.
- 13 Q. And, can you just explain how it is that you derived  
14 the component ratios of 50 percent of common stock  
15 versus 50 percent of long-term debt?
- 16 A. (O'Shaughnessy) Yes. Fifty percent was stipulated in  
17 the Merger Settlement Agreement approved in docket DG  
18 06-107.
- 19 Q. And, Mr. O'Shaughnessy, if you would now look at  
20 Exhibit 2, which is "EN 2-2-1A", "Summary of Pro Forma  
21 Adjustment Income or Expense". Are you familiar with  
22 that exhibit?
- 23 A. (O'Shaughnessy) Yes, I am.
- 24 Q. And, was that prepared by you or under your direction?

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

- 1 A. (O'Shaughnessy) Yes, it was.
- 2 Q. And, what does this -- can you explain the calculation  
3 that's reflected on this Exhibit 2?
- 4 A. (O'Shaughnessy) Yes. Exhibit 2 presents our test year  
5 for the 12 months ended June 30, 2007. It shows a rate  
6 of return earned in the test year of 3.94 percent.
- 7 Q. And, what is the test year in this case?
- 8 A. (O'Shaughnessy) The test year is the 12 months ended  
9 June 30th, 2007. We present our pro forma adjustments  
10 to provide our pro forma test year and we present our  
11 proposed rate increase.
- 12 Q. Okay. And, if you could just highlight for us how  
13 significantly is the Company currently under earning or  
14 based on the calculation in this exhibit?
- 15 A. (O'Shaughnessy) The Company is earning 3.94 percent.  
16 Our current allowed rate of return is 9.83 percent.  
17 So, we're significantly under earning.
- 18 Q. And, are you aware of when the Company last sought a  
19 rate increase from this Commission, base rate increase?
- 20 A. (O'Shaughnessy) Approximately fifteen years ago.
- 21 Q. Ms. Leary, you've indicated that you obviously are  
22 familiar with your direct prefiled testimony in support  
23 of temporary rates. Can you just give a very broad  
24 overview of what the Company proposed in that testimony

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 regarding rate design for temporary rate purposes?

2 A. (Leary) Yes. In the original filing that we made on  
3 February 25th, our temporary rates, we had proposed to  
4 actually increase the rates by a -- according to the  
5 marginal cost -- the equity proportional allocator that  
6 came out of the marginal cost study. In this filing  
7 that we made today, on July 22nd, 2008, we are actually  
8 proposing to increase the rates by the overall total  
9 rate class -- overall total rate increase. And, we  
10 will increase that to all the rate classes on the same  
11 basis.

12 Q. So, just to be clear, in the Company's February 25th  
13 proposal or testimony on temporary rates, the Company  
14 sought to implement a rate design change that's  
15 proposed as part of the permanent rate filing for  
16 temporary rates as well?

17 A. (Leary) That is correct.

18 Q. And, if I understand you correctly, in the testimony  
19 that's been marked as "Exhibit 5" that you filed with  
20 Mr. Frink, the Company has agreed, for purposes of  
21 settlement, to maintain the current rate design for  
22 purposes of temporary rates?

23 A. (Leary) That is correct.

24 Q. Okay. When would -- Ms. Leary, when would the

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 temporary rates, if approved by the Commission, take  
2 effect?

3 A. (Leary) August 24th, 2008.

4 Q. What is the basis of that date?

5 A. (Leary) That was the Settlement Agreement in the  
6 EnergyNorth/National Grid merger, that we would not  
7 increase rates until one year after the point of the  
8 merger date.

9 Q. Mr. O'Shaughnessy, I have another question for you,  
10 before I move on to the July 22nd testimony. Which is,  
11 can you explain why the Company's return has eroded  
12 since its last rate case?

13 A. (O'Shaughnessy) Primarily due to the fact that rate  
14 base has almost doubled in the fifteen years since the  
15 last filing. In addition, we've had increases in all  
16 operating expenses, labor and so forth. And, we've had  
17 an erosion due to conservation, customer use, and  
18 efficiency in heating equipment and so forth.

