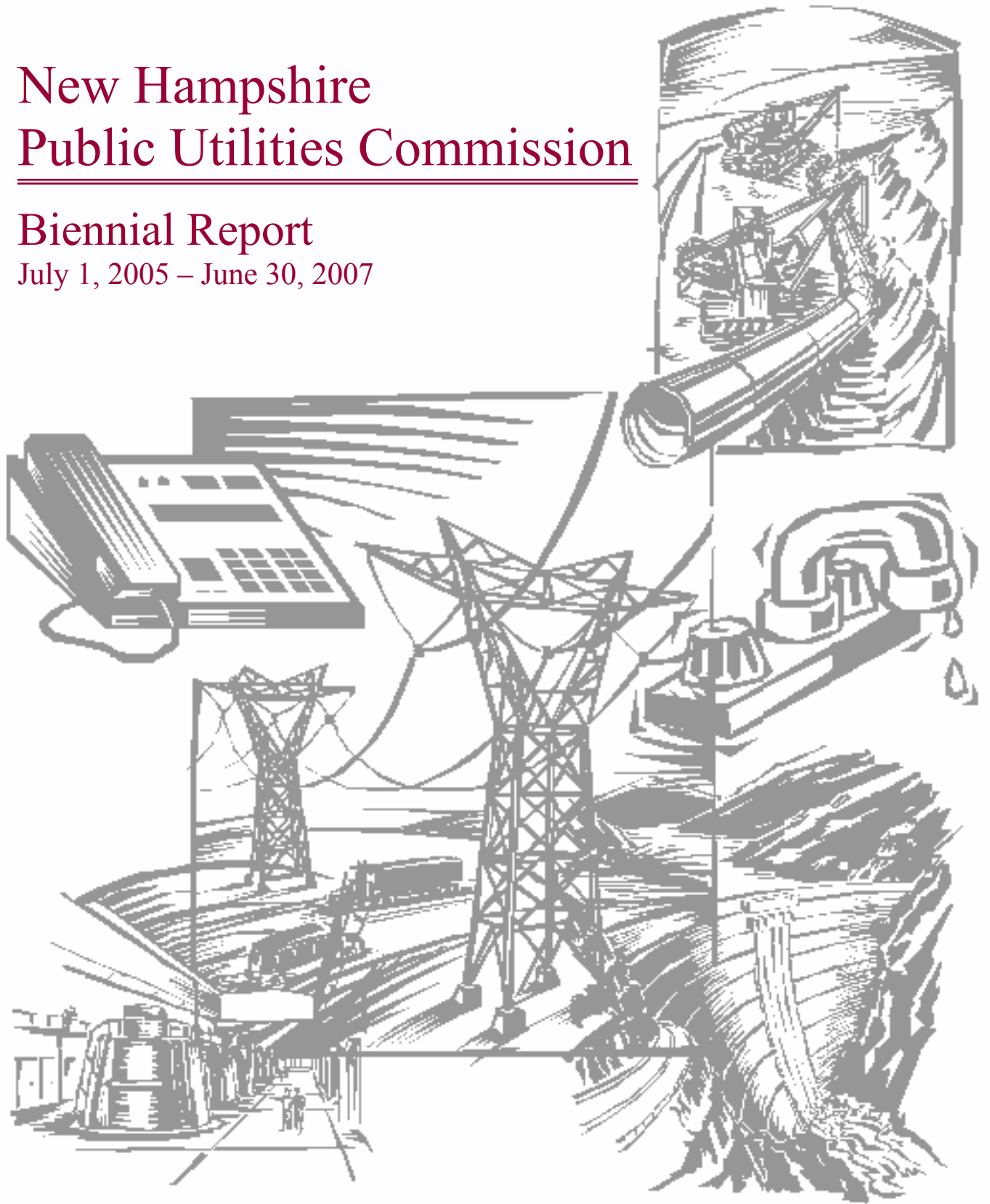


New Hampshire Public Utilities Commission

Biennial Report

July 1, 2005 – June 30, 2007



John H. Lynch
Governor

Raymond S. Burton
Executive Councilor
District 1

John D. Shea
Executive Councilor
District 2

Beverly A. Hollingworth
Executive Councilor
District 3

Raymond J. Wiczorek
Executive Councilor
District 4

Debora Pignatelli
Executive Councilor
District 5



His Excellency Governor John H. Lynch
And The Honorable Executive Council:

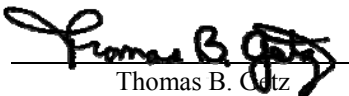
We are pleased to provide this report of the Commission's activities over the past biennium. As you will see throughout the report, each regulated industry is confronted with its own significant challenges in terms of price pressures from a variety of sources including global demand for oil, gas and coal; environmental concerns; conformance with state and federal regulations; and disputes over the relative merits of deregulation. It is within this larger economic context that the Commission strives to perform its duty to balance the interests of customers and shareholders in a way that results in safe, adequate and reliable service at just and reasonable rates.

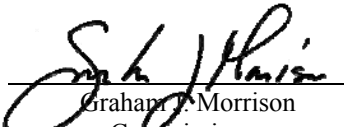
As you are aware, utility regulation is a complex and arcane endeavor but one that affects daily the lives of every New Hampshire citizen and the businesses that contribute to our economic well being as a state. In that regard, fundamental changes in regulation continue to highlight the Commission's challenges. For example, while competition has ostensibly obviated regulation in sectors of the telecommunications industry, debates continue about the pace of the transition to a fully competitive marketplace and its effects on customers and among competitors in the industry. At the same time, the Commission's Consumer Affairs Division assists customers with inquiries about regulated and unregulated services. A similar transformation has been occurring in the electricity industry where the focus on price regulation at the state level on retail rates has shifted in such a way that competitive market forces and federal regulation play larger roles. It is in respect to the latter issue that the Commission's advocacy role on regional and federal matters has expanded greatly.


The expansion of the Commission's roles is best exemplified by the number and variety of the Commission's committee and other assignments. In addition to longstanding duties concerning the Nuclear Decommissioning Finance Committee and the Site Evaluation Committee, which in a significant proceeding approved this year the first commercial wind facility in New Hampshire, the Commission devotes substantial time and resources to the Telecommunications Planning and Development Advisory Committee, the 911 Commission, the Advisory Council on Emergency Preparedness and Security, the State Emergency Response Commission, the Energy Planning Advisory Board, and the Energy Policy Commission. Commission members have also played critical roles in committee work for the National Association of Regulatory Utility Commissioners (NARUC), the New England Conference of Public Utility Commissions, the Power Planning Committee of the New England Governors' Conference, and the Climate Change Steering Committee and Northeast International Committee on Energy of the Conference of New England Governors and Eastern Canadian Premiers. Other examples of contributions by the Commission include the Regional Greenhouse Gas Initiative, the Governor's Job Cabinet as well as numerous legislative undertakings.

We trust that you will find this report informative.

Respectfully submitted,


Thomas B. Cutz
Chairman


Graham J. Morrison
Commissioner


Clifton C. Below
Commissioner



MISSION

- To ensure that customers of regulated utilities receive safe, adequate and reliable service at just and reasonable rates.
- To foster competition where appropriate.
- To provide necessary customer protection.
- To provide a thorough but efficient regulatory process that is fair, open and innovative.
- To perform our responsibilities ethically and professionally in a challenging and supportive work environment.

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COMMISSIONERS

The three New Hampshire Public Utilities Commissioners are appointed for six year terms by the Governor subject to Executive Council approval. The Commissioners' terms are staggered so that one term expires every odd numbered year. The Governor, with Executive Council approval, appoints one of the Commissioners as Chairman. One Commissioner must be an attorney and at least one of the remaining Commissioners must have experience in engineering, economics, accounting or finance.

THOMAS B. GETZ

Chairman

Thomas B. Getz was appointed Chairman on October 11, 2001 and reappointed June 13, 2007. His current term ends on July 1, 2013. In addition to his duties as Chairman of the Commission, he serves as Chairman of the Nuclear Decommissioning Finance Committee and Vice-Chair of the Site Evaluation Committee. He is a member of the Telecommunications Planning and Development Advisory Committee and the Advisory Council on Emergency Preparedness and Security.

Chairman Getz graduated from Holy Cross College with a BA in Political Science. He holds a Juris Doctor degree from the Franklin Pierce Law Center and an Master's in Public Administration from the University of New Hampshire. He served in the US Army as an Interrogator for Military Intelligence.

GRAHAM J. MORRISON

Commissioner

Graham J. Morrison was appointed Commissioner on October 8, 2003. His term ends July 1, 2009. He has thirty-six years of private industry experience at companies such as: Xerox, Merrill Lynch, Ciba-Geigy, and General Electric. Commissioner Morrison was also employed as Vice President of Marketing at Novilit, Inc. (2001-2003); Director of Business Development, Cabletron Systems (1996-2001); Telecommunications Analyst, Gartner Group (1995-1996).

CLIFTON C. BELOW

Commissioner

Clifton C. Below was appointed Commissioner on December 27, 2005. His term ends July 1, 2011. Commissioner Below graduated from Dartmouth College with a BA, Geography, and from Southern NH University with an M.S. in Community Economic Development. He is a member of the NH Energy planning Advisory Board and the Energy Resources and Environment Committee of NARUC. He also serves as an agency head representative for the State in RGGI.

He served 6 years in the NH House and 6 years in the NH Senate, ending in 2004. He served on, and at times chaired, the policy committees overseeing energy and utility issues, as well as numerous other committees. He served on the Energy and Environment Committee of the Council of State Governments, Eastern Regional Conference, the National Council on Electricity Policy Steering Committee, and the Advisory Council on Energy of the National Conference of State Legislatures, which he also chaired. He has a background in commercial real estate development and management.

COMMITTEES

Advisory Council on Emergency Preparedness and Security

Under RSA 21-P:48, the Chairman is a member of the Advisory Council on Emergency Preparedness and Security. The Council advises the Governor on issues relating to the state's ability to respond to natural and man-made disasters, and the preparation and maintenance of a state disaster plan.

Energy Planning Advisory Board

Pursuant to the laws of New Hampshire 2004, Chapter 164, the Legislature created the Energy Planning Advisory Board to monitor and assist in the implementation of the New Hampshire Energy Plan. The Chairman appoints two representatives of the Commission as members of the Board.

Enhanced 911 Commission

The Chairman of the Commission or designee is a member of the Enhanced 911 (E911) Commission created by RSA 106-H:3. The Director of the Telecommunications Division has been designated. The E911 Commission is charged with maintaining a coordinated state wide enhanced 911 system to improve emergency communications and response time to emergency calls for law enforcement, fire, medical, rescue and other emergency services.

Nuclear Decommissioning Financing Committee

The Chairman of the Commission is also a member of the Nuclear Decommissioning Financing Committee (NDFC), pursuant to RSA 162-F. The NDFC is charged with determining the projected costs of nuclear decommissioning.

Site Evaluation Committee

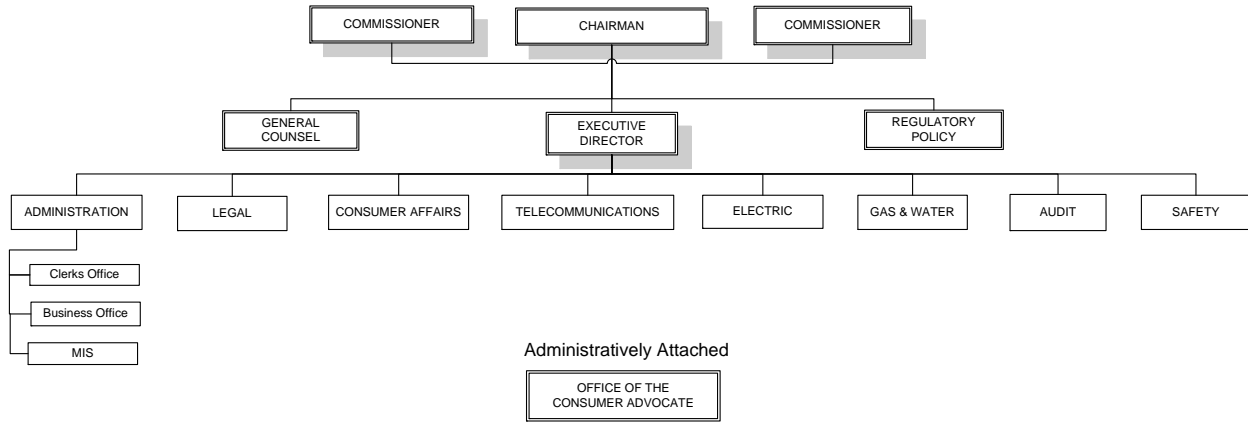
The Commissioners and an engineer designated by the Commission, pursuant to RSA 162-H, are members of the Site Evaluation Committee (SEC). The Commission Chairman is Vice-Chair of the SEC. The purpose of the SEC is to determine the terms and conditions of any certificate issued for the construction and operation of energy and bulk power supply facilities.

Telecommunications Planning and Development Advisory Committee

The Chairman of the Commission and the Director of the Telecommunications Division are members of the Telecommunications Planning and Development Advisory Committee created under RSA 12-A:46. The Advisory Committee works with other state agencies, including the Department of Revenue and Economic Development, to develop a state wide plan for telecommunications service.

ORGANIZATIONAL CHART

PUBLIC UTILITIES COMMISSION



Office of the Commission	Debra A. Howland , <i>Executive Director and Secretary</i>
General Counsel	Donald M. Kreis, Esq. , <i>General Counsel</i>
Regulatory Policy	Michael D. Harrington , <i>Senior Policy Advisor</i>
Administration	ChristiAne G. Mason , <i>Director and Assistant Executive Director</i>
Legal Division	F. Anne Ross, Esq. , <i>Director</i>
Consumer Affairs	Amanda O. Noonan , <i>Director</i>
Telecommunications Division	Kathryn M. Bailey, P.E. , <i>Director</i> Pradip Chattopadhyay , <i>Assistant Director</i>
Electric Division	Thomas C. Frantz , <i>Director</i> Mary H. Coleman , <i>Assistant Director</i>
Gas & Water Division	Mark A. Naylor , <i>Director</i> Stephen P. Frink , <i>Assistant Director</i>
Audit Division	Stuart A. Hodgdon , <i>Chief Auditor</i>
Safety Division	Randall S. Knepper, P.E. , <i>Director</i>

COMMISSION PROCEEDINGS

NUMBER OF DOCKETS		
	FY 2006	FY 2007
Electric	55	45
Natural Gas	31	27
Rulemaking	0	1
Sewer	0	0
Steam	2	5
Telecommunications	68	56
Water	25	18
Other	2	0
Total	183	152

NUMBER OF DECISIONS		
	FY 2006	FY 2007
Electric	119	94
Natural Gas	53	50
Rulemaking	0	1
Sewer	0	1
Steam	0	3
Telecommunications	86	79
Water	57	52
Other	8	7
Total	323	287

PERFORMANCE MEASURES		
	Benchmark	Actual
	%	%
# Orders of Notice (81)		
Issued within 20 Days	80	67
Issued within 30 Days	90	86
Issued within 60 Days	95	96
# Procedural Orders (84)		
Issued within 30 Days	80	92
Issued within 45 Days	90	95
Issued within 60 Days	95	95
# Final Orders (117)		
Issued within 45 Days	80	92
Issued within 75 Days	90	98
Issued within 120 Days	95	100

NUMBER OF OFFICIAL PROCEEDINGS		
	FY 2006	FY 2007
Pre-Hearing Conferences	30	40
Hearings	62	53
Rulemaking Hearings	3	1
Public Statement Hearings	2	6
Commission Meetings	38	47
Total	135	147

COMMISSION FINANCES

Pursuant to RSA 363-A, the Commission is funded primarily by an assessment on the utilities it regulates. The utilities, in turn, include their portion of the assessment in rates, with their share of the total assessment determined by the level of their revenue. In addition, half of the Commission's Safety Division, which is responsible for enforcing pipeline safety, is federally funded.

