STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 8, 2010 - 1:08 p.m.
Concord, New Hampshire

RE: **DG 10-017**
ENERGYNORTH NATURAL GAS, INC.
d/b/a National Grid NH:
Notice of Intent to File Rate Schedules.
(Prehearing conference)

PRESENT: Commissioner Clifton C. Below, Presiding
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: **Reptg. EnergyNorth Natural Gas, Inc.**
d/b/a National Grid NH:
Steven V. Camerino, Esq. (McLane, Graf...)
Patrick Taylor, Esq. (McLane, Graf...)
Celia O'Brien, Esq., Asst. General Counsel

Reptg. Pamela Locke:
Alan Linder, Esq. (N.H. Legal Assistance)

Reptg. Residential Ratepayers:
Rorie Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq.
Mark Naylor, Director, Water & Gas Division
Stephen Frink, Asst. Dir., Water & Gas Div.
Robert Wyatt, Water & Gas Division

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

I N D E X

P R O C E E D I N G

CMSR. BELOW: Good afternoon. I'll open this prehearing conference in DG 10-017. And, note that, on February 26th, 2010, EnergyNorth Natural Gas, Inc, doing business as National Grid New Hampshire, made a delivery rate filing requesting permission to implement new permanent delivery rates for natural gas service and to implement temporary delivery rates pursuant to RSA 378:27, effective with service rendered on and after June 1, 2010. The Company also seeks certain waivers of our administrative rules, including one, Puc 1203.02(d), which was granted with our Order 25,081, which scheduled this prehearing conference.

The Company also moved for confidential treatment of certain information concerning compensation relating to its officers and directors. It proposes permanent -- new permanent delivery rates designed to produce an increase of $11,422,718 in annual revenues. And, also filed a petition seeking temporary rate increases -- increase of $5,711,359 in annual operating revenues, representing an increase in total customer bills of approximately 3.47 percent.

Let's start by taking appearances from the parties.

MR. CAMERINO: Good afternoon, Commissioners. Steve Camerino and Patrick Taylor, from McLane, Graf, Raulerson & Middleton, and Celia O'Brien, Assistant General Counsel for National Grid, on behalf of National Grid NH.

CMSR. BELOW: Good afternoon.

MR. LINDER: Good afternoon. Alan Linder, from New Hampshire Legal Assistance, representing Pamela Locke, a residential customer of the Company.

CMSR. BELOW: Good afternoon.

MR. LINDER: Good afternoon.

MS. HOLLENBERG: Good afternoon. Rorie Hollenberg, Steve Eckberg, and Ken Traum here for the Office of Consumer Advocate.

CMSR. BELOW: Good afternoon.

MR. FOSSUM: Good afternoon. Matthew Fossum, representing the Staff of the Public Utilities Commission.

CMSR. BELOW: Good afternoon. Okay. We have received the affidavit of publication. Could I also ask the Company if the notice to customers was included with a billing or is that addressed in the affidavit of publication as well?

MR. CAMERINO: No. The notice to

customers has been discussed with Ms. Noonan of the Consumer Affairs Division. The language has been worked out -- presumably you're talking about the individual notice to customers?

CMSR. BELOW: Yes.

MR. CAMERINO: Okay. The language has been worked out with her. And, the Company and Ms. Noonan have come to agreement that the notice should be provided with the Company's regular newsletter as the lead item, and it will begin with the cycle mailing on April 30th, which concludes on May 27th. So, that's ready to begin mailing.

CMSR. BELOW: Okay. And, we have -- okay. Could we get a copy of that filed in the docket?

MR. CAMERINO: Yes.

CMSR. BELOW: We have received notice, obviously, from the OCA that they will be participating on behalf of residential customers. And, we also have received a Petition to Intervene on behalf of Pamela Locke, by Alan Linder with New Hampshire Legal Assistance. And, let's start with that request for intervention, and see if anyone has any objections to that?

(No verbal response)

CMSR. BELOW: Seeing none, I'll observe

that the petition demonstrates rights, duties, privileges, or other substantial interests of the petitioner that may be affected by this proceeding, and we will grant the intervention.