19 Q. And, I assume that inflation has increased?

20 A. (O'Shaughnessy) And inflation, I'm sorry, inflation has  
21 increased almost 50 percent in that 15-year period.

22 Q. Okay. Ms. Leary, if you would turn now to Exhibit 5,  
23 which is the July 22nd, 2008 testimony that you filed  
24 with Mr. Frink, in support of a settlement on temporary

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 rates. Would you outline for the Commission what the  
2 Staff and the Company have agreed to for temporary  
3 rates?

4 A. (Leary) Yes. We have agreed to increase our base  
5 distribution rates by approximately the \$6.6 million.  
6 That rate increase will be, actually, when we design  
7 the rates, they will be -- we will maintain the exact  
8 same type of rate design that we had in our current  
9 rates, and that percent increase will be fairly  
10 allocated to all the rate classes.

11 Q. When you say "fairly allocated", what do you mean by  
12 that?

13 A. (Leary) Excuse me, I mean "equally allocated to all  
14 rate classes."

15 Q. On a pro rata basis?

16 A. (Leary) On a pro rata basis, that's correct.

17 Q. And, will temporary rates -- will there be any  
18 reconciliation mechanism, once permanent rates are  
19 established in this docket?

20 A. (Leary) Yes, there will.

21 Q. Do you know how that's going to work?

22 A. (Leary) At this point, we haven't worked out the final  
23 details with both the Office of Consumer Affairs and  
24 the Staff on the specifics of how that will work. But

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[Witness panel: Leary|O'Shaughnessy|Frink]

1 we will be able to reconcile back to the August 24th  
2 date.

3 Q. Okay. And, Ms. Leary, are there any other differences,  
4 other than the rate design, the agreement to maintain  
5 the current rate design for temporary rates, are there  
6 any other differences between your July testimony and  
7 your February testimony that you'd like to make the  
8 Commission aware of?

9 A. (Leary) Yes. At this point, the Company, in the July  
10 testimony, we are proposing that we will begin billing  
11 customers on a dry basis, as opposed to through the wet  
12 basis that we are currently billing customers on right  
13 now.

14 Q. And, what is the -- what's the difference between dry  
15 and wet?

16 A. (Leary) It's the way that the actual gas is measured.  
17 "Wet" means you're measuring gas that is saturated;  
18 where "dry" it is not saturated.

19 Q. And, why does the Company want to make that change now?

20 A. (Leary) Basically, measuring gas on a dry basis is  
21 industry norm. It's how all our suppliers bill us.  
22 And, it would be -- it's how we bill all our other  
23 customers in our territories, and we want to be  
24 consistent and begin billing everybody on a dry basis.

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[Witness panel: Leary|O'Shaughnessy|Frink]

1 Q. Has the Company proposed to make that switch as part of  
2 its permanent rate case?

3 A. (Leary) Yes, it has. And, it would be also easier at  
4 this point in terms of reconciling rates, when we go  
5 back to the permanent rates, if we've already  
6 implemented the dry basis.

7 Q. And, Staff has agreed to that in the July 22nd  
8 testimony?

9 A. (Leary) Yes, they have.

10 Q. Ms. Leary, if you would look at, there's an Exhibit  
11 AEL/SPF-1 that's attached to the July 22nd testimony,  
12 would you please have that in front of you. Do you see  
13 that?

14 A. (Leary) Yes, I do. Yes, I do.

15 Q. Okay. What I would like for you to do is if you could  
16 walk through each of the customer classes and explain  
17 the impact of the proposed temporary rates on each  
18 class, starting with the residential. And, when you do  
19 that, I would like you also to, within the residential,  
20 to address the Low Income, Heat and Non-Heat, and how  
21 the increase -- the proposed increase would affect each  
22 customer group.