In FY 2006, the Commission regulated 172 utilities with gross revenues exceeding \$3.2 billion. The Commission was authorized 70 full-time employees including the commissioners and 1 part-time employee. The Office of Consumer Advocate was authorized 5 full-time employees.

CLASS DESCRIPTION	CLASS	ACTUAL FY 2006 EXPENSES	ACTUAL FY 2007 EXPENSES
Salaries	010	\$3,476,617	\$3,511,135
Current Expenses	020	137,961	129,927
Rent & Lease – Other	022	22,027	19,504
Maintenance – Other	024	988	2,579
Organizational Dues	026	45,416	47,054
Transfers to OIT	027	524,555	523,509
Transfers to General Services	028	317,968	312,219
Equipment	030	70,472	22,694
Indirect Costs	040	46,507	31,573
Audit Fund Set-Aside	041	0	269
Consultants	046	0	6,199
Trans. to Other Agencies	049	137,929	137,908
Other Personnel Services	050	51,964	39,687
Benefits	060	1,400,225	1,333,196
Travel (In-State)	070	10,358	11,608
Travel (Out-of-State)	080	64,446	84,526
Printing / Advertising	090	39,950	39,950
Westlaw	091	24,669	25,881
Educational Training	092	4,486	14,277
Retirees Health Insurance	097	228,896	275,156
Workers Compensation	8011	4,179	7,889
Unemployment	8600	0	9,048
Total		\$6,609,613	\$6,585,788

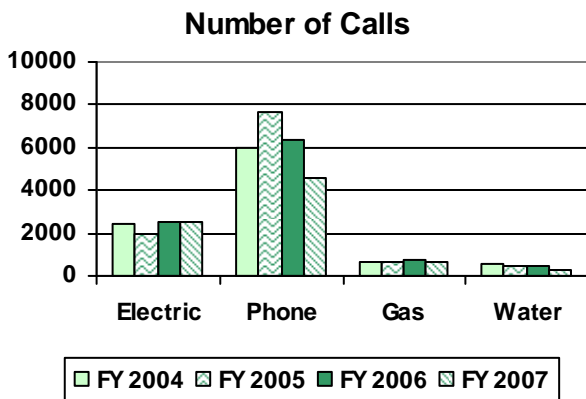


CONSUMER AFFAIRS

The Consumer Affairs Division assists consumers in the resolution of informal complaints and provides information to consumers to help them understand their rights and responsibilities as customers of competitively provided and monopoly provided utility services. The Division tracks and monitors consumer calls, watching for trends in complaints which may indicate service quality, regulatory compliance or consumer protection issues that require Commission attention. The Consumer Affairs Division also educates consumers and other public interest groups in an effort to reduce disputes and to promote the public's understanding of utility services and practices, thereby assisting them in making informed choices about utility service.

Consumer Inquiries

The Consumer Affairs Division participates in monthly calls with other states and with the Federal Communications Commission, sharing information about consumer protection issues and receiving

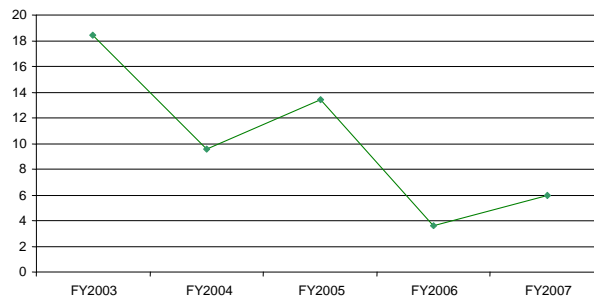


valuable information about telecommunications complaint trends other states are seeing. The

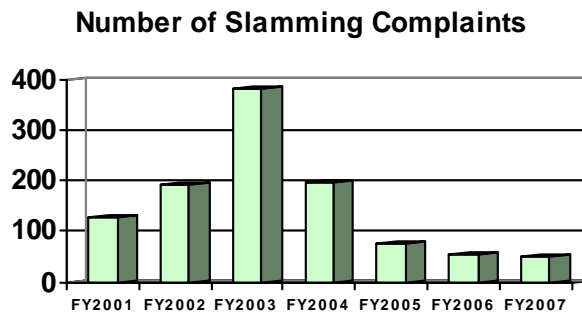
information alerts us to potential problem behavior and allows us to be more responsive to consumer inquiries.

The average length of time to close a complaint has declined over the past two years from 14 days in FY 2005 to 6 days in FY 2007.

Average # of Days to Close Complaint



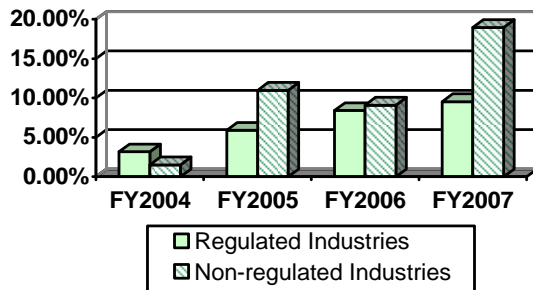
The trend of fewer calls regarding the unauthorized transfer of telephone service, or slamming, continued. After reaching a peak in FY 2003 of 385 calls, the number of slamming complaints has decreased more than 87%.





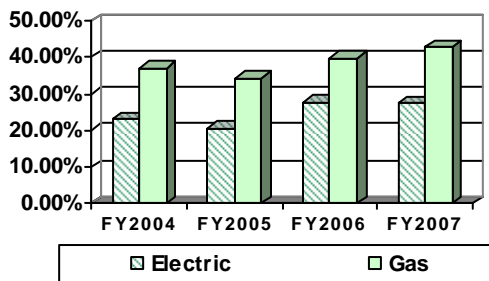
Calls regarding service quality increased during the biennium. The percentage of calls regarding service quality grew faster for non-regulated industries, such as cable, wireless, and VOIP, than for regulated industries. All industries, with the exception of the gas industry, experienced an increase in the percentage of calls regarding service quality.

Service Quality Calls as Percentage of Total Calls



During the biennium, there has been an increase in the number of calls regarding voice over internet protocol, or VOIP. While VOIP providers deliver dial tone service to customers, the Federal Communications Commission has determined that VOIP providers are not subject to state jurisdiction. However, customers who have questions about or experience difficulty with their VOIP service contact the Commission for assistance. Prior to FY 2005, the Consumer Affairs Division received no calls regarding VOIP service. Since that time, the number of calls regarding VOIP service has been rising steadily.

Billing & Rate Related Calls



Increasing natural gas prices in 2004 and 2005 contributed to an increase in calls to the Consumer Affairs Division from natural gas and electric customers. While the effect of higher natural gas prices on electric rates was less than on gas rates, billing and rates related calls increased for both industry groups.

Consumer Education

Educating consumers about their utility services and their rights and responsibilities as a utility customer is an ongoing effort of the Commission. The Commission makes use of press releases and interaction with consumer groups and individual consumers to help consumers become better informed about their utility services. The Consumer Affairs Division participates in a series of statewide workshops each fall with social service agencies. These workshops are an important vehicle for sharing information with social service agencies about utility service changes and how those changes can impact their clients. It also establishes contacts between the social service agencies and the Consumer Affairs Division that allows everyone to better assist consumers. While these agency meetings have historically been tailored to electric utility issues, natural gas utilities were included in these sessions during the past biennium.

Electric Assistance Program

The Commission’s Consumer Affairs Director oversees the administration of a low income energy assistance program that is funded through the system benefits charge as authorized under RSA 374-F:4, VIII (c). Customers of National Grid, New Hampshire Electric Cooperative, Public Service Company of New Hampshire and Unilt Energy Systems support the program through a 1.2 mil per kWh charge on electric bills.

On September 1, 2006, the Commission issued Order No. 24,664 approving a new design for the electric assistance program which calculated benefit amounts based on the



participant's income and household size, using federal poverty guidelines (FPG) as the determining factor in the amount of benefit. The new program continues to provide benefits through a tiered discount structure. The benefits provided to customers are targeted based on need such that the largest percentage discount would be applied to the bills of customers in the lowest FPG group and the lowest discounts to the bills of customers in the highest FPG group. At the time that the new program design was developed, projections showed that benefits could be provided to approximately 30,000 customers, roughly double the number of customers that were receiving benefits under the previous program. Due to increases in electric prices over the past 12 months, the electric assistance program currently provides benefits to approximately 27,000 households with approximately 1,700 households on a waiting list. The funding level for the electric assistance program remains at 1.2 mils per kWh.

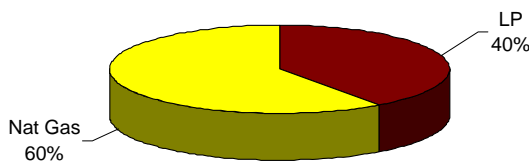


SAFETY & SECURITY

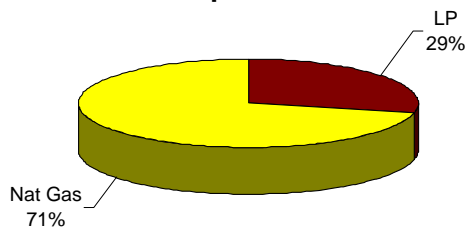
INSPECTIONS

The Safety Division is responsible for monitoring and inspecting construction and safety practices for all New Hampshire gas utilities and liquid petroleum (LP) operators who maintain jurisdictional LP systems. Approximately 180 inspections of liquid propane facilities and 330 inspections of natural gas operators involving compliance with the Natural Gas Pipeline Safety Act were conducted during the biennium.

2005 - 2006 Inspection Distribution



2006 - 2007 Inspection Distribution



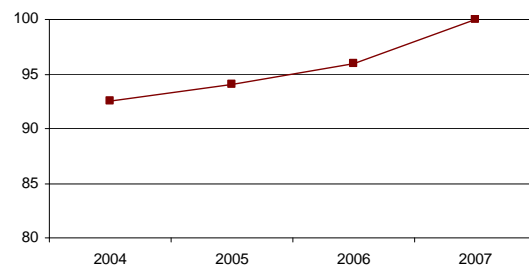
The Safety Division has jurisdiction over more than 2,700 miles of intrastate pipelines delivering gas to more than 110,000 customers within New Hampshire. Two natural gas utilities, 43 liquid propane operators and one propane-air distribution company are inspected at least once per year. In addition, three master meter systems and three liquefied natural gas facilities are inspected annually. The Division

also administers 15 separate natural gas inspection modules and conducts rigorous inspections with a strong emphasis on training and education.

During 2006, two complex and comprehensive multi week Integrity Management inspections were completed of state intrastate transmission gas pipelines. New Hampshire was one of the first states in the nation to complete all Integrity Management inspections of its operators. The Safety Division is currently inspecting a \$45 million dollar, 12.5 mile renewable transmission project transporting BIOGAS from the Turnkey Landfill in Rochester to the University of New Hampshire's cogeneration facility in Durham

The U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration's Office of Pipeline Safety audits the Division's Safety Program each year and routinely gives the Division high scores on its annual performance evaluation. The Safety Program received a perfect score of 100 during the latest evaluation of March 2007. Maintaining a highly qualified and knowledgeable inspection staff is a critical element for a high rating.

Results of Annual Federal Audits



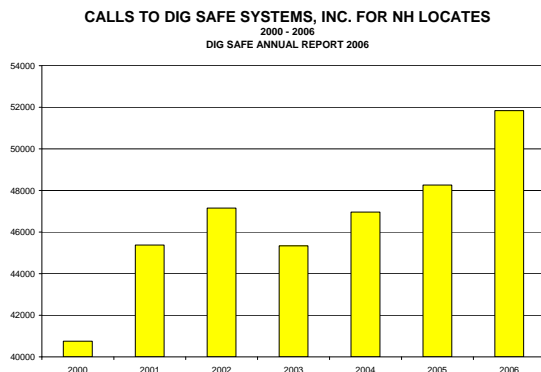


Comprehensive training is required of all inspectors that require a minimum of 10 weeks per inspector regarding distribution and transmission safety practices, investigative techniques, and simulated exercises of potential field situations encountered. Within the last 3 years, the Safety Division staff has completed over 30 weeks of safety training regarding transmission and distribution pipelines.

In December 2006, the U.S. Congress authorized funding pipeline safety programs to increase from the present maximum of 50%-50% federal/state sharing arrangement to a maximum 80%-20% federal/state arrangement, which is to be phased in within a five year period. This increase in funding should help mitigate any future cost increases to the program.

UNDERGROUND DAMAGE PREVENTION

The Division is responsible for administering the Underground Utility Damage Prevention Program to ensure public safety and minimize damage to underground facilities. Third party excavation continues to be the number one cause of damages to underground facilities in New Hampshire, as well as nationally. New Hampshire generated 52,000 calls into the DigSafe center in 2006, a 7.4% increase over the previous year and a 27% increase over the year 2000.



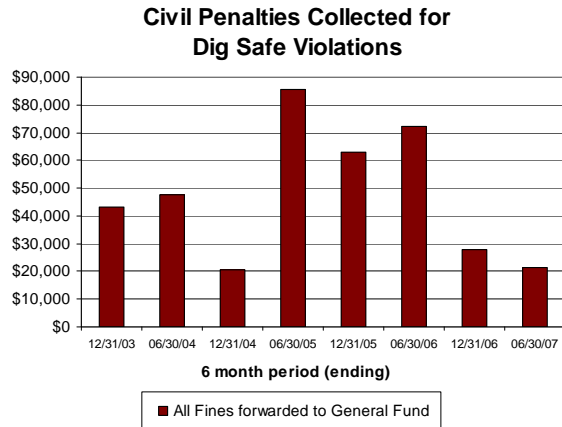
The Safety Division inspects construction sites for compliance, investigates reported damages and issues citations when violations are identified. In the previous biennium, the Division processed 657 reports of damages to underground facilities. During the recent biennium, there was a 16 % increase in reports to 760. In processing these reports, 260 informal conferences involving contractors and utilities were convened in which disputes regarding the damages or alleged violations were resolved.

The Safety Division sponsored a number of DigSafe damage prevention seminars and education opportunities throughout the state during the Biennium. Three types of training are provided:

- Seminars geared toward general contractors that are presented in conjunction with utilities.
- Trainings conducted at requesting company headquarters by Safety Division staff
- Training conducted at the PUC offices associated with civil penalties and specific contractor violations.