Let's proceed to hearing the positions by the Company and the parties with regard to the remaining request for waivers, as well as the Motion for Confidential Treatment of the information concerning compensation of officers and directors. And, Mr. Camerino, could you start perhaps by explaining briefly the waiver requests.

MR. CAMERINO: Sure. The Company is requesting waiver of a number of items, which are listed in a motion dated February 26th. The bulk of them are requests for information that there's a rule that asks for the same information for a holding company that is provided for the utility. And, in some cases, that request actually adds substantively to the information in the case in a meaningful way.

In other places, providing the information of the holding company really wouldn't have any application to the rate case. And, so, we've identified those where we believe that providing that additional information would not add any relevant information for rate purposes.

So, for example, providing a capital budget with a statement of sources and uses of funds for the holding company versus the utility really is inappropriate. These requests are consistent with a request for waiver that was sought and obtained in the prior rate case as well. I can't tell you that it's identical, but it's very similar in nature.

In addition, there's one item of information related to payroll expense that asked for detail that the Company either doesn't maintain or would be -- doesn't maintain it in that form and it would be extremely burdensome to obtain. And, the Company believes that the payroll information it has provided should be sufficient for Staff's and the Consumer Advocate's purposes.

CMSR. BELOW: Okay. And, the -- I think the Motion for Confidential Treatment probably speaks for itself that was filed.

MR. CAMERINO: Yes.

CMSR. BELOW: Mr. Linder, would you -- do you have a position on either the Request for Waiver or the Motion for Confidential Treatment.

MR. LINDER: We do not have a position,

Mr. Chairman.

CMSR. BELOW: Okay. Ms. Hollenberg?

MS. HOLLENBERG: No position on either motion. Thank you.

CMSR. BELOW: Okay. Mr. Fossum?

MR. FOSSUM: To the extent that Staff has a position at all, I guess it would be in support, at least initially, of the request for the waiver related to the information about the parent or holding company. The holding company is a enormous investor-owned company, such that financial information about it would indeed be voluminous and not necessarily relevant here. That said, Staff would, I guess, reserve the right to request the information should it later be deemed to be relevant.

Staff would also take the same position relative to the payroll expense information at this time, in that the information is voluminous and currently not necessary for Staff's review.

CMSR. BELOW: Okay. Thank you. And, now, perhaps we could go around and get the -- oh, sure.

(Cmsr. Below and Cmsr. Ignatius conferring.)

CMSR. IGNATIUS: If I may ask a question about the Motion for Protective Order, I take it Staff also doesn't have a position on that? I don't think we got to that part.

MR. FOSSUM: No, Staff doesn't.

CMSR. IGNATIUS: All right. Mr. Camerino, is there an equivalent to a FERC Form 1 filing for gas companies that are filed in electric cases by electric utilities?

MR. CAMERINO: I'm not sure we can answer the question with specificity. But, if the question is, "is there some kind of annual report filing with FERC that is made that might include some information related to EnergyNorth?" The answer to that is "yes."

And, if I could just anticipate what may be the next question, we have tried to focus on whether the compensation of the people identified has been disclosed elsewhere, so that we're not seeking protective treatment for something that, while we might like it to be protected, in fact, we've been required to disclose in some other filing.

CMSR. IGNATIUS: So, that is where I was going. Are there officers for whom the information has been made public and, therefore, you're not requesting protective treatment?

MR. CAMERINO: I'd actually have to

double check that. What I can represent to you, but I'm also willing to double check this and make a filing confirming it, is that we confirmed as to the individuals for whom we are requesting protection that their compensation has not previously been disclosed in some other filing with another regulator on a public basis. But I don't know, I can't tell you without checking, whether there is compensation information that we're providing to you because we know it is public and, therefore, we're not seeking protection. I'd have to actually look at that schedule in the filing to see who's on there.

CMSR. IGNATIUS: Have you reviewed an order on compensation and protective treatment issued in the Public Service case DE 09-035?