23 A. (Leary) Okay. If we look at Attachment AEL/SPF-1, and  
24 we look at Line 18, and we've actually provided the

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[Witness panel: Leary|O'Shaughnessy|Frink]

1 actual numbers for you, and I'll review those with you  
2 right now. We are proposing that a Residential  
3 Non-Heat customer will get an increase of approximately  
4 5.7 percent; a Residential Heat customer should see an  
5 overall total bill impact of approximately 4.1 percent;  
6 and, finally, the Residential Low Income customers  
7 should see a total bill impact of approximately  
8 1.9 percent.

9 On the C&I customer classes, a G-41  
10 customer, which means they have small annual usage, but  
11 high winter use, they should see an increase of  
12 approximately 3.8 percent; the G-42, which is the  
13 medium use customer, would see approximately a 2.9  
14 percent increase; and a G-43 will see an increase of  
15 about 2.1 percent. Finally, on the Low Winter Use  
16 Commercial customer groups, the G-51 will see an  
17 increase of about 3.3 percent; the G-52 will see an  
18 increase of 2.1 percent; the G-53 customers will see an  
19 increase of 1.3 percent; the G-54 customer will see  
20 about a 1 percent increase; and the G-63 customer will  
21 see a 0.4 percent increase.

22 Q. Thank you. Have you done any calculations that would  
23 reflect the impact on the average residential bill of  
24 the proposed increase?

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[Witness panel: Leary|O'Shaughnessy|Frink]

1 A. (Leary) The average Residential Heating customer would  
2 see approximately the 4.1 percent.

3 MS. KNOWLTON: Right. I have nothing  
4 further for the panel.

5 CHAIRMAN GETZ: Thank you.

6 MS. HOLLENBERG: If I could just have  
7 one moment?

8 CHAIRMAN GETZ: Mr. Damon, did you have  
9 additional direct?

10 MR. DAMON: Just a couple of questions.

11 CHAIRMAN GETZ: Well, why don't you do  
12 that, before we hear from the Consumer Advocate.

13 MR. DAMON: Okay.

14 BY MR. DAMON:

15 Q. Mr. Frink, the Staff has agreed to this settlement  
16 proposal on temporary rates. And, could you just  
17 explain, in general terms, why the Staff has done that.

18 A. (Frink) Well, the temporary rates are approximately  
19 two-thirds of the requested permanent rate increase.  
20 And, using unadjusted books from the test year, it's  
21 approximately 50 percent of what they would be entitled  
22 to under the current allowed rate of return. I did --  
23 Staff did do a couple of adjustments. The 619 in  
24 merger savings that we applied, and also plugged in a

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[Witness panel: Leary|O'Shaughnessy|Frink]

1 rate of return more in line with what the Commission  
2 has been granting recently. And, even doing that, the  
3 increase exceeds the agreed to 6.6 million revenue  
4 increase. So, it seems to be a reasonable amount,  
5 ultimately will be reconciled once a final decision is  
6 rendered as to what the appropriate rates are. So,  
7 that's why Staff has signed onto this settlement.

8 Q. And, when you say "reconciled", could you just sort of  
9 be a little more specific about what you mean by that?

10 A. (Frink) Yes. Ultimately, a decision will be rendered  
11 on what permanent rates should be. And, it's most  
12 likely going to be something different than what the --  
13 the final revenue requirement is likely to be something  
14 different than what is here for temporary rates. And,  
15 when that decision is rendered, the Company will go  
16 back and reconcile what the difference is between what  
17 has been recovered since temporary rates were  
18 implemented and when permanent rates are approved. It  
19 may be more, it may be less. At that point, a  
20 mechanism will need to be devised, which would either  
21 refund the overrecovery or recover the undercollection.

22 MR. DAMON: I have no further direct  
23 questions, a couple of cross-examination.

24 CHAIRMAN GETZ: Do you have questions

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 for Ms. Leary or Mr. O'Shaughnessy?