In order to improve the effectiveness of training, the Safety Department has purchased and implemented an interactive audience response system which allows audiences and students to participate in presentations or sessions by submitting responses to interactive questions using a hand held response card keypad device. This system has been well received and enhances the trainees learning experience. In addition, the system is available for other departments of the NHPUC and is useful for conducting surveys and providing instantaneous feedback to questionnaires

Enforcement of the Underground Utility Damage Prevention Program remains a high priority for the Safety Division. Civil penalties totaling more than \$184,000 were received for the 2 year period. All civil penalties are applied to the State’s General Fund. Educational training for contractors is also conducted by staff in lieu of civil penalties having an equivalent value of \$46,000.



The Safety Division is also responsible for investigating damages to utility poles and associated equipment. Whenever an electrical incident occurs involving a person receiving a shock, flash injury or other injury resulting from contact with a utility's facility, an investigation and report is completed. Unfortunately, during the biennium this occurred on 20 occasions involving 5 fatalities.

EMERGENCY PREPAREDNESS AND SECURITY

An Emergency Preparedness and Security Team headed by the Director of the Safety participates in planning and coordination with the Department of Safety and the Bureau of Emergency Management in New Hampshire, and exercises affecting utility infrastructure. Through the Security Team, the Commission reviewed security plans for all major utilities and participated in drills for emergency operations involving Seabrook and Vermont Yankee power plants.

In addition, the Security Team assisted in coordinating electric and telecommunications infrastructure restoration during the floods and winter storms of 2006 & 2007. Particularly, the Safety Division coordinated re-establishing telephone service to the Raymond area in April 2007 flood after the Raymond switching station was flooded. Electric restoration efforts are reviewed to identify areas in need of improvement.

Revisions were made to the gas rules in 2005 to ensure that gas utilities continue to prepare security plans. In particular, security at the state's LNG operations was reviewed. The Commission has been active in the Department of Safety's GIS effort and has worked closely with the Division of Emergency Services in developing and updating GIS maps and databases identifying critical energy and telecommunication facilities.

The Safety Division has also played an active role in the effort to reactivate the State Emergency Response Commission (SERC) which works with the federal government to identify hazardous materials that may pose a threat to New Hampshire's citizens.

Security Team members also actively participate in U.S. Department of Energy emergency response plan development and have attended training and participated in exercises related to energy emergencies.



TELECOMMUNICATIONS INDUSTRY

The Commission regulates companies that provide traditional wireline telecommunications services; that is, local service to homes and businesses, and long distance service within New Hampshire. The Commission has no regulatory authority over information services such as high-speed Internet access, including access provided via cable modem, DSL and power lines, or Voice over Internet Protocol (VoIP) service provided in conjunction with high-speed Internet access. The Commission does not regulate cellular telephone companies, companies that provide wholesale service to other telephone companies, Internet service providers, cable television, or out-of-state long distance.

NATIONAL

The trend at the national level to endorse market-based competition and deregulate telecommunications continued unabated during the last biennial. In particular, the fourth attempt by the Federal Communications Commission (FCC) to implement the “unbundling” provisions of the Telecommunications Act of 1996, was upheld by the United States Court of Appeals in a decision issued on June 16, 2006, which denied each of the petitions for review of the FCC’s Triennial Review Order on Remand (TRO Remand Order), issued in February 2005. Other important national developments during the last biennial include an FCC order issued in September 2006 which placed DSL and other wireline broadband Internet access services on an equal regulatory footing with cable modem service.

STATE

Companies that provide traditional wireline local phone service fall into two groups: ILECs, who are required to provide service to any customer in their service area, and CLECs, who provide service based on a competitive business plan. Competition for in-state long distance service, or toll service, has been authorized in New Hampshire since 1991. The Telecommunications Act of 1996 (the Act) opened local service to competition. In New Hampshire, Verizon is currently the only ILEC that is required to open its network to competition.

There are 11 traditional telephone companies (incumbent local exchange carriers or ILECs) in New Hampshire. They provide *exchange telecommunications service*: local and toll services for residential and business customers, local private line voice and data services, and Centrex services, and *exchange access service*: a wholesale service which connects a local customer to the transmission facilities of other telecommunications carriers.

The revenues generated from these types of telecommunications services are reported to the Commission in four broad categories:

1. *Local Service Revenue*: derived from telephone lines, services on those lines, and extra features, such as voice mail.
2. *Network Access Revenue*: derived from the per-minute charges telephone companies pay to one another for the use of each others’ networks. For instance, if a Verizon customer places a long distance telephone call using



AT&T, AT&T must pay Verizon a per-minute fee for the use of Verizon's network to originate the call.

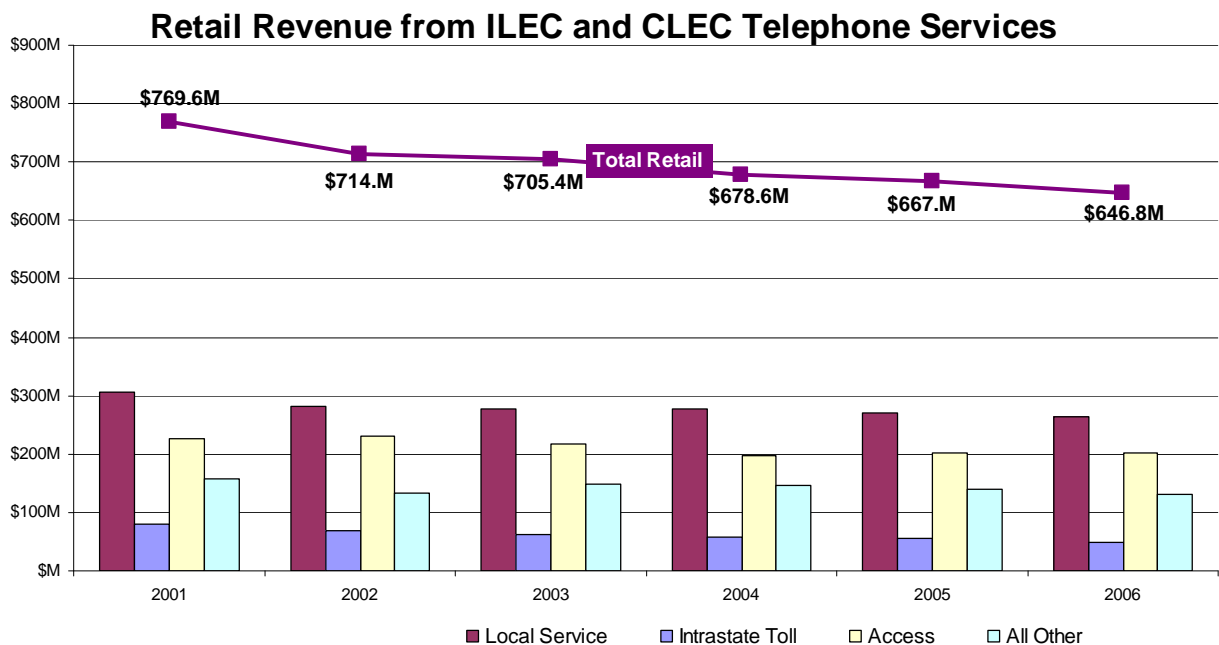
3. *Long Distance (In-State) Network Service Revenue:* derived from long distance calls placed within the state by end users.
4. *Miscellaneous (Other) Revenue:* derived from any revenue not captured in the preceding categories, such as revenue from unbundled network elements, directory publishing, interexchange services, rentals, installations, billing & collection services and nonrecurring charges.

- MCI WorldCom Communications, Inc. (Verizon affiliate)
- AT&T Communications of New England, Inc.
- Comcast Phone of New Hampshire, LLC
- Bell Atlantic Communications, Inc. (Verizon affiliate)
- Sprint Communications Company
- PaeTec Communications, Inc.
- CTC Communications Corp. (One Communications affiliate)
- Choice One of New Hampshire, Inc. (One Communications affiliate)
- Freedom Ring Communications LLC d/b/a BayRing Communications

The total retail revenue reported by ILECs and CLECs from New Hampshire operations for 2006 was \$646.8, which is 4.7 percent lower than the total retail revenue registered in 2004. The graph above also indicates that during the biennium, revenue has decreased from all services, except access. The graph also indicates that total retail revenue has been falling over the last five years. Based on the reported revenue in 2006, the ten largest telephone companies doing business in New Hampshire were:

During the biennium, Verizon merged with MCI. All the ILECs in New Hampshire, except Verizon, are small independent telephone companies that serve about 6% of the state's telephone customers in their defined service areas. As a result of a federal law, wireline competition has not yet been established in these areas. Verizon has the responsibility to offer service to the remainder of the state's telephone customers.

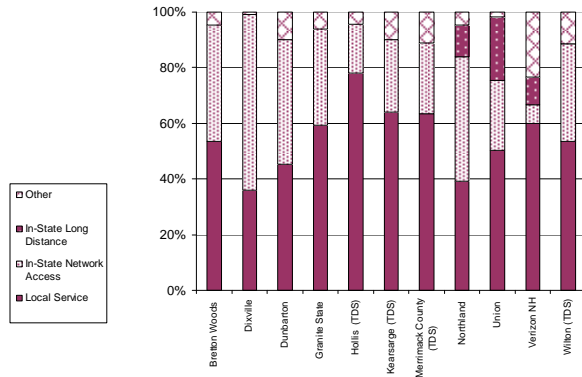
- Verizon - New Hampshire





The rate of return earned by ILECs on their intrastate operations has historically been regulated by the Commission. In March of each year, local exchange carriers, both ILECs and CLECs, report total annual revenue earned from customers in New Hampshire. ILECs are required to report this total revenue separated into interstate and intrastate operations. Only those ILECs that are also toll providers receive revenue from in-state toll. Some companies derive a significant portion of their revenue from access charges. Current action at the federal level to reduce access charges would have an impact on these local companies. Below are charts summarizing the distribution of ILEC revenue from operations in 2004 and 2006 respectively.

ILEC 2006 Revenue Distribution by % of Total



Source: 2006 Annual Report Form F's and Annual Reports
Footnote: Verizon NH Other Revenue includes \$23,300,000 Directory License Agreement Imputation.

Twenty-five tariffs were filed by the ILECs with the Commission for approval during the biennium. On average, the Commission took twenty days per tariff to respond with its decision. The Commission responded to all of these filings within the deadline of thirty days.

Local Competition in New Hampshire

Local service competition was authorized in New Hampshire in 1997. Verizon reported that in 2006 at least 10 percent of customers in 54 areas served by Verizon have an alternate service provider. Thirty-four communities are served by ten or more CLECs compared to thirty-eight communities in 2004 and twelve communities in 2002. Manchester

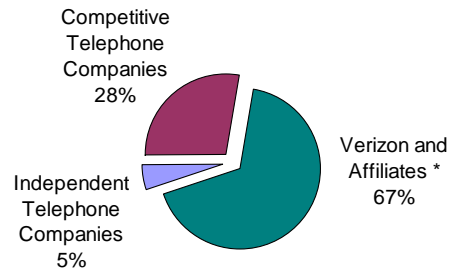
has the most active competition, with CLECs reporting 67,790 subscriber lines in service. The ten areas in the state with the most access lines served by CLECs are:

Area	Number of lines served by CLECs
Manchester	67,790
Nashua/Hudson	28,873
Portsmouth	24,356
Concord	16,990
Derry	11,567
Salem	11,253
Dover	9,609
Exeter	9,553
Keene	7,645
Laconia	4,215

The number of CLECs authorized during the biennium was 18. 32 CLECs were operational in 2006 compared to 43 CLECs in 2004 and 49 in 2003. Thus, there has been a downward trend in the number of operational CLECs over the last few years. The average number of days to process CLECs registration during the biennium was ten days.

Local Telephone Service 2006

Based on Revenue from Local Service



* Verizon affiliates include former MCI, Inc. subsidiaries now controlled by Verizon Communications.

According to the Annual Reports filed in 2006, the total revenue produced by the provision of local telephone service in New Hampshire was \$269 million, a decrease of \$17 million from \$286 million reported in 2004. Verizon and its CLEC affiliate generated 67% of



the total revenue reported in 2006. Independent telephone companies generated 5%, and other CLECs generated 28%. The shares of revenues for Verizon, ITCs, and CLECs, were 68%, 4% and 28%, respectively, in 2004.

Based solely on revenue derived from local service in 2006, the largest CLECs in New Hampshire were:

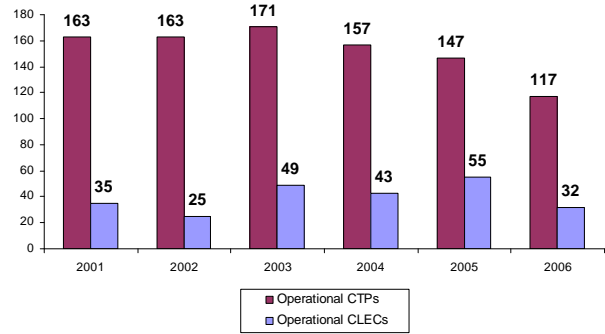
- Comcast Phone of New Hampshire, LLC
- CTC Communications Corp.
- Choice One of New Hampshire, Inc.
- Freedom Ring Communications LLC d/b/a BayRing Communications
- Conversent Communications of New Hampshire, LLC
- AT&T Communications of New England, Inc.
- Lightship Telecom LLC
- PaeTec Communications, Inc.
- MCI metro Access Transmission Services, LLC
- Granite Telecommunications, LLC

During the biennium, four of the companies listed above, CTC Communications Corp., Choice One of New Hampshire, Inc., Conversent Communications of New Hampshire and Lightship Telecom LLC, merged to form One Communications. Also, Verizon took over MCI metro Access Transmission Services.

Long Distance Competition

Twenty-eight new CTPs were authorized during the biennium. Accounting for prior authorizations, 427 CTPs were registered to operate in 2006. Of those, 117 provided some form of long distance service. In 2004, 431 toll providers were registered to operate, of which 157 provided some form of long distance service. 171 CTPs were operational in 2003. Thus, there has been a downward trend in the number of operational CTPs over the previous few years. The average number of days required during the biennium to process a CTP registration was eight days.

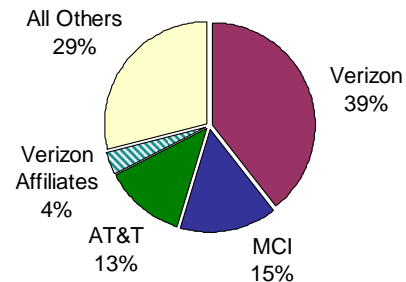
Operational CTPs and CLECs



According to the Annual Reports filed in 2006 by companies providing in-state long distance, the total revenue from in-state long distance service in New Hampshire was \$68.6 million, roughly \$12.4 million less than in-state long distance revenue earned in 2004; continuing the declining trend since 2001. As a result of the Verizon-MCI merger and AT&T's apparent focus on states in which it has merged with an ILEC, the long distance service market share, based on revenue, has changed considerably.