MR. CAMERINO: I don't believe so.

CMSR. IGNATIUS: I think it would be useful if you did. It's Order Number 25,037, issued October 30th, 2009. That looked at similar questions, and compensation of officers and directors defined in that case between major and minor officers somewhat different treatment between them. Some aggregate information that didn't identify individuals, some specific that did identify individuals. So, perhaps you can look at that order, look at all of the categories of compensation that are being submitted. And, if there's anything that you think should be amended in your motion, after review of all of that, if it's all right with others, to give, you know, a 10-day period or something to resubmit, if needed, or just to submit a letter saying that there are no further changes and the motion stands as is, it would be appreciated.

MR. CAMERINO: Sure. I would be happy to do that. Thank you.

CMSR. BELOW: Okay. Good. Thank you. Well, let's proceed to having each party provide their preliminary statement of their position with regard to the Petition for Temporary Rates. And, Mr. Camerino, would you care to summarize your request.

MR. CAMERINO: Sure. Thank you, Commissioner Below. The Company has filed this rate case using a test year of the 12 months ending June 30th, 2009, and the overall revenue deficiency that the Company believes should be found is $11.4 million. That's based on a overall rate of return of 9.09 percent, which compares to 8.28 percent, which was the overall rate of return found in docket DG 08-009, the last general rate case for the Company.

For the test year ended June 30th, 2009, the Company earned an overall rate of return of 3.35 percent. Now, bear in mind that that 3.35 percent was while the case that I just mentioned was pending, in which the Commission found the authorized rate of return to be 8.28 percent. The Company is also requesting temporary rates in this case of $5.7 million, which is 50 percent of the revenue deficiency that is calculated in the Company's filing. It's very important to the Company to obtain timely temporary rate relief, because the Company, as I noted, is substantially under earning, and the permanent rate result, as you know, will relate back in time to the effective date of temporary rates.

The Company is very appreciative of the prompt date for a temporary rate hearing that the Commission has already set, and believes that holding a hearing on that date and making temporary rates effective with service rendered as of June 1 will address the Company's needs in that regard.

There are a number of reasons that the Company is filing this rate case so closely on the heels of the conclusion of its prior rate case. First, the Company has continued to invest substantially in nonrevenue-producing rate base additions. That has been an ongoing problem for the Company, because its distribution system is aging, as is true of other major utilities in the state. And, so, it has to continue to replace existing infrastructure that does not add to the numbers of customers or throughput on its system.

In addition to the large increases in nonrevenue-producing rate base, the Company is experiencing flat or declining usage per customer, and very limited growth in customer numbers. And, the result is that there's insufficient additional revenues to cover the return required to support that new -- the additions to rate base that I referred to before.

At the same time, operating expenses continue to increase, particularly municipal taxes, property and statewide property taxes have increased substantially and are expected to continue to increase substantially. The Company's pension and other retirement benefit costs have also increased substantially, and have been quite volatile as well, and that has posed challenges to the Company's ability to earn its allowed return.

And, thirdly, on the expense side, the Company has continued to see a substantial increase in its uncollectible account expense, and that has posed a severe challenge.

The Company also is seeking an increase in its authorized return on equity. It is seeking to have a rate that it believes will reflect industry standard rates of return that are necessary for it to be able to attract the capital that will allow it to accomplish the goals that it shares with this Commission, in terms of investing in the system in New Hampshire.

So, the Company, in order to address these issues, has tried to present some creative and flexible approaches that it thinks will help address this chronic under earning problem. And, I want to stress that the Company is obviously well aware that it has had a significant difference of view from the Staff, and at times with the Commission, in terms of what the proper return on equity should be. But, before you even get to that issue, you have to recognize that whatever return the Commission decides is appropriate, the current process of setting rates has not enabled the Company even to earn that return. Whatever that number may be, the way that the rates are set puts the Company in the situation as I've illustrated, with regard to the test year, where it cannot earn that return, whatever it may be. So that the issue of what the return should be almost, although it's quite important to the Company, almost becomes secondary.