2 MR. DAMON: Sure.

3 CHAIRMAN GETZ: Is there any agreement  
4 between the parties as to who goes first?

5 (No verbal response)

6 CHAIRMAN GETZ: Why don't we start with  
7 you then, Mr. Damon.

8 MR. DAMON: Okay.

9 CROSS-EXAMINATION

10 BY MR. DAMON:

11 Q. Ms. Leary, could you tell us specifically how will the  
12 change from billing on a wet basis to a dry basis take  
13 place? What actually has to happen at the Company for  
14 that to occur?

15 A. (Leary) Okay. Right now, what happens is, in our Gas  
16 Dispatch area, every day they provide to our Billing  
17 Department the therm factor. Right now they provide  
18 that information on a wet basis. The minute this is  
19 approved, on August 24th, they will be then providing  
20 that information on a dry basis to our Billing  
21 Department, so that that number can now be reflected  
22 into our billing system.

23 Q. Okay. So that this conversion from dry to wet will no  
24 longer take place, will no longer need to take place?

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 A. (Leary) That is correct.

2 Q. Okay. And, you have said in your testimony that "there  
3 will be no revenue impact to the customer or Company as  
4 a result of the change." And, could you explain more  
5 specifically why that is true?

6 A. (Leary) Yes. When we have designed the rates for the  
7 temporary rate, what we have done is we have already  
8 made that conversion. So, when we began with our  
9 billing determinants, because our test year was billed  
10 on a wet basis, our billing determinants originally  
11 began on a -- were a wet basis. We made that  
12 conversion, so that now all of our rate design will be  
13 on a dry basis, and we'll be billing customers on a dry  
14 basis, so there will be no revenue impact to the  
15 customers.

16 Q. And, just to make sure the record is complete, the  
17 conversion factor I believe that's in the current  
18 tariff, between wet and dry, is 0.9826, is that right?

19 A. (Leary) That is correct.

20 MR. DAMON: Okay. That's all the  
21 questions I have.

22 CHAIRMAN GETZ: Thank you.

23 Ms. Hollenberg.

24 MS. HOLLENBERG: Thank you.

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 BY MS. HOLLENBERG:

2 Q. I just have one question, and I will direct it to  
3 Mr. Frink, actually, may be more than one, just a  
4 couple. Do you agree that the details of how the  
5 reconciliation is to be accomplished, in terms of  
6 reconciling permanent and temporary rates, has not been  
7 determined at this point?

8 A. (Frink) That's correct. The parties did not agree on a  
9 -- how any over or under recovery will be addressed  
10 following the reconciliation. And, each party is free  
11 to argue whatever position it deems appropriate, and,  
12 ultimately, the Commissioners will make the decision as  
13 to how that -- how the over/under recovery will be  
14 addressed.

15 MS. HOLLENBERG: Okay. If I could just  
16 have one moment please?

17 (Ms. Hollenberg conferring with OCA  
18 staff.)

19 MS. HOLLENBERG: No other questions.

20 Thank you.

21 CHAIRMAN GETZ: Thank you.

22 BY CMSR. BELOW:

23 Q. I just have one question to clarify on Exhibit 3, also  
24 marked as "EN 2-4". The second column is marked

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 "Noninterest Bearing CWIP", and it seems that that  
2 number is added to the "Net Utility Plant in Service",  
3 and after some adjustments, there's average rate base,  
4 which seems to be the number on Exhibit 2, also marked  
5 "EN 2-2-1A", but seems to be a basis for computing the  
6 required rate of return. Could you just elaborate how  
7 that's treated and how the reference to "Noninterest"  
8 relates to not including CWIP in rate base?

9 A. (O'Shaughnessy) Sure. "Noninterest bearing CWIP", as  
10 we classify it in the Company, is CWIP on -- related to  
11 blanket projects, which are short duration and shorter  
12 small dollar value, they do not get a calculation of  
13 AFUDC imposed upon them. And, as a result, our only  
14 method of recovering the cost of money associated with  
15 these blanket projects is to include them as a  
16 component of rate base. So, they are CWIP, but they  
17 are noninterest bearing to the extent that there is no  
18 recovery of the cost of money through the AFUDC  
19 allowance.