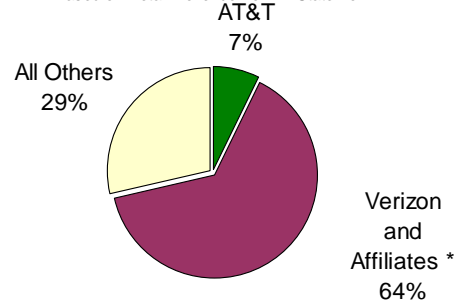
Long Distance Service 2004

Based on Retail Revenue from In-State Toll



Long Distance Service 2006

Based on Retail Revenue from In-State Toll



* Verizon affiliates include former MCI, Inc. subsidiaries now controlled by Verizon Communications.



Status of Competition

The telecommunications industry has generally become more competitive over the last biennium although the level of competition for wireline carriers is difficult to quantify without data from wireless and VoIP providers. Greater in-roads have been made by cable television companies providing telephone service (using both circuit switching and Internet Protocol) and wireless providers during the last biennium. While the number of wireless subscribers increased nationally by about thirty percent from June 2004 through June 2006, in New Hampshire, the number of wireless subscribers increased 52.8%.¹

The trend appears to be toward packages that include unlimited usage for local and long distance calling, and bundling of telephone, broadband and television services. While applications-based VoIP products are becoming more attractive, the recent demise of SunRocket, the second largest VoIP provider in the country, and the uncertainties surrounding Vonage, cast some doubts about VoIP's viability as a stand-alone service.

In 2005, RSA 374:3-b was enacted to allow small incumbent local exchange carriers to seek alternative regulation, or price deregulation, when competitive service is available to the majority of the company's retail customers. The law was amended in 2006 at the request of the independent telephone companies. In March 2007, TDS filed the first request for alternative regulation pursuant to this statute. Hearings have been scheduled for December 2007 at which the Commission will take evidence and hear facts to be considered in determining whether TDS is qualified for price deregulation.

PENDING CASES

In January 2007, Verizon filed a petition for authority to transfer its New Hampshire, Maine and Vermont franchises to Fairpoint Communications, Inc. The Commission is in the process of evaluating whether this transaction is for the public good and has scheduled hearings for October 2007. The New Hampshire, Maine and Vermont public utility commissions, the FCC and the Securities and Exchange Commission each must approve the transaction before it is finalized. If approved, Fairpoint would take over Verizon's wireline business in all three states.

¹ See http://fjallfoss.fcc.gov/edocs_public/attachmatch/DO-C-270407A1.pdf.

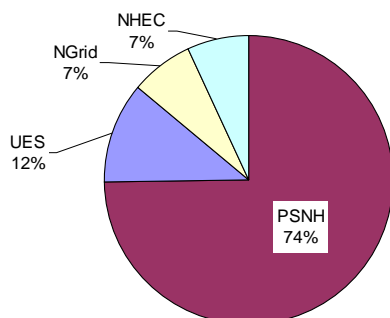


ELECTRIC INDUSTRY

The Commission regulates the rates and service of three electric distribution companies in New Hampshire: National Grid; Public Service of New Hampshire (PSNH); and Unitil Energy Systems (UES). In accordance with RSA 301:57, the New Hampshire Electric Cooperative (NHEC) filed a certificate of deregulation in 2002, exempting it from most Commission regulation. Together, these companies serve nearly 700,000 customers who, in 2006, used approximately 10.8 million megawatt-hours (MWh) of electricity.

Overall, the average annual total customer growth rate has been moderate, reaching 1.23% and 1.76% for 2005 and 2006, respectively. Over the two year period, total consumption (in MWhs) declined by 0.24%, thus the average consumption per customer has declined slightly over the two year period.

NH Electricity Sales (MWh) to Retail Customer by Utility, 2006, as a Percent of Total



New Hampshire remains in the transition from decades of regulating vertically-integrated electric utilities to a structure that incorporates retail choice in a partially regulated electricity market. Electric customers now have the right to obtain their electric supply from an entity other than their electric distribution utility. With the exception of PSNH, New Hampshire's electric utilities have sold their generation facilities and power purchase contracts as part of their restructuring. See RSA 374-F. Unitil, National Grid and the New Hampshire Electric Cooperative now procure the energy component of their service, "default service," through periodic competitive auctions. All customers of these utilities, regardless of class or size, are free to choose service from a competitive electricity provider or to take the default service that their electric utility has competitively procured.

In accordance with RSA 369:B-3-a, PSNH, the largest electric utility in the state, was not allowed to divest its fossil and hydro generation before April 30, 2006. PSNH continues to own and operate fossil and hydro generation assets which it uses, supplemented by purchases from the competitive wholesale market, to provide default service to its customers. The price of PSNH's default service reflects the costs of providing the service. As with the other utilities, customers of PSNH are free to choose an authorized competitive electric supplier.

At the time of our last report, Unitil, Granite State and the NHEC were offering Transition Service (comparable to Default Service) through contracts that each company



New Hampshire Franchise Distribution Utilities Summary Data, 2006

	GSEC	NHEC	PSNH*	UES**	Totals
Customers:					
Residential	34,460	66,975	413,980	62,632	578,047
Small Commercial & Industrial	6,052	9,928	69,528	10,204	95,712
Large Commercial & Industrial	249	11	2,761	121	3,142
Public Street & Highway Lighting	45	86	554	1,876	2,561
Resale Customers*			38		38
Total Number of Retail Customers	40,806	77,000	486,823	74,833	679,462
Sales in MWhs:					
Residential Customers	298,084	447,197	3,087,614	501,061	4,333,956
Small C&I Customers	378,717	234,880	3,342,005	359,928	4,315,530
Large C&I Customers	69,825	52,431	1,581,502	374,093	2,077,851
Public Street and Highway Lighting	2,583	1,416	23,088	9,352	36,439
MWhs sold for resale*			1,051,468	2,342	1,053,810
MWhs sold to all retail customers	749,209	735,926	8,034,209	1,244,434	10,763,778
Revenue:					
Residential Customers	\$22,204,728	\$65,121,060	\$467,517,165	\$69,172,943	\$624,015,896
Small C&I Customers	\$28,748,659	\$29,374,387	\$439,828,174	\$48,200,359	\$546,151,579
Large C&I Customers	\$5,365,114	\$4,905,547	\$166,132,302	\$34,749,386	\$211,152,349
Public Street and Highway Lighting	\$187,491	\$319,669	\$5,728,789	\$2,089,759	\$8,325,708
Revenue from sales for resale*			\$63,178,127	\$195,669	\$63,373,796
Total Revenue from Sales to all Retail Customers	\$56,505,992	\$99,720,662	\$1,079,206,430	\$154,465,584	\$1,389,898,668

Source: Fiscal Year 2006 NHPUC Annual Reports and FERC Form No. 1, 2006 Calendar Year

**Resale figures are not included in Total Number of Retail Customers, MWhs sold to all retail customers, and Total Revenue from sales to all retail customers.*

***UES' figures do not match those on page 300 and 301 in the FERC Form 1 Report because UES listed data for public authorities separately and, as a result that data had to be added back into the small C&I and large C&I classes.*

entered into several years before at prices that ranged between 5-6 ¢ per kilowatt-hour (kWh). During the last few years, underlying changes in the wholesale electricity markets led to increases in market prices. According to the Independent System Operator-New England (ISO-NE), in 2005, generating units burning natural gas or oil set the wholesale electricity price 87% of the time. In addition, due, in part, to Hurricanes Katrina and Rita, natural gas prices in 2005

increased by 44% over 2004. These underlying conditions and events, combined with record-breaking summer loads, increased pressure on electricity prices.

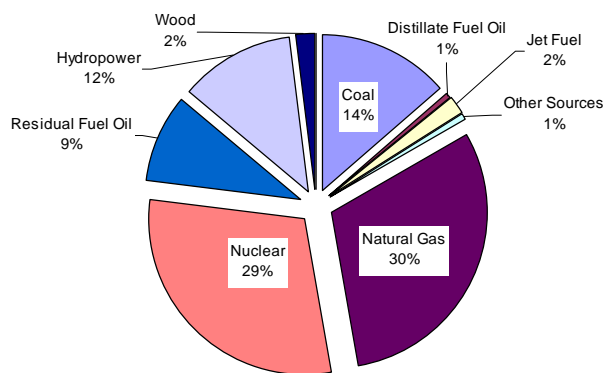
In 2005, UES filed a report with the Commission describing the status of competition in the large commercial and industrial customer market. UES reported that a fully functional competitive market had not materialized and

requested that the Commission extend the provision of transition (and default) service. The Commission approved UES's extension of transition service. During the extension, transition service would be procured through two semi-annual solicitations for six-month supply periods intended to be more reflective of current market prices, thus improving the likelihood that competition would develop.

With the expiration of transition service on April 30, 2006, all customers became eligible for default service from their utility. For large C&I customers, both UES and Granite State acquire default service supply by soliciting power through 3-month contracts, with prices varying by month. For small C&I and residential customers, Granite State solicits default service power every six months and prices it based on the resulting six-month weighted average. UES has adopted a "portfolio" approach for its residential and small C&I default service supply. Its customers pay a rate, fixed for six months at a time, that reflects the simple average of the rates from four "laddered" contracts, each for 25% of UES's residential and small C&I load, acquired at different points in time.

NH Electric Generation Resources as a Percent of Total, 2007

Other Sources includes Land Fill Gas, Municipal Solid Waste and Biomass Waste Generation
Capacity is approximately 4,226 MWs
Source: ISO-NE CELT Report, 2007



PSNH supplies its default service customers using the output from its own generation, supplemented with purchases from the wholesale market. The legislature directed that transition service be available to eligible

PSNH customers through at least February 1, 2006, or as extended by the Commission. PSNH requested and the Commission granted a three month extension of transition service to harmonize the end date with the other utilities in the state.

Competitive Electric Providers

Competitive electric service can be provided by competitive electric power suppliers (CEPS) or by aggregators. In 2006, four new CEPS completed the registration process and one merged with another, thus bringing the total number of CEPS in the state to six. As of this writing, one CEPS application is in process. On average, it takes approximately 57 days to complete the registration process. The time required to complete the registration process reflects that most applications are incomplete when filed; in fact, in all but one case, the applications as initially filed were deficient.

Since 2003, seventeen companies have registered as aggregators. The majority of these (thirteen) registered in 2005 or 2006. More than half the aggregator applications were incomplete when filed. The average number of days to complete the registration process for an aggregator is 36 days. Currently, there are fifteen registered aggregators, with two more applications in process.

Migration to competitive providers is closely correlated with increases in prices of utility supplied transition or default service. In late 2005, following the hurricanes in the Gulf Coast, wholesale energy prices rose dramatically and became increasingly volatile. At the time, UES and Granite State were both in the market soliciting transition service supply for their large C&I classes. The retail energy rates resulting from the solicitations were significantly higher than those in effect, producing, for some large customers, increases in total bills in excess of 60%. This trend continued in 2006.

Migration of the Large C&I classes appears to have peaked in November 2006, when more than 50% of kWh sales for National



Grid, UES and PSNH were provided by competitive suppliers.

Residential and Small C&I customers of UES and National Grid experienced significant increases in their electricity prices when transition service ended in April 2006. Competitive activity began to increase shortly thereafter. Migration by Small C&I customers in the National Grid franchise area is significantly greater than in the other areas. Competitive activity in the residential sector has yet to materialize. Residential migration rates, whether measured as percentage of customers or as a percentage of sales, are essentially zero.

SIGNIFICANT PROCEEDINGS

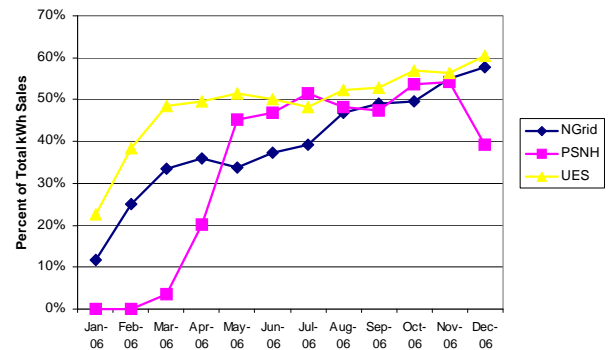
Energy Policy Act of 2005

In April 2006, the Commission opened a generic investigation to determine whether to implement five new federal standards that were added to Title 1 of the Public Utility Regulatory Policies Act (PURPA) by the Energy Policy Act of 2005 (EPAAct). These standards include: time-based (sometimes referred to as “smart”) metering and communication, interconnection of generation facilities on customer premises with the grid, net metering, diversity of fuel sources, and fossil fuel generating efficiency.

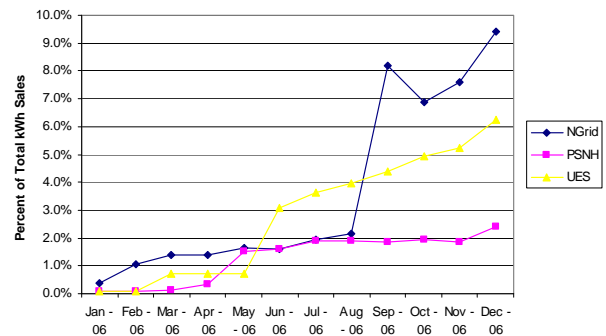
Energy Efficiency

In May 2007, the Commission opened a docket to investigate the merits of instituting, for electric utilities, appropriate rate mechanisms which would have the effect of removing obstacles to and encouraging investment in energy efficiency. This investigation is consistent with the National Action Plan on Energy Efficiency (Action Plan) developed by the U.S. Department of Energy and the U.S. Environmental Protection Agency which, among other things, set forth the recommendation to: “Modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote

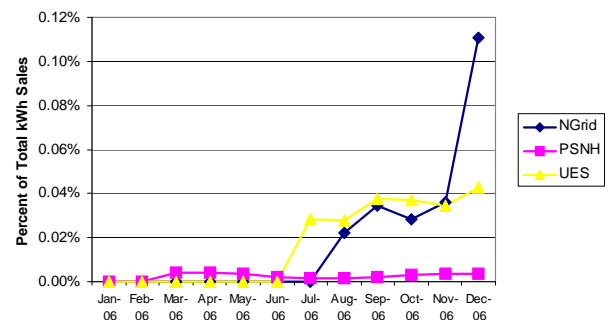
NH Large C&I Migration Rates measured by kWh Sales in 2006 as a Percent of Total



NH Small C&I Migration Rates measured by kWh Sales as a Percent of Total, 2006



NH Residential Migration Rates measured by kWh Sales in 2006 as a Percent of Total



energy efficiency investments.” The Commission set forth a series of questions inquiring about the implications of decoupling a utility’s revenues from its sales, thus breaking the link between sales and profitability and eliminating a utility’s incentive to increase sales.

Energy efficiency efforts, funded through a portion of the System Benefits Charge (SBC), continue to benefit New Hampshire customers. Since implementation of the Core

Energy Efficiency Programs in June 1, 2002, the programs have served approximately 200,000 residential and 1,000 commercial customers in the state providing over 3.3 billion kilowatt-hours in reduced electricity consumption. The Core Energy Efficiency Programs include both Residential and Commercial and Industrial (C&I) programs. Residential programs include: ENERGY STAR Homes, Home Energy Solutions, Home Energy Assistance, ENERGY STAR Lighting, and ENERGY STAR Appliances. C&I programs include: Small Business Energy Solutions, Large Business Retrofit and the New Equipment and Construction.