So, in order to address these concerns, the Company has tried to present some flexibility approaches that will both honor the traditional ratemaking principles that the Commission has sought to apply, and will also be designed to try to reduce the frequency of rate cases, which, obviously, consume time and expense, divert the Commission's attention from its business, and the Company from its business as well.

One of the approaches that the Company is suggesting is that a more current rate base figure be used in setting rates. And, the first method for doing that would be to update the rate base to year-end for all nonrevenue-producing rate base, and that will make a significant dent in the problem of the rate base additions that are causing the Company's return to decline rapidly. By updating nonrevenue-producing rate base, the Company believes that there would be no violation of the matching principle, because there are not associated revenues that would be failed to be recognized in that kind of approach.

The second approach is that the Company would like to see the annual rate adjustments that are currently made for the Cast Iron/Bare Steel Replacement Program see that expanded for other nonrevenue-producing rate base to include those that are related to public works projects. So, when the Company, in coordination with a municipality, goes into the ground to replace existing main, in order to essentially replace aging infrastructure on a more cost-effective basis, it would like to have the annual rate adjustment mechanism expanded to include those types of investments.

The next adjustment that the Company is proposing would be to have an annual reconciling mechanism for the pension and non-pension post-retirement benefit expenses that I referred to, because those vary significantly from year to year, and are unusual in nature in that they are based on actuarial estimates. They are not actual hard, out-of-pocket cash figures, they are actuaries trying to apply certain assumptions to come up with a sense, if you will, of what the Company's future expense will be and book it on a current basis. And, those numbers move up and down based on many factors, most of which the Company has no control over. And, so, the Company would like to see an annual reconciling mechanism that will allow it to recover the amount that it incurs, in terms of booking it, what it books on its financial statements. And, if that number goes down, which it does, then the rates would go down. And, if it goes up, the Company could increase its rates at any given time or once a year in order to reflect that. So, it would be a reconciling mechanism, rather than requiring the Company to come in because, in a given year, the amount has risen beyond its control.

Another reconciling mechanism that the Company is proposing is related to commodity bad debt. So, that is the uncollectible account expense that is associated with gas sales. And, as you're aware, the Company does not earn a profit on its gas sales, but it does bear the risk with regard to the uncollectible account expense. And, we believe that that is a disconnect that should be corrected. Currently, the uncollectible account expense is at historically high levels, due in part, the Company believes, to the difficult economy that we're in. And, we believe that both the Company and customers would benefit if that amount were reconcilable. As that amount comes down, the rates would come down. But, in addition, the Company believes that there is a risk/reward mismatch, if you will, that's not appropriate.

The testimony of Tracey McCarthy and Mark Hirschey addresses that issue in detail. And, it also talks about the Company's efforts to manage its uncollectible account expense and the steps that it's taken to control that expense.

The next proposal that the Company has included is a revenue decoupling proposal. That proposal is essentially one that's based on a revenue per customer mechanism. And, the goal of that is to fully align the Company's financial incentives with the Commission's and the state's energy efficiency goals.

And, then, lastly, the Company has proposed a two-year rate case stay out, which would be from the date of a Commission order, with the idea being that, if it's able to get a result where the types of adjustment mechanisms that it's proposing are put in place, it believes that it could agree not to file a rate case for at least two years from the date of an order, and that that would be beneficial to both the customers and to the Company, as well as the Commission.

The Company very much looks forward to working with counsel and parties for the Staff, the Consumer Advocate, Ms. Locke. We appreciate the constructive approach they have already taken. And, we look forward to meeting with them to discuss a schedule and temporary rates and beginning the discovery process. Thank you.

CMSR. BELOW: Thank you. Mr. Linder.

MR. LINDER: Commissioner, at this time, we don't have a position with respect to temporary rates. We do have and have filed a preliminary statement and position on the permanent rates, which I can address later, if the Commission wants to go through the positions on temporary rates first.

CMSR. BELOW: Sure. Thank you. Why don't you go ahead, if you'd like to now, with a preliminary position on the permanent rates as well.