20 Q. So, are you computing your required rate of return with  
21 the inclusion of that CWIP?

22 A. (O'Shaughnessy) Yes, we are.

23 Q. How do you see that as reconciling with New Hampshire  
24 law that doesn't allow inclusion of CWIP in rate base?

{DG 08-009} [Re: Temporary Rates] (08-05-08)

[Witness panel: Leary|O'Shaughnessy|Frink]

1 A. (O'Shaughnessy) Like I say, these are blanket projects  
2 of short duration, so these are plant in service by the  
3 time rates are going into effect. They are very short  
4 duration projects.

5 Q. So, you're saying, in effect, that CWIP is now  
6 reflected as -- it is now plant that is now in service  
7 at this point in time?

8 A. (O'Shaughnessy) It would be.

9 Q. Because it's June 2007 or earlier?

10 A. (O'Shaughnessy) Right.

11 Q. And, does that relate at all to the Schedule EN 2-4, on  
12 "Gas jobs in progress", the second column?

13 A. (O'Shaughnessy) "Gas jobs in progress" are essentially  
14 the type of CWIP. These are deferred jobs in which we  
15 receive customer contributions. So, these again are  
16 the same type of projects which would be in service by  
17 the time rates would go into effect.

18 Q. But those are actually part of a deduction --

19 A. (O'Shaughnessy) Yes.

20 Q. -- for determining rate base?

21 A. (O'Shaughnessy) Yes, they're included in our deferred  
22 assets, which were adjusted here.

23 CMSR. BELOW: Okay. Thank you.

24 CHAIRMAN GETZ: Any redirect?

{DG 08-009} [Re: Temporary Rates] (08-05-08)

1 MS. KNOWLTON: I have none.

2 CHAIRMAN GETZ: Is there anything  
3 further for these witnesses?

4 (No verbal response)

5 CHAIRMAN GETZ: Hearing nothing, then  
6 you're excused. Thank you. Any objection to striking  
7 identifications and admitting the exhibits into evidence?

8 (No verbal response)

9 CHAIRMAN GETZ: Hearing no objection,  
10 they will be admitted into evidence. Anything else,  
11 before we provide an opportunity for closing?

12 (No verbal response)

13 CHAIRMAN GETZ: Hearing nothing, then,  
14 Ms. Hollenberg.

15 MS. HOLLENBERG: Thank you. The Office  
16 of Consumer Advocate has no objection to the proposed  
17 temporary rates as testified by Mr. Frink of the  
18 Commission Staff and Ms. Leary of the Company.

19 CHAIRMAN GETZ: Thank you. Mr. Damon.

20 MR. DAMON: For the reasons stated by  
21 Mr. Frink on direct examination, Staff supports the  
22 proposal for temporary rates that is reflected in an  
23 agreement on what that amount will be.

24 CHAIRMAN GETZ: Ms. Knowlton.

1 MS. KNOWLTON: The Commission heard  
2 testimony today that the Company is significantly under  
3 earning, that it has not had a rate increase for the past  
4 15 years. That, based on the books and records currently  
5 on file with the Commission, that Mr. Frink testified that  
6 the temporary rate proposal is reasonable, even taking  
7 into consideration the adjustments that he made. So,  
8 based on the testimony of Mr. Frink, Ms. Leary, and Mr.  
9 O'Shaughnessy, the Company would ask that the Commission  
10 approve the proposed temporary rates on a service rendered  
11 basis as of August 24th, 2008.

12 CHAIRMAN GETZ: Okay. Thank you. Then,  
13 we'll close the hearing and take the matter under  
14 advisement.

15 (Whereupon the hearing ended at 10:34  
16 a.m.)

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