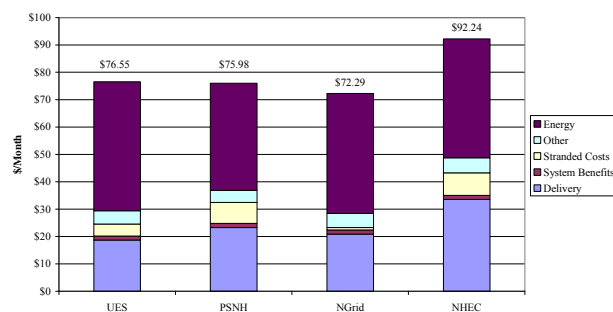
Distribution Rates

On November 4, 2005, Unil Energy Systems, Inc. (UES) filed to increase its base distribution rates by approximately \$2.9 million per year, premised upon a return on equity of 11 percent and an overall rate of return of 9.25 percent. UES also proposed to implement a step adjustment to reflect four post-test year plant investments, which would have increased its annual base distribution revenues by \$526,951. If implemented as proposed, UES's petition would have produced an average increase of 2.9 percent in annual class distribution revenues. On August 24, 2006, UES, the Office of Consumer Advocate and the Commission staff filed a settlement agreement with the Commission which provided, among other things, for an increase to UES' revenue requirement of \$2.267 million, premised upon a return on equity of 9.67 percent and an overall rate of return of 8.70 percent. This negotiated revenue requirement represented an increase of 1.5 percent above UES's existing, approved overall revenue requirement and an increase of 7.2 percent above its existing, approved base distribution revenues. On October 6, 2006, the Commission approved the settlement agreement.

On April 12, 2006, PSNH filed a petition to increase its delivery revenue requirement by \$49.8 million. PSNH subsequently amended its filing and requested to increase its base rate revenue requirements by

\$60 million. In February 2007, PSNH, the OCA and the Staff filed a settlement agreement which was approved by the Commission on May 25, 2007, allowed PSNH to increase its delivery rates, in two steps. The first increase, \$37.681 million, became effective July 1, 2007. The agreement provided for a second increase, on July 1, 2008, to recover expenses associated with additional distribution capital additions placed in service between July 1, 2007, and December 31, 2007. In addition, the settlement was premised upon a 9.67% rate of return on equity; \$1.7 million/year funding of a major storm reserve; and \$10 million/year funding of a reliability enhancement program.

Illustrative Residential Bill
500 kWh/Month
July 1, 2007



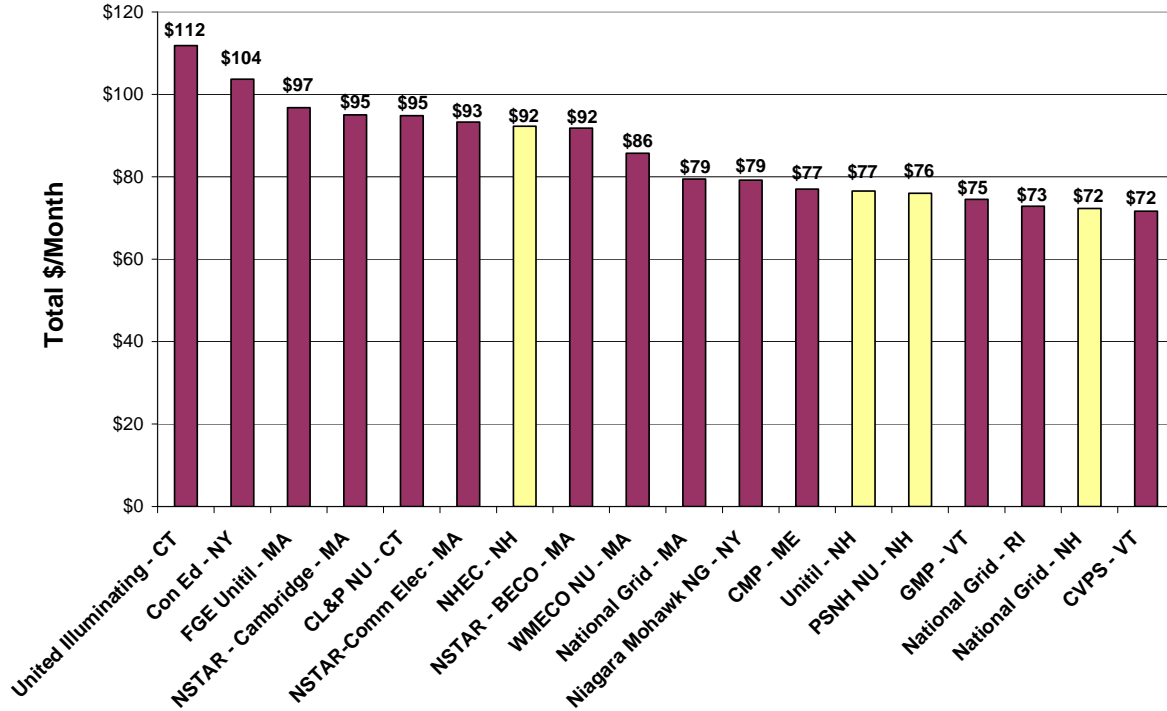
On August 10, 2006, National Grid plc and its subsidiary, National Grid USA, and EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England (EnergyNorth) jointly filed a petition seeking approval of a merger transaction that would result in EnergyNorth becoming a wholly owned indirect subsidiary of National Grid. (See Gas Industry discussion for details.) As a result of this investigation and subsequent negotiations, the companies, OCA and Staff entered into a comprehensive settlement that included, among other things, a \$2.2 million reduction in distribution rates, to be implemented in two phases. The rate reduction was premised upon a 9.67% rate of return on equity; an earnings sharing mechanism that requires National Grid to share cost savings with its customers on a 50%/50% basis if its return on equity equals or exceeds 11%; and an agreement not to increase rates for a 5 year period.



Residential rates in New Hampshire remain among the lowest in the New York - New England area.

Monthly Residential Electric Bill Comparison as of August 1, 2007

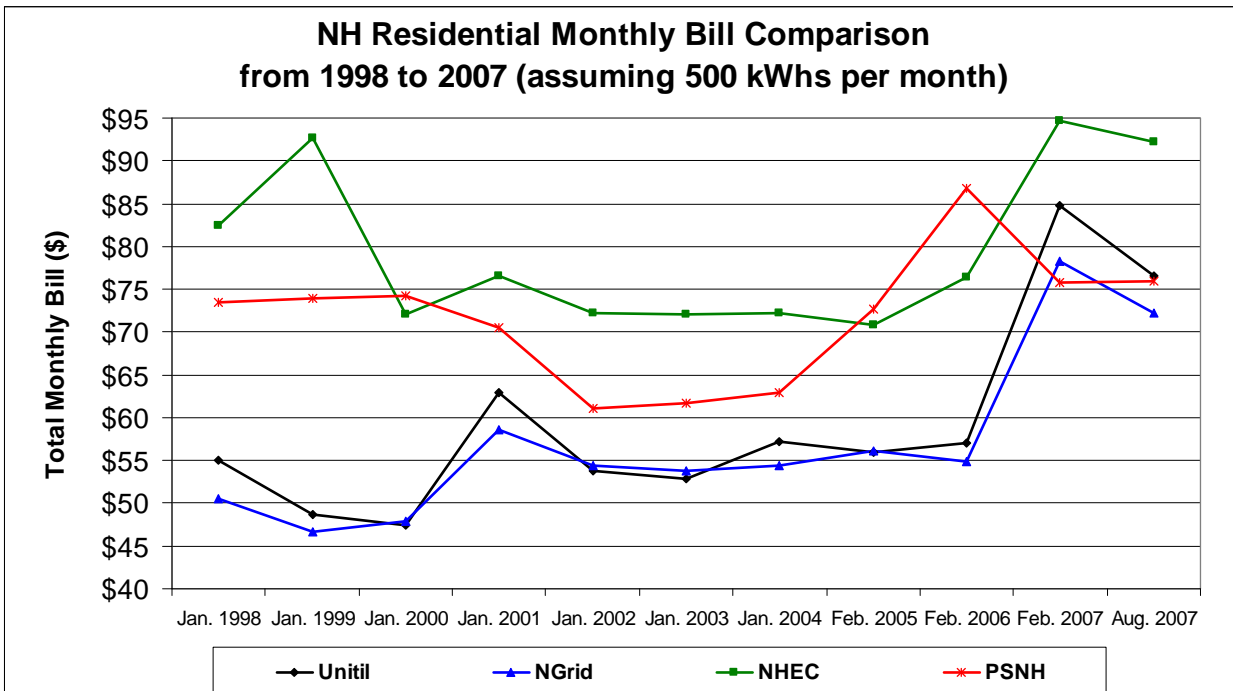
For 500 kWh per Month, Rounded to Nearest Whole Dollar



Company - State

NHPUC, 8/10/07

NH Residential Monthly Bill Comparison from 1998 to 2007 (assuming 500 kWhs per month)



ENERGY CODE

In accordance with the provisions of RSA 155-D, residential structures under four stories in height to be constructed in towns and cities that do not employ a building inspector must receive energy code approval from the Commission. The energy conservation coordinator also processes applications received from several cities and larger towns. During FY '06 and '07, applications have been reviewed from 62 different municipalities; 2,857 residential building applications were approved, only 129 fewer than during the previous biennium.

The impacts of stronger energy codes can be seen in the drop of the average heat transmission of windows being installed in New Hampshire homes. Heat loss has declined from .36 to .34 Btus/square foot per degree of temperature difference in the biennium. The average window installed in New Hampshire loses 50% less heat energy than it did prior to the adoption of the last code in 2002.

Education is a major goal of the code office, which works with applicants to help them bring their plans for new construction into compliance. In the last two years, 15 workshops were conducted on the commercial energy code and on the residential energy code. The residential workshops considered the energy code and energy efficient building practices. The commercial code workshops reviewed HVAC, lighting, and building envelope construction. The Commission's website contains video training sessions for builders, homeowners and code officials. The energy conservation coordinator belongs to the New Hampshire Building Officials Association and therefore is integrated into the building inspector's community.

The energy conservation coordinator continues to serve on the New Hampshire Building Codes Review Board. That board

recommended to the General Court an update of the building codes including the energy code and resulted in the upgrade of codes that took place with the passage of SB 81 in the 2007 session. The Energy Code has been amended to the International Energy Conservation Code 2006 edition from the 2000 edition, which should be simpler for builders to understand and implement.

New Hampshire's continued leadership in energy codes has resulted in substantial energy savings in the residential sector. Many other states and regions are only now requiring wall insulation that demands building with 2x6 studs, which approximately halves heat loss through the walls. Current typical ceiling insulation levels have nearly tripled compared to levels used before the enactment of the new code which should cut heat loss by two thirds. Furthermore, according to the Northeast Energy Efficiency Partnerships, 56% of gas furnaces sold in New Hampshire are high efficiency condensing units, which has been encouraged by the energy code.



GAS & STEAM INDUSTRIES

There are 2.4 million natural gas customers in New England; 2.2 million residential customers and about 250,000 commercial and industrial customers. The 2007 Energy Information Administration's (EIA) Annual Energy Outlook forecasts a growth rate in New England natural gas usage of 1.3% annually through 2030, the highest regional average in the United States. The fastest growing gas consumption sector, nationally and regionally, is gas for electric generation. Gas-fired electric generation in New England accounted for less than 1% of its electric supply in 1980, today it accounts for over 40%. Twenty new natural gas plants have been built in New England since 1998 and 40% of new power plants in the planning stage are natural gas/oil units, with wind as the second largest planned resource.

New England has 2,600 miles of interstate transmission pipeline. These pipelines deliver gas from supply basins in the Gulf Coast, western Canadian, and eastern Canadian (Sable Island Offshore) regions. In addition, New England is the site of one of only five currently operating import terminals for liquefied natural gas (LNG) in the U.S. The terminal is located in Massachusetts and imports LNG primarily from Trinidad and Tobago in the Caribbean. In the last few years, numerous proposals for new LNG terminals have been announced for North America and several of these are proposed for the Northeast U.S./eastern Canada region. Two projects are currently under construction: Canaport LNG in Saint John, New Brunswick, due to be operational in November 2008; and the Northeast Gateway Project, offshore Gloucester, MA, due to be operational in December 2007. New LNG supplies will substantially enhance the regional supply portfolio.

GAS

Transportation and Competition

New Hampshire has restructured its natural gas industry to make it economically feasible for all commercial and industrial (C&I) end-users in the state to choose between purchasing gas supply directly from third party suppliers (unregulated) and using their local gas utility (regulated) for "transportation" or delivery service only, or getting both their gas supply and delivery service (bundled service) of the gas supply from one of the local natural gas utilities.

C&I customers have had access to competitive markets through daily metered delivery service since 1993. In 2001, the Commission approved non-daily metered delivery service for C&I customers, thereby making metering charges more affordable for small and medium customers. When, or whether, to provide similar opportunities to residential customers will depend largely on the market response to the non-daily metered delivery service.

Competitive Natural Gas Marketer rules became effective December 28, 2002, establishing requirements for the registration of natural gas marketers and aggregators, as well as enforcement provisions and consumer protection standards. Seven third party suppliers are registered to operate as Competitive Natural Gas Suppliers in New Hampshire and contact information for these suppliers is posted on the Commission's web site.



Cost of Gas and Hedging

The Commission has encouraged the use of financial instruments for hedging gas supplies since the early 1990's and approved natural gas hedging policies and fixed price option programs in the late 1990's. The primary goal of the program is to reduce rate volatility and New Hampshire has been able to avoid the severe price spikes experienced in jurisdictions without hedging. Both KeySpan and New Hampshire Gas customers have the option to lock in a rate for the winter season.

Natural Gas Low Income Assistance Program

In 2005, the Commission approved a low income assistance pilot program to provide eligible low income natural gas customers with a reduced rate in order to lessen the impact of escalating natural gas costs on their utility bills. The low income rate is available to residential heating customers who qualify for specific means-tested financial assistance programs, such as the Low Income Home Energy Assistance Program (LIHEAP), and is expected to reduce a participant's annual gas bill by 15%. To fund the low income program, the average residential heating customer will see a half a percentage point (0.5%) increase in annual gas costs, or between a \$4 and \$7 increase. In 2006 the Commission approved continuing the program and increased the rate discount for eligible low income customers. The increased discount is expected to reduce a participant's annual gas bill by up to 17%.

KeySpan Over-billing

Gas companies bill customers for usage based on heat (i.e., energy) content of a metered volume of gas rather than only on the volumes measured at the customer's meter. In May 2001, six months following the acquisition of EnergyNorth by KeySpan in 2000, KeySpan implemented a change in how the heat content of natural gas used by EnergyNorth customers was measured. As a result of that change, the

sales volumes increased by 1.8%. Although the actual bill impact to customers was negligible, less than 0.4% of the total bill of an average residential customer, the total amount over-billed amounted to \$2.3 million from the time the change was implement until corrected.