MR. LINDER: Okay. I don't know if everyone has a copy of the document that we filed yesterday entitled "Preliminary Statement of Position". If not, I have extra copies.

CMSR. BELOW: I don't believe we've received that yet. It's probably somewhere in the building, but --

MR. LINDER: Okay.

(Documents distributed)

MR. LINDER: The document that's being handed out now to the Commissioners, which was filed yesterday, is entitled "Preliminary Statement of Position and Concerns on Behalf of Pamela Locke". And, rather than going through it line-by-line, if I can just summarize some of the high points of that?

CMSR. BELOW: Sure.

MR. LINDER: And, the first being that there are, as the Commission is aware, there is three basically residential rate classes, the R-1 being the non-heating, and the R-3 being the heating class, and then there's the R-4 class, which is the low income rate that includes a discount to the delivery portion of the rate.

So, with respect to the R-3 heating rate, the general rate increase would be in the vicinity of about 10 percent. Whereas, for the R-4 class, the rate increase would be in the vicinity of 5 percent. That does not, unless I'm misreading the filing, those numbers do not include increases that might result were the reconciling adjustment mechanisms to be approved. And, similar with the rate -- with the revenue decoupling.

The impact on the R-4 class is something that we're quite concerned with. And, we're also concerned with the impact on the R-3 class, because it's our belief that there are still a number of low income customers on the R-3 rate who have -- who are not on the R-4 rate.

Now, I mentioned the fact that there is a delivery rate discount to the R-4 class. Which, to some extent -- mitigates, to some extent, the rate increase.

However, that delivery rate discount has not been updated since 2006. So, the Commission's Order 24,669, dated September 22nd of 2009, in what was DG 06-120, was the last time that the R-4 delivery rate discount was updated. We would like to see a review as to whether it's now appropriate to consider updating the delivery rate discount, which could help mitigate, to some extent, the impact of a rate increase on the R-4 class.

The third item of concern is that the rate increase applies to both the volumetric usage per therm charges, as well as to the facilities charge, the customer charge. And, our reading of the exhibits is that we're looking at roughly a 50, 5-0, percent, 50 percent increase to customer charges for both the R-3 and the R-4 class. And, our math is just approximate, but that would represent about three-quarters of the basic rate increase. In other words, there's about a 7.5 million rate increase to the residential class; roughly three-quarters of that would come from the proposed increases to the customer facility charge, and that raises a significant concern.

Similar, following on that, is that the fourth concern is that, when one looks at the exhibits attached to the testimony, one would see that the impact, the percentage rate increase impact on customers is such that there is a higher percentage impact on lower use customers, whether they're in the R-3 or whether they're in the R-4 class. And, so, the second page of our Preliminary Statement of Position has a chart that shows that, as usage goes up, the percent of the rate increase goes down. And, so, conversely, the lower users have a much higher percentage rate increase. That is a concern for us.

I mentioned the volumetric usage charges. And, the way the Company's rate design is set up, we have basically a declining block rate structure, with two basic rate blocks. And, so, the per therm charge in the initial usage block, which is referred to as the "head block", for the first 100 therms is higher than the per therm charge in the second usage block, the "tail block". And, so, when talking about pricing signals that are sent by the rate design, we have a pricing signal that encourages use, which, to some extent, is inconsistent with the policy of conservation and energy efficiency.

We also have a concern about the revenue decoupling mechanism, which was mentioned earlier, which is not a partial, but our understanding is a full revenue decoupling proposal, that's not designed solely to try to capture the reduced usage resulting from energy efficiency, but it's designed to capture any volumetric reduction, which could be from the weather, from the economy, whatever. And, our concern about the revenue decoupling mechanism at this time includes the fact that there can be, if not designed properly, a shifting of the risk from the Company to the customer. And, unless the design of the revenue decoupling mechanism is looked at very closely, that's a -- that could be a serious risk.