This highly technical change in the Company's billing method was discovered by Commission Staff in 2006. The Commission opened an investigation and with KeySpan cooperating fully with Staff's investigation found that the evidence did not demonstrate that the Company acted with bad intent.

On May 25, 2007, the Commission approved a settlement in which KeySpan agreed to contribute \$200,000 to the low-income energy efficiency program and to fully compensate customers for the effects of its actions by refunding the \$2.3 million over-billing and \$800,000 in related carrying costs.

National Grid/KeySpan Merger

In 2006, National Grid sought Commission approval of a merger that would result in KeySpan becoming a wholly owned subsidiary of National Grid. On July 12, 2007 the Commission approved the merger subject to the terms of a settlement agreement submitted by the Staff and the parties. The approved settlement prohibits recovery of any and all acquisition premiums related to this, or any prior, merger. Other terms include improved safety standards, no increase in delivery rates for at least one year from the date of the merger and a credit to customers for projected merger savings. KeySpan was granted a one time opportunity to share in proven merger savings in a future rate case.

STEAM

Concord Steam is the only regulated steam utility in New Hampshire and serves approximately 120 commercial and industrial customers in Concord, the vast majority of

which are heating customers. Concord Steam’s customers include many State and municipal buildings as well as Concord High School. Concord Steam also produces its own electricity and sells excess electricity to the Unitil.

Cost of Energy

After years of burning only oil and natural gas to produce steam, Concord Steam undertook a major capital improvement project to rejuvenate its wood burning systems and in January 2004, Concord Steam resumed burning wood. In its 2006-2007 Cost of Energy (COE) filing, Concord Steam testified that wood will now account for approximately 70% of the total fuel consumed and that customers would save an estimated \$1.3 million in fuel costs during the year.

Business Plan

The Concord Steam plant is leased from the State under a thirty year agreement that expires in 2010. Concord Steam is proposing to site a new wood burning plant in Concord that would qualify it as a Class I Electric Renewable Facility producing 10 megawatts of electricity annually, limit pollution to five percent of what is currently being produced and reduce steam rates by 30 to 40 percent. Due to the age of the plant and site restrictions, these benefits could not be realized at the current facility.

The Concord Steam business plan is in its preliminary stages but if fully implemented would help satisfy the requirements of the Renewable Energy Act signed by Governor Lynch on May 11, 2007, which calls for twenty-five percent of New Hampshire’s energy to come from renewable sources by 2025.

Natural Gas, Propane and Steam Utilities in NH							
Communities Served							
KeySpan Energy Delivery (Natural Gas)			Northern Utilities, Inc. (Natural Gas)			NH Gas Corp. (Propane)	Concord Steam Corp. (Steam)
Allenstown	Derry	Loudon	Atkinson	Hampton	Plaistow	Keene	Concord
Amherst	Franklin	Manchester	Dover	Hampton Beach	Portsmouth		
Auburn	Gilford	Merrimack	Durham	Hampton Falls	Rochester		
Bedford	Goffstown	Milford	East Kingston	Kensington	Rollinsford		
Belmont	Hollis	Nashua	East Rochester	Madbury	Salem		
Berlin	Hooksett	Northfield	Exeter	Newington	Seabrook		
Boscawen	Hudson	Pembroke	Gonic	North Hampton	Somersworth		
Bow	Laconia	Sanborton	Greenland		Stratham		
Canterbury	Litchfield	Tilton					
Concord	Londonderry						



Natural/Propane Gas and Steam Utilities					
Summary Data: Natural Gas, Propane Gas and Steam Utility Companies Operating in New Hampshire					
Calendar Year 2006					
Operating and Financial Statistics	KeySpan/ EnergyNorth Natural Gas, Inc. ^{1/}	Northern Utilities, Inc. ^{2/}	New Hampshire Gas Corp ^{3/}	Operating and Financial Stats	Concord Steam Corp. ^{4/}
Bundled (Supply + Transportation) Customer Classes				Bundled Sales	
Residential				Public Authority	
Number of Customers	73,599	21,147	766	Number of Customers	16
Average Annual Therms per Customer	734	720	378	Avg. Annual MLb/Customer	5,656
Average Annual Revenue per Customer	\$1,157	\$1,214	\$943	Avg. Annual Revenue/Cust.	\$149,146
Revenue per Therm	\$1.576	\$1.685	\$2.494	Revenue per MLb	\$26.368
Commercial/Industrial/Public Authority				Comm./Ind	
Number of Customers	9,953	5,812	300	Number of Customers	96
Average Annual Therms per Customer	5,229	4,342	2,972	Avg. Annual MLb/Customer	590
Average Annual Revenue per Customer	\$7,707	\$6,090	\$6,148	Avg. Annual Revenue/Cust.	\$15,504
Revenue per Therm	\$1.474	\$1.402	\$2.069	Revenue per MLb	\$26.297
Unbundled (Transportation) Classes				Other Revenue	
Commercial/Industrial				Number of Customers	
Number of Customers	510	332	0	Number of Customers	0
Average Annual Therms per Customer	59,434	71,247	0	Avg. Annual MLb/Customer	0
Average Annual Revenue per Customer	\$6,634	\$9,295	\$0	Avg. Annual Revenue/Cust.	\$380,992
Revenue per Therm	\$0.112	\$0.130	\$0.000	Revenue per MLb	\$2.590
Other Operating/Financial Statistics					
Total Customers	84,066	27,291	1,066	Total Customers	113
Total Operating Revenue	\$160,839,242	\$62,667,073	\$2,502,440	Total Operating Revenue	\$4,255,707
Total Operating Expenses	\$155,311,005	\$6,109,282	\$2,595,315	Total Operating Expenses	\$4,490,992
Net Income	\$5,528,237	\$2,608,793	-\$84,241	Net Income	-\$235,285
Rate of Return	3.63%	6.58%	-4.29%	Actual Rate of Return	-4.40%
Total Plant Assets	\$273,024,553	\$159,558,406	\$3,182,108	Total Plant Assets	\$6,458,585
Source: Calendar Year Ended December 31, 2006 Annual Reports filed with the NHPUC.					
Notes: Bundled customer classes purchase gas supply and transportation delivery service directly from the utility companies.					
Unbundled Commercial/Industrial customer classes purchase gas supply from third party suppliers and utilize transportation delivery service from the gas utility companies.					
1/ d/b/a KeySpan Energy Delivery New England					
2/ Subsidiary of NiSource, Inc.					
3/ Stand alone propane distribution system in Keene, subsidiary of EnergyEast Corp.					
4/ Stand alone steam distribution system located in Concord, NH					



WATER & SEWER INDUSTRIES

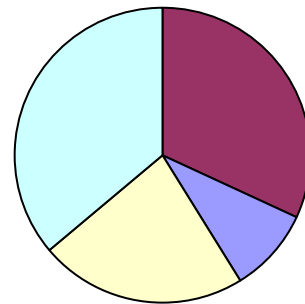
The Gas & Water Division assists the Commission in regulating 22 water utilities and four sewer utilities in New Hampshire. The 22 water utilities own approximately 100 separate systems, ranging in size from 20 customers to about 25,000. Pennichuck Water Works is the largest, serving the greater Nashua area as well as a number of smaller systems in the southern part of the state. Together the regulated water utilities serve around 48,000 service connections in 60 different cities and towns. The four sewer utilities regulated by the Commission serve about 1,200 customers in five communities.

The 22 water utilities regulated by the Commission serve only about 15% of all of New Hampshire’s residents. The large majority of residents are served by either a municipal utility or by private wells. It is estimated that 38% of New Hampshire residents receive their water from private, on-site wells. The Commission regulates municipal water system rates only when it serves outside its municipal boundaries and charges a rate 15% or more above that charged within its boundaries. At present, the Commission does not regulate the rates of any municipal water utilities. For changes to franchise boundaries, both regulated water utilities and municipal water utilities must seek authorization from the Commission.

Even though the number of individual water utilities regulated by the Commission has declined in recent years, this biennium has been extremely busy with dockets concerning water utilities. The decline in the number of water utilities regulated is primarily due to purchases of smaller systems by larger entities. In a few cases, a municipality has purchased and municipalized a regulated utility, as in the case of the Towns of Tilton and Northfield with the Tilton and Northfield Aqueduct Company, or a

group of homeowners has organized to acquire the utility serving them.

Regulated Water Utilities in New Hampshire



■ Over 600 ■ 100-600 ■ 50-100 ■ under 50

PROCEEDINGS

City of Nashua Petition to Take Pennichuck Utilities

On March 25, 2004, the City of Nashua filed a petition with the Commission seeking valuation of the plant and property of the three Pennichuck utilities, Pennichuck Water Works, Inc., Pennichuck East Utility, Inc., and Pittsfield Aqueduct Co., Inc. in order to establish a municipal water system. Nashua indicated that it wished to control the water supply that serves the City to prevent out-of-state or potentially foreign ownership of the resource. By Commission order, Nashua’s request for valuation of the three Pennichuck utilities was subsequently restricted to a valuation of Pennichuck Water Works, the only one of the three utilities that actually provides water service within the City of Nashua.



Nashua's request for valuation moved through a lengthy discovery period, with testimony provided by various parties to the proceeding during 2006. The Commission commenced hearings in January of 2007. After the first two days of hearings, Pennichuck and Nashua requested a stay of the proceedings in order to conduct settlement negotiations. The Commission approved that request. On July 16, 2007 Pennichuck and Nashua announced that settlement negotiations had not reached a successful conclusion, and they requested the Commission schedule the remaining days of the contested hearings. The hearings resumed in September 2007.

Aquarion Water Acquired By Macquarie Utilities, Inc.

The Commission approved the request of Aquarion Water Company of New Hampshire and Macquarie Utilities, Inc. for the indirect acquisition of Aquarion-NH. Aquarion-NH serves approximately 8,700 customers in Hampton, North Hampton and Rye. Aquarion-NH is a subsidiary of Aquarion Water Company, a Connecticut-based company which also owns water utilities in Connecticut, New York, and Massachusetts, which, in turn, is owned by British-based Kelda Group, Inc. Macquarie Utilities, Inc. is a member of Macquarie Group, a diversified international provider of investment banking and financial services with approximately 8,600 employees in 23 countries. The parent of Macquarie Group is Macquarie Bank Limited, an Australian bank with a market capitalization of about \$12 billion.

The Commission concluded that the acquisition would not result in an adverse impact on rates or service to customers and approved the transaction in October of 2006.

Pittsfield Aqueduct Company Acquisitions

During the biennium, Pittsfield Aqueduct Company, a subsidiary of Pennichuck Corporation, received Commission approval to acquire three existing water systems. Locke

Lake in Barnstead, Birch Hill in Conway, and Sunrise Estates in Middleton. These three systems serve a combined 1,045 customers and increase Pittsfield's total customer base to about 1,700. Both Locke Lake and Birch Hill had experienced compliance issues and, in particular, service problems during the summer period when seasonal residents were increasing the demands on the water systems. Although customers in the three acquired systems would be converted to the current Pittsfield tariff rate, Pittsfield indicated that given the anticipated level of improvements needed in the new systems, it would track revenues, expenses and capital additions separately by system for analysis in its next rate case.

Pennichuck Water Works Water Treatment Plant Project

On May 12, 2005, Pennichuck Water Works, Inc. filed a petition requesting authority to issue up to \$50 million in tax-exempt debt instruments through the New Hampshire Business Finance Authority to perform upgrades to its water treatment plant and to finance other capital additions. Pennichuck proposed to structure the debt to make funds available as the upgrades to the treatment plant progressed. The debt instruments were expected to be issued for a 30 year term at an interest rate of just below 5%.

The Commission approved the financing request in September of 2005, stating that it concluded that the improvements were reasonably necessary to ensure compliance with the requirements of the federal Safe Drinking Water Act and that the use of the proceeds was in the public good.

Tilton and Northfield Aqueduct Company Purchased By Newly Formed Village District

On August 19, 2005, the Tilton and Northfield Aqueduct Company and the Tilton and Northfield Water District filed a joint petition for approval of the sale of the



company's stock to the newly formed District. The utility provides service to over 900 customers in the two towns, and has been in existence since the 1800's. The water district was formed specifically for the purpose of acquiring the utility, since the owners of the utility had planned to retire. On December 9, 2005 the Commission approved the sale of the utility's stock to the district, noting that the boundaries of the new district are currently the limit of the utility's service area. The water district therefore would be serving only within its corporate boundaries, and thus was eligible to be exempt from regulation as a public utility. The Commission also indicated that, should the district wish to serve new customers outside its corporate boundaries, it could either expand its corporate boundaries or request authority to do so from the Commission.

Investigation of Water Quality Complaints – Fryeburg Water Company

Fryeburg Water Company serves approximately 800 customers located primarily in Fryeburg, Maine and some 70 customers in East Conway, New Hampshire. The East Conway customers have experienced various water quality problems in recent years, attributed largely to nearly a mile and a half of 6-inch, 1883 unlined cast iron main from Fryeburg that provides the sole source of supply to the village. The Commission opened an investigation in early 2004 upon receiving a petition from a number of the East Conway customers.

In July of 2006, and after numerous proceedings regarding financial, operational, and regulatory compliance issues, the Commission issued an order acknowledging that Fryeburg Water Company was finally moving ahead with replacement of the transmission main from Fryeburg to East Conway. The Commission directed Fryeburg's engineering firm to work with Commission Staff on the specifications for the pipe and the manner of construction. The Commission's July 18 order directed certain aspects of Fryeburg's main replacement project, including the class of pipe to be used, amount of cover to be applied, and the provision of weekly

reports to Commission Staff. In November of 2006, Staff reported that the installation of the replacement main had been successfully completed and that reports of excellent water quality were now received from customers.

Rolling Ridge Water System Receivership Ends

Rolling Ridge is a small water system in the Town of Bartlett serving 31 customers. Following the death of its owner in 2001, the Commission placed this system in receivership until such time as a long term ownership solution could be found. Because of the characteristics of the groundwater in that area, water quality has been a concern for some time. During 2005 and 2006 many of the system's customers formed a homeowners association in order to facilitate a future interconnection with the Bartlett Village Water Precinct. The Commission terminated the receivership on December 11, 2006 and turned control of the water system to the Association. The Association is currently working with a local developer to partner in bringing water from Bartlett Village to the system's customers.

RATE PROCEEDINGS

Hampstead Area Water Company

Hampstead Area Water Company is a growing utility which serves in approximately a dozen communities in southeastern New Hampshire, primarily Hampstead and Atkinson. The company now serves in excess of 2,800 customers. The Commission approved a rate increase for Hampstead of 80.73% in May of 2006, citing to the fact that most of Hampstead's customers had not incurred any rate change since the late 1980's. Significantly, the Commission also approved a consolidated tariff rate for all of Hampstead's customers. The Commission pointed to its approval of such rate consolidation in previous cases, and indicated that elimination of rate shock for small system customers when improvements are made, and



administrative efficiencies were the primary reasons for approving the request.