Similarly, with respect to the revenue decoupling, the Commission mentioned in its generic revenue decoupling docket, the DE 07-064, in its January 2009 order, that, if a proposal was to be brought forward on revenue decoupling, whether full or partial, that there might be some expectation of also presenting an accompanying proposal for enhanced energy efficiency measures. Now, I know we have a CORE energy efficiency docket for the electrics, and there are energy efficiency programs on the gas side. But, nevertheless, in this docket, in this filing, I didn't see any accompanying proposal for enhanced energy efficiency programs, which is something that one might expect with respect to a revenue decoupling proposal.

And, with respect to the other annual, if you will, rate adjustment mechanisms, it does raise a concern, when you have multiple rate reconciliation proposals presented all at the same time, and being able to keep track of and literally track what is going on, and it raises a significant challenge in and of itself, and raises the prospect of, yes, the reconciling mechanisms could result in decreases, but could also result in increases. And, those multiple increases from those multiple mechanisms can present an issue, when we have a request for permanent rates in the vicinity of 11 plus million.

The final concern that we have is with respect to the Company's uncollectible expenses, which the Company has presented as a significant issue. And, as I understand the prefiled testimony, the Company is proposing a number of activities to help deal with the rising uncollectible rates. One of the potential consequences, however, of these activities, as I read the testimony, is that there will be a high likelihood of a significantly increased number of shut-offs. Now, that presents several concerns, when, as it was mentioned earlier, we have an economy today which really is very challenging for customers with respect to their bills. So, to the extent that there may be a significant increase in shut-offs, it does present a concern, and we would like to be able to have discussions on how that can be addressed.

One potential is to seek to transfer as many R-3 customers who are eligible for the R-4 rate onto the R-4 rate, where they would have a better opportunity to be able to more effectively deal with their significant financial limitations with respect to their bills.

So, thank you very much for the opportunity.

CMSR. BELOW: Thank you. Ms. Hollenberg.

MS. HOLLENBERG: Thank you. The Office of Consumer Advocate has no positions on any of the issues in the Company's filing at this time. I think it would be fair to say that we have a number of concerns about it. And, we look forward to working with the Staff and the parties and exploring the filing and proceeding to the various scheduled matters in this case. Thank you.

CMSR. BELOW: Thank you. And, Mr. Fossum.

MR. FOSSUM: Thank you. Some of this has been covered already by Mr. Camerino, but, for purposes of my statement, I hope you won't mind if I'm at least a little repetitive. As the Commission is well aware, National Grid filed its last rate case approximately two years ago. And, in that case, the parties settled on all of the issues, except for the return on equity. A final order on approving that settlement and setting the return on equity was issued last May. And, in just January of this year, the Commission approved recovery of National Grid's rate case expenses, which totaled approximately $800,000.

National Grid now claims that this recently approved rate increase was insufficient to allow the Company to earn its authorized return, even for the year during which the case itself was pending. Staff has concerns that the Company would enter into an agreement that it found would lead to just and reasonable rates, but so soon afterward would contend was inadequate.

While it's true that National Grid did not earn its allowed rate of return in the first year following the rate case, and, in fact, did report a rate of return of a little over 3 percent as of June 30th, 2009, it's reported rate of return by year's end had risen to nearly 6 percent, about 5.86 percent, which may indicate that the earning picture is improving. So, Staff will seek to know whether and to what degree any managerial or operational practices or policies may have contributed to the perceived need to file for new rates so quickly.

As to some of the more specific issues in the filing, Staff intends to explore the savings that that were to be obtained through the Company's merger. Per the terms of that merger settlement, the last rate case included a credit of $619,000 reflecting ratepayers' share of anticipated net synergy savings from the merger. The credit was in recognition of the fact that it would take some time to achieve the savings, but with the expectation that those savings would be realized prior to the next rate case filing, which is this rate case filing. Those savings do not appear to have materialized, and Staff intends to explore the reasons for that appearance, as well as the impact that any future merger savings may have on the Company's earnings.