Aquarion Water Company of New Hampshire

On August 5, 2005 Aquarion filed a request to increase rates to its customers by 21.23%. The Commission ultimately approved an increase of 18.6% through an order issued May 26, 2006. The Commission also approved Aquarion's request for a future step adjustment in rates for significant improvements being undertaken at Hampton Beach, and required Aquarion to file certain reports in response to concerns from the communities in which it serves.

Lakes Region Water Company

Lakes Region filed a rate case on December 19, 2005, seeking Commission approval for an increase in rates averaging around 20% to its various customers. Lakes Region serves over 1,500 customers in eleven municipalities in the Lakes Region area of New Hampshire. Lakes Region's rate case concluded with the company receiving approval for an overall increase in rates of 18.73%, plus approval for a step adjustment for significant capital improvement projects the company had recently completed. In addition, Lakes Region was permitted to include the Deer Cove, Indian Mound, and Lake Ossipee Village systems, its most recently acquired systems, in its consolidated rate. As a part of Lakes Region's rate case, the company also committed to the installation of water meters at these three systems during 2007.

Pennichuck East Utility, Inc.

Filed just before the start of the biennium on May 20, 2005, Pennichuck East requested an overall increase in its revenues of 29.61%. Pennichuck East serves nearly 5,000 customers primarily in southern New Hampshire. The Commission's final order,

issued February 24, 2006 approved an increase in revenues of 24.26%, and also approved the company's request to consolidate its three existing rate groups into two. All Pennichuck East customers will pay the same rate for water service, including those in Litchfield, but the cost for municipal fire protection is added to Litchfield customer bills. The structure of three rate groups was first established in the 1990's when much of Pennichuck East's franchise area was owned by Southern New Hampshire Water Company. The Commission noted that, with that portion of the service area within the Town of Hudson now municipally owned, as well as other changes in the character of service provided to customers, there was no longer any reason for the three rate groups.

Pennichuck Water Works, Inc.

Pennichuck filed a rate case on June 16, 2006, requesting an increase in its annual revenues of just over \$6 million, or 36.49%. A portion of the request, an increase of some 15.91%, related to a revenue deficiency from Pennichuck's 2005 test year. The remainder of the request, about 20.58%, related to the first phase of capital improvements to its Nashua water treatment plant. As a part of its rate case, Pennichuck also filed an updated depreciation study which recommended changes to its fixed asset depreciation rates. After a hearing, the Commission issued its final order on May 25, 2007, approving an 11.07% increase in revenues based on Pennichuck's test year, and a 20.36% increase based on the first significant phase of capital improvements at the treatment plant. The Commission approved a subsequent step adjustment to be effective June 1, 2007, which amounted to just over an additional 3% in revenues, primarily for costs related to implementation of the federal Sarbanes-Oxley Act requirements. That legislation requires all publicly-traded companies to establish and maintain a system of internal controls that can be periodically reviewed and certified. This subsequent step adjustment also permitted Pennichuck to request recovery of certain other items, including some additional expenses directly related to the treatment plant upgrades.



Hanover Water Works, Inc.

Hanover filed a petition on September 5, 2006 seeking an increase in its rates of some 13.04%. The company serves in excess of 1,700 customers in the Town of Hanover. After review and hearing, the Commission authorized Hanover to increase its rates by 9.99%. While this rate case was under review, Hanover filed its request for an increase in rates resulting from the completion of its water treatment plant and storage tank project begun in the previous biennium. At the time of the Commission's approval of the financing for the project, Hanover estimated the rate impact to be about 66%. Its filing requested an increase of 51.29%. After review and audit by Commission Staff, the Commission approved an increase of 46.26%.

FINANCINGS

As part of the 1996 amendments to the Federal Safe Drinking Water Act, a Drinking Water State Revolving Loan Fund (SRF) was established to assist both public and privately-owned water systems in financing the costs of improvements needed to achieve compliance with SDWA requirements and to protect the public health objectives of the original act. The SRF program is administered by the New Hampshire Department of Environmental Services (DES) and provides low interest rate financing for 5, 10, 15 or 20-year periods as well as the potential for partial principal forgiveness for less affluent populations. After a Commission-regulated water utility submits an application to DES to participate in the program and is advised by DES as to the suitability of the project, the utility must request approval from the Commission under RSA 369 to borrow funds from the program.

During the biennium, two utilities sought approval from the Commission for SRF borrowings. Pittsfield Aqueduct Company sought to borrow \$2,500,000 for the

construction of improvements at its newly-acquired Locke Lake and Birch Hill systems including a new storage tank, main replacements, and a zone booster station to improve pressures at higher elevations. At the Locke Lake system, Pittsfield has completed a new storage tank, and is moving ahead with plans for additional water treatment and distribution improvements. Pennichuck Water Works also received approval for an SRF financing during the biennium, seeking \$3,000,000 for use as a part of its water treatment plant upgrade project in Nashua.

Other water utilities seeking general financing approval were: Pennichuck Water Works, for the \$50 million in tax-exempt debt through the Business Finance Authority, as discussed earlier; Hampstead Area Water Company, for refinancing of various debts, and financings from its parent company for new system acquisitions, capital improvements and a hydrology study within its Atkinson franchise area; and Pittsfield Aqueduct Company, for borrowings from its parent company for acquisitions of the Locke Lake, Birch Hill and Sunrise Estates systems, and for a refinancing of an older debt.

SEWER

The Commission had minimal activity during the biennium related to the sewer utilities it regulates. Community Water and Wastewater, providing sewer service to customers within the Holiday Acres Manufactured Housing Community and a limited number of customers outside that community, was exempted from further regulation of the Commission in August of 2005. In November of 2005, the Commission approved revised collection procedures and fees for Bedford Waste Services Corporation and Bodwell Waste Services Corporation, two sewer utilities under common ownership.

LEGISLATION

The Public Utilities Commission provides assistance to the Legislature on subjects within the Commission's jurisdiction and expertise. The agency monitors developments in the industries it regulates and, when appropriate, makes recommendations to the Legislature for legislation that will advance the policy objectives of lawmakers interested in these subjects. The Commission focuses principally on assisting the House Science, Technology and Energy Committee as well as the Senate Committee on Energy, Environment and Economic Development. Such assistance typically comes in the form of research, technical advice, drafting and public testimony. Summarized here are significant enactments relevant to the work of the Commission from the 2006 and 2007 legislative sessions.

ELECTRIC

In 2007, the legislature established a Renewable Portfolio Standard (RPS) for retail providers of electricity in New Hampshire, which included competitive suppliers and the state's three distribution companies (National Grid, Public Service Company of New Hampshire and Unitil). Beginning in 2008, electricity providers must purchase a percentage of their energy from renewable sources (e.g., wind, solar, biomass, hydroelectric, etc.). The requirements phase in gradually through 2010, with certain additional annual increases through 2025. The bill also authorizes New Hampshire to participate in a New England-wide market for "renewable energy certificates" (RECs). Electricity providers will comply with the Renewable Portfolio Standard through the acquisition of such RECs. The Commission has proposed interim rules to implement the RPS. HB 866, Chapter 26.

Retail electric customers in New Hampshire currently pay their distribution company a "system benefits charge" of 3 mills (0.3 cents) per kilowatt hour, which funds programs related to energy efficiency and assistance to low-income electric customers. The Legislature in 2007 eliminated the sunset date of June 30, 2008 for the portion of the charge that funds the low-income assistance programs. HB 119, Chapter 208.

The Legislature in 2007 explicitly authorized the Commission to establish requirements for net metering, fuel diversity, fossil fuel generation efficiency, advanced metering, time-based rates, and interconnection between the electricity grid and generation facilities of customers, all as contemplated by the federal Energy Policy Act of 2005. HB 361, Chapter 25.

A 2007 bill specifically concerning net energy metering expands the eligibility requirements to include generation not simply of solar, wind or hydro energy but any renewable power, also raising the limit for such facilities from 25 to 100 kilowatts of capacity. The measure also specified that the interconnection rules for net metering may not exceed the applicable test standards of the American national Standards Institute (ANSI) or Underwriters laboratory (UL). HB 447, Chapter 174.

The Legislature has long charged the Commission with administering the requirements of the State Building Code related to energy conservation. In 2007, the Legislature updated the substantive requirements of the Code in this area by adopting the terms of the International Energy Conservation Code 2006, which replaced the 2000 edition of the same document. SB 81, Chapter 187.

The Legislature determined in 2007 that to develop substantial electric generation from renewable energy, New Hampshire's existing transmission infrastructure, particularly in the northern part of the state, will need to be upgraded and/or replaced. Therefore, the Legislature instructed the Commission to "facilitate discussions among parties interested in the upgrade of electricity transmission' in northern New Hampshire. The bill also requires the Commission draft a report to the Legislature that describes the existing electricity transmission system in New Hampshire; the current process for siting, constructing, and financing transmission upgrades and expansion; the approximate costs of potentially appropriate transmission upgrades; approaches pursued by other states to encourage transmission expansion related to renewable generation; and actions the Commission has taken to advance New Hampshire interests with respect to transmission. At the same time, the Legislature clarified instructions to the Commission, relative to the agency's participation before federal agencies as well as regional and national organizations, directing the Commission "to advance the interests of New Hampshire with respect to wholesale electric issues, including policy goals relating to fuel diversity, renewable energy, and energy efficiency, and to assure nondiscriminatory open access to a safe, adequate, and reliable transmission system at just and reasonable prices." SB 140, Chapter 364.

TELEPHONE

The Legislature in 2006 revised legislation to create a special opportunity for incumbent local exchange carriers with fewer than 25,000 access lines to offer service to the public under an alternative form of regulation by the Commission. The term "alternative form of regulation" refers to the use of rate-setting methods other than the traditional rate-of-return formula based on the utility's cost of providing service. The 2006 measure specified that such an alternative regulation plan must limit the company's rates for basic service to levels that do not exceed the comparable rates charged by the largest incumbent local exchange carrier operating in the state. Further, such rates may not increase by more than 10 percent in each of the four years after the plan is approved, with one exception. The exception is that the plan may provide for commission approval of additional rate adjustments to reflect changes in federal, state, or law. HB 1756, Chapter 154.

In 2007, the Legislature vested the Commission with the authority to regulate terms and conditions, including rates, associated with attaching wires and cables to utility poles. The state's network of utility poles is owned by various telephone and electric companies, which receive requests from non-owners (typically other utilities, competitive telecommunications providers, cable TV companies and government entities) to attach wires and cables to the poles. Previously, disputes over such attachments had to be brought before the Federal Communications Commission in Washington. SB 123, Chapter 340.

COMMISSION OPERATIONS

The Legislature amended the Commission's authority to impose monetary penalties against public utilities in 2007, clarifying that the imposition of such penalties arises out of civil rather than criminal adjudication. This resolves potential constitutional difficulties with an administrative agency serving, in effect, as a criminal court. HB 361, Chapter 25.

During the 2007 session, the Legislature clarified that the deliberations of the Commission in adjudicative proceedings, as well as discussions among the commissioners about other matters that come before the agency, do not trigger the open-meeting and notice provisions of the Right-to-Know Law. HB 866, Chapter 154.

HISTORY

The New Hampshire Public Utilities Commission has its origins in an 1838 statute that provided for appointment of commissioners in each New Hampshire County with limited powers regarding railroads. This was the first attempt by any state to regulate transportation. The County boards were consolidated into a State Board of Railroad Commissioners in 1844, the first such board in the nation.

In 1911, the New Hampshire Legislature enacted comprehensive legislation which instituted a new system for the establishment and regulation of public utilities and railroads in the state. As a result, the Public Service Commission was created as a state tribunal and given broad supervisory and regulatory powers over public utilities. The name Public Service Commission was changed in 1951 to Public Utilities Commission, its present title. In 1979, the Legislature made the commission seats full-time positions and generally amended the structure and guidelines of the Commission.

In 1985, the Department of Transportation (DOT) was established to take over the Commission's transportation related functions. The statutory definition of public utility in RSA 362:2 was changed to exclude railroads, passenger carriers, toll bridges, toll roads, carriers of household goods for hire by motor vehicle and motor vehicles carrying property for hire.

Various amendments to RSA 363 in the 1980s removed the Office of the Consumer Advocate (OCA) from the direct control of the Commission, and made it independent of the Commission except for shared use of business office and support functions.

In 1996, the legislature enacted RSA 374-F, which initiated the restructuring of the electric utility industry in New Hampshire. The goal of restructuring was to reduce costs and harness the power of a competitive world by introducing customer choice to the generation segment of the electric industry.

In the aftermath of 9/11, the legislature created the Advisory Council on Emergency Preparedness and Security. The Commission performs its traditional coordination role between the Bureau of Emergency Management and the utilities and has created an internal Security Team to carry out preparedness and response functions.

The Commission completed a reorganization of its internal structure in 2002 centered on industry-specific divisions. In 2004, the Commission moved to new office space at the Walker Building on the State Office Park South campus.

PRIMARY STATUTORY AUTHORITY

- [RSA 38](#) Commission authority over certain municipal utility operations and disputes between municipalities and public utilities.
- [RSA 362:1-4-c](#) General jurisdiction of public utilities - telephone, electric, water, sewer, gas and pipelines.
- [RSA 362-A](#) Authority of Commission regarding limited energy producers and qualifying co-generators, purchase of electric output under Commission approved rate orders, procedures for buydown or renegotiation of rate orders.
- [RSA 362-E](#) Authority for Commission to administer telecommunications equipment assistance program and to collect funds for operation of telecommunications relay service.
- [RSA 362-F](#) Authority for Commission to implement Renewable Portfolio Standard for providers of electricity, including utilities and competitive suppliers.
- [RSA 363:1-21, 27](#) Enabling statute for the Commission, providing for appointment, removal, compensation, etc. of Commissioners, structure and composition of staff; procedural and ethical guidelines for the operation of the Commission and authority to contract for power.
- [RSA 363:22- 23](#) Jurisdiction for the Commission to investigate interstate rates, fares, and charges and right to petition any federal government department for relief.
- [RSA 363:28 - 28-a](#) Authority for creation of Office of Consumer Advocate and Advisory Board.
- [RSA 363:30- 36](#) Procedures to designate advocacy and advisory staff and assess costs if necessary.
- [RSA 363-A](#) Authority for the Commission to assess expenses of the Commission against certain utilities.
- [RSA 363-B](#) Procedures for termination of certain utility services.
- [RSA 364](#) Jurisdiction of the Commission in certain circumstances to investigate the public need for a municipality to acquire an existing public utility, construct a public utility or expand an existing municipal utility and to determine the feasibility of said plan.
- [RSA 365:1- 21, 23, 25 -28, 37- 38](#) Procedures governing complaints against public utilities; investigations of public utilities; proceedings before the Commission; fees and costs as well as penalties and other sanctions for noncompliance.
- [RSA 365:29-30, 34-35](#) Authority of Commission to order reparations for two years of illegal or unjustly discriminatory rates.