Regarding the Company's uncollectibles or its bad debt, which was also addressed in the settlement in the last rate case, the Company was to increase its collection staffing, and thereby decrease the supply-related bad debt recoveries over four years. Although stepped up collection practices were expected to increase the write-offs in the first year, the policy was intended to decrease the expense in the long run. Staff intends to investigate the efficacy of the changes to this point and the impact of the Company's future earnings capabilities.

In addition to these changes, National Grid argues that it will not be able to earn its authorized return if the Commission does not modify its traditional rate-setting policies. And, as Mr. Camerino has noted, the Company has requested annual rate adjustments covering it's non-growth capital investments, changes in pensions and other benefits, and a reconciling mechanism covering inflation, and full revenue decoupling. These requests represent significant changes in Commission policy and diverge substantially from rate-setting methodologies successfully employed in New Hampshire for many years.

While the Company has stated that it believes these changes will benefit customers by enhancing its ability to provide reliable, safe and efficient service, while allowing it to earn a fair rate of return, Staff believes that it is incumbent upon the Company to make a very strong showing of the necessity for such sweeping changes, particularly in light of the fact that an agreement on its rates, without any of these mechanisms, was reached only about a year ago, and that the test year earnings were unquestionably distorted by the downturn in the economy that may be beginning to rebound. Staff intends to fully and carefully investigate the claimed need for these mechanisms.

According to the filing, their primary drivers for this requested rate increase are reduction in sales growth, coupled with increases in non-growth capital expenditures. Much of the decrease in the sales growth may be attributable to the downturn in the economy, and may be temporary. And, it may also be that non-growth capital investment could be limited and suitably managed, while still supporting a safe and reliable distribution system. In the current economic environment, customers may benefit from fewer and lower rate increases, without compromising improved safety or reliability, particularly considering the track record of National Grid's predecessor companies in this area, which has been good.

Finally, Staff notes that National Grid's prior rate case employed three consultants, and initially included the testimony of eight witnesses. In this filing, the Company has employed to date five consultants, and included the testimony of 11 witnesses. Of particular note, at least to Staff, is that the Company has traditionally used in-house expertise in calculating its revenue requirement, as is typically done by all the small water companies. However, in this case, National Grid has hired a consultant to assist in that function as well. Outsourcing of such common functions concern Staff. While National Grid's rate case expenses are not yet known, Staff believes the Company must make a strong showing of the reasons why ratepayers should bear the rate case expenses it may ultimately seek.

At this time also, Staff does not have any position on the Company's request for temporary rates, but will be exploring that issue with the Company and the parties following this prehearing conference.

CMSR. BELOW: Okay. Thank you. Yes, Commissioner Ignatius.

CMSR. IGNATIUS: Thank you. Mr. Camerino, I have a question to you. Having heard the statements of Mr. Linder and Mr. Fossum, is there any area that you would consider outside of the scope of this case that would not be an area to explore as the two of them intend to explore? I ask that not because I have a view that it's not within the scope, I have too many negatives in that sentence, they seem appropriate to the scope from what I understand. But, I think, as you head into a technical session and discovery, it's helpful to see early on if there is a dispute over any areas that the Company would consider outside the scope. And, if that's the case, then we should move towards a more formal determination of any issues that are in or outside the scope for the Commission to resolve.

MR. CAMERINO: Well, to be honest, I would not want to respond definitely at this point as to the areas that were identified. But would say, first of all, I think that kind of issue is best dealt with, if it comes up through the discovery process, when we have a specific question at hand. And, I would also add, it has not been my experience with these parties, or in other proceedings with this company, that issues of scope have been significant. Once in a while that can occur, but I would actually be quite surprised if that was a problem. And, so, I would rather address it in the unlikely event that it arose.

CMSR. IGNATIUS: Thank you.

CMSR. BELOW: Okay. Are there any other matters at this point?

(No verbal response)

CMSR. BELOW: If not, there's a technical session to immediately follow the closing of this prehearing conference. And, we'll take the issues under advisement and await a proposed procedural schedule from the parties. Thank you.

(Whereupon the prehearing conference ended at 1:53 p.m. and a technical session was held thereafter.)