<u>RSA 365:38-a</u>	Authority of Commission to grant compensation to certain intervenors for cost of participation in Commission proceedings
<u>RSA 366</u>	Authority of the Commission over contracts and information disclosed between utilities and affiliates and sale of utility securities to employees.
<u>RSA 369</u>	Commission authority over public utilities and their financings, including securities, mortgages, short- and long-term debt, limited role over some mergers and reorganizations.
<u>RSA 369-A</u>	Standards for electric rate reduction financing, which was a significant component of electric industry restructuring.
<u>RSA 369-B</u>	Detailed standards for electric rate reduction bonds, a significant component of electric industry restructuring, terms under which PSNH divests generation assets
<u>RSA 370:1-9</u>	Authority of the Commission regarding service equipment of public utilities, including the determination of units of service, standards for meter accuracy and related enforcement procedures.
<u>RSA 371</u>	Authority of the Commission over public utility condemnation proceedings, Commission approval needed for utility crossing over certain public waters and State-owned land.
<u>RSA 374</u>	General regulations governing the Commission, including general supervision of public utilities, requirement to obtain franchise before commencing operation. Provisions specific to telecommunications services
<u>RSA 374:3-a,</u> <u>RSA 374:3-b</u>	Commission authority to use alternate forms of regulation, regulatory standards for small incumbent local exchange providers.
<u>RSA 374:48-56</u>	Commission authority for Underground Utility Damage Prevention System
<u>RSA 374-F</u>	Authority and procedures for the Commission to implement competition in retail electric service, restructuring principles, transition and default electric service, stranded costs, collection and uses of systems benefits charge, registration for competitive electricity suppliers.
<u>RSA 378</u>	Authority of the Commission and procedures, including time limits, regarding public utility rates, fares, charges and prices; establishment of local calling areas and reduction in access charges, standards for special contracts for electric and telecommunications services, confidentiality provisions specific to telecommunications services, prohibition against construction work in progress in rates; annual conservation and load management filings required; biennial least cost planning filings required unless waived by the Commission.
<u>RSA 674:30</u>	Authority of the Commission to exempt structures used by a public utility from municipal regulation.

OFFICE OF CONSUMER ADVOCATE

THE OCA: WHO WE ARE, WHAT WE DO AND WHO WE HELP

The Office of Consumer Advocate (OCA) is an independent agency administratively attached to the Public Utilities Commission (PUC) pursuant to RSA 363:28. The OCA represents the interests of residential utility ratepayers in any forum in which those interests might be affected, including the PUC, the Legislature, and at the regional and national levels. In addition to its advocacy work, the OCA promotes and furthers the knowledge and education of consumers about important utility-related issues.

The Consumer Advocate, an unclassified State employee appointed by the Governor and the Executive Council, leads a staff of four full-time classified employees in the OCA's vital work. Presently, these positions are filled in the following manner: two utility analysts, one staff attorney and a legal assistant. The budget approved for FY 2008-2009 provides funds for a part-time administrative assistant to provide much-needed additional administrative and document management support. We filled the position in August 2007.

ACTIVITIES: ADVOCACY AND OUTREACH

At The Public Utilities Commission

Given the size of its staff and budget, it is not practical for the OCA to

meaningfully participate in each of the approximately 200 dockets that the PUC processes every year. Instead, the OCA reviews all PUC dockets and dedicates the bulk of its limited resources to the dockets which involve important policy or precedent, or which will cause a particularly burdensome economic or service-quality impact on residential utility consumers. On occasion, these dockets lead to appeals before the N.H. Supreme Court.

The OCA actively participated in approximately 35 dockets at the PUC each year, while also working on various non-docketed projects. Through its advocacy, the OCA secured significant savings for residential utility customers, and has achieved other meaningful relief. Specific examples are detailed below in each industry section.

At The New Hampshire Legislature

At the beginning of each legislative session, the OCA reviews all bills and determines which, if any, require monitoring or advocacy activity. If appropriate or when invited, the OCA presents testimony before legislative committees, provides research and analysis to legislators, and participates with bill sponsors and other stakeholders in drafting proposed legislation. Key legislative initiatives of interest to the OCA in 2006 and 2007 included: a new law to encourage alternative forms of regulation for small telephone utilities; the adoption of a Renewable Portfolio Standard for New Hampshire electric utilities; the removal of the sunset on the Electric Assistance Program (EAP); several bills that sought to allow PSNH to build new ratepayer-funded

electric generation plants; and two retained bills, one that that would allow the PUC to direct utilities to make refunds to customers who receive substandard service, and another to adopt state energy efficient appliance standards for certain household and business appliances sold in the state.

Collaboration With Other State Stakeholders

The OCA is a statutory member of the State Energy Planning Advisory Board and the State Energy Planning Commission. The OCA collaborates with other state agencies and legislators to develop state energy and other utility-related policy goals and initiatives. The OCA also works with the Public Utilities Commission, the Office of Energy and Planning, the Department of Environmental Services Air Resources Division, and the Department of Resources and Economic Development on a wide range of projects. Over the last two years these projects have included the Renewable Portfolio Standards (RPS) bill, the Electric Assistance Program (EAP) implementation, the Regional Greenhouse Gas Initiative (RGGI), and other projects related to appliance standards, low income heating assistance, energy efficiency programs, regional energy initiatives, and E911.

Regional And National Level Advocacy

As a result of the restructuring of the electric and natural gas industries and limits on state authority over the telecommunications industry, the OCA has become more involved with regional and federal regulatory activities. For federal and regional electric issues, the OCA employs a consultant to advance the interests of New Hampshire residential utility consumers in out-of-state forums, including the Federal

Energy Regulatory Commission (FERC), and the New England Electric Power Pool (NEPOOL), which is discussed further in the regional electric section below.

The OCA is also a member of the National Association of State Utility Advocates (NASUCA), an organization founded to exchange ideas, improve consumer representation at the federal and state levels, and to encourage greater participation by consumers in the regulation of utilities. Through NASUCA membership, the OCA keeps abreast of developments in other states and on a national level, and often joins other advocates in filings with federal agencies such as the Federal Communications Commission (FCC) and the Federal Energy Regulatory Commission (FERC). Members of the OCA staff also serve on NASUCA committees that monitor the electric, natural gas, telecommunications, and water industries.

In The Community

The OCA continuously works to improve residential utility consumers' understanding of the often arcane utility industry. These efforts take many forms: the OCA publishes a seasonal newsletter; the OCA issues press releases to the media, the public and many state agencies and legislators about important developments and events; the OCA maintains for the public's use a website with relevant and helpful industry information and consumer tips; and on a daily basis, the OCA assists consumers and refers their calls and written inquiries and complaints to appropriate agencies.

The goal of the OCA's outreach and education is to develop and distribute information that provides New Hampshire

residential utility consumers with a basic understanding of their rights, responsibilities and other general issues regarding regulated utilities. One of our areas of focus has been to provide information to customers seeking information on how to improve their energy efficiency. The OCA's outreach efforts assist consumers in making informed decisions related to their utility services.

RESIDENTIAL RATEPAYERS ADVISORY BOARD

RSA 363:28-a establishes a nine member Residential Ratepayers Advisory Board to advise the OCA. The Board consists of nine politically-appointed members: three by the Speaker of the House; three by the Senate President; and three by the Governor and Executive Council. The Board members represent a broad cross-section of interests including the elderly, the disabled, small business owners, persons of low income, residents of public housing, the public, and the environment.

The Board assists the OCA in making important policy decisions and prioritizing the OCA's activities. The Board also has the responsibility for recommending to the Governor a nominee upon the departure of the Consumer Advocate or expiration of the Consumer Advocate's term. In September 27, 2006, as recommended by the Board, Governor John Lynch and the Executive Council confirmed Meredith A. Hatfield as Consumer Advocate. Ms. Hatfield succeeded F. Anne Ross.

CUSTOMER EDUCATION

The OCA's statute was amended in 2001 to include promoting and furthering

consumer knowledge and education within the OCA's charge. The OCA is committed to keeping consumers aware of industry trends and issues, as well as initiatives such as energy efficiency and low income assistance programs. The OCA provides consumer education in several ways.

One way that the OCA provides consumer education is through the "New Hampshire RateWatcher," a seasonal newsletter created and distributed by the OCA. Recent editions have provided information on issues including fuel assistance to low income consumers, energy efficiency and weatherization tips and programs, E911 services, understanding your telephone bill, renewable energy, Voice over Internet Protocol (VOIP) and others.

Another way that the OCA educates consumers is through press releases issued to the media, other agencies, legislators, and consumers. The OCA has also established a web site (www.oca.nh.gov) that provides summaries of significant OCA cases, press releases, RateWatcher newsletters, information about the Residential Ratepayer Advisory Board and several pages of useful consumer information such as, how to read your utility bills, how and where to file a complaint, energy efficiency information and resources, utility and statewide assistance programs and finally how to become involved in a PUC docket.

The OCA also assists consumers who call almost daily with various issues and problems by referring them to the appropriate agency. Because the OCA is not authorized to act on behalf of consumers regarding individual consumer complaints, we must direct the consumer to the PUC's Consumer Affairs Division or other appropriate agency. While we do track

certain information regarding utility-related complaints, this method requires significant time and resources, but is valuable in helping to keep the OCA informed of any issues that may impact the rates charged or the services provided to residential utility ratepayers.

FY 2006-2007 ACTIVITIES: BY INDUSTRY

ELECTRIC INDUSTRY

State Level

Pursuant to RSA 374:F, the OCA continues to focus on the implementation and monitoring of the electric industry restructuring. As a result, we regularly participate in dockets addressing procurement and pricing of energy service by each of the three remaining regulated New Hampshire electric utilities: Public Service Company of New Hampshire (PSNH), Unil Energy Services (UES), and National Grid d/b/a Granite State Electric Company (GSEC).

PSNH continues to generate about 70% of the energy needs of its energy service customers. PSNH's energy service rates have increased by about 2¢ per kilowatt hour (kWh) over the biennium due to increases in fuel and market prices. A similar trend exists for UES and GSEC which acquire 100% of their energy service needs through a competitive bid process.

The OCA plays an active role in electric utility rate cases, including a PSNH distribution rate case in 2007, in which the OCA's expert testimony resulted in a settlement that included a lower cost of capital, which saved ratepayers

approximately \$3 million dollars per year. Similarly, in a UES rate case, the OCA joined the PUC staff and UES in a settlement agreement which included an overall rate increase of just under \$2.3 million, rather than the \$4.2 million rate increase that UES requested. These settlements also avoided the costs to ratepayers of weeks of hearings and possible appeals.

As noted in the natural gas section, below, the OCA actively participated in the PUC docket involving National Grid's acquisition of Keyspan, including settlement negotiations. Among the terms of the settlement, GSEC customers will see rate reductions, improved reliability, and customer service protections.

During the previous biennium, the OCA participated in the Schiller Modification docket in which PSNH requested permission to convert one of its older coal burning units at Schiller station to a modern fluidized bed boiler which burned wood or coal with significantly reduced emissions. The project includes an innovative approach to sharing the risk of the project between ratepayers and PSNH shareholders. During this biennium, in December 2006, the converted unit went online. The preliminary figures show that customers have benefited from the conversion and the shared risk approach.

The OCA continues to actively participate in the governance and regulation of two important electric programs: the Energy Efficiency Programs ("Core" programs) and the Electric Assistance Program (EAP). These programs are funded through the Systems Benefits Charge (SBC) of 0.3¢/kwh (or 3 mills), which is paid by all electric ratepayers. The Core programs provide electric customers, both residential

and commercial and industrial, with programs designed to reduce electric bills, and reduce our state's overall energy use, through cost-effective energy efficiency programs. (Information on the programs is available at www.nhsaves.com). The EAP assists income-qualified residential electric customers by providing bill discounts administered by the state's Community Action Agencies and the electric utilities. In the winter of 2005-2006, in response to the rising costs of electricity due to the hurricanes in the Gulf, the EAP program received supplemental funding through special legislation, SB 228. The EAP Advisory Board, of which the OCA is a member, stewarded the program through this difficult time. In the summer of 2006, in part due to the crises experienced the prior winter, the OCA also participated with other stakeholders in the redesign of the EAP, which resulted in a program that serves more households without increasing the SBC. In the fall of 2007 the PUC is concluding a docket to review the EAP administrative costs.

In 2007, the Commission opened dockets to consider two important energy policy areas: implementation of the federal Energy Policy Act of 2005 (EPAct), and rate decoupling. Under EPAct, each state commission was charged with investigating several issues including interconnection policies, net metering, fuel diversity, and time-based metering communications, also known as "smart metering." The Commission is in the process of addressing these issues within a multi-part EPAct docket. Some of these issues, such as smart metering, could have major impacts on customers' ability to understand and manage their own energy use.

The decoupling docket was opened in the spring on 2007, and is in the early

stages. Decoupling operates by separating a utility's profitability from sales volumes, usually by assuring some reasonable rate of return through a true-up mechanism, to compensate a utility for lost revenues due to reduced sales from energy efficiency programs. Decoupling can also include incentives for enhanced energy efficiency programs. The OCA is participating in this important docket to ensure that ratepayers do not compensate utilities unnecessarily.

Regional Level

In order for restructuring to work effectively, a truly competitive market for power must exist at the regional level. For that reason, the OCA has maintained its involvement in regional electric market issues at both the Federal Energy Regulatory Commission (FERC) and at the New England ISO (Independent System Operator) levels. The OCA became an end-user member of NEPOOL, an ISO committee, in 2001, and is the only voting representative of New Hampshire's small electric customers in NEPOOL. During this biennium, the OCA cast its vote in that capacity on many critical regional issues, such as the equal treatment of energy efficiency and demand response with generation in the Forward Capacity Market, which provides incentives for new generation. This approach is a small step toward giving energy efficiency equal weight with generation in planning for the region's future.

TELEPHONE INDUSTRY

The OCA spent a significant amount of time and energy during the last biennium advocating on behalf the residential ratepayers of Verizon New Hampshire

(Verizon). The OCA litigated Verizon-related cases at the PUC and the New Hampshire Supreme Court.

In the fall of 2005, the OCA appeared before the New Hampshire Supreme Court to oppose Verizon's appeal of a PUC decision concerning Verizon Yellow Pages revenues. Following a contested proceeding in which the OCA actively participated, the PUC had ruled that, for ratemaking purposes, Verizon must impute annually at least \$23.3 million earned by its unregulated affiliate, Verizon Yellow Pages into its regulated jurisdictional revenues. Verizon appealed and the OCA and the PUC opposed the appeal. In December 2005, the OCA and PUC's position prevailed when the New Hampshire Supreme Court affirmed the PUC's Yellow Pages decision. As a result, if Verizon seeks general rate relief in the future, its customers will be better off by at least \$23.3 million dollars annually.

In May of 2006, Verizon and the PUC Staff filed a stipulation for an alternative form of regulation (AFOR) for Verizon. The OCA opposed the stipulation and the proposed AFOR, taking the position that a general rate case was necessary to establish a just and reasonable rate benchmark before permitting Verizon relief from rate of return regulation, as Verizon has not had a rate case since 1989. The OCA also opposed the AFOR due to the lack of sufficient evidence of meaningful competition in all of the areas served by Verizon, and because it did not address long-standing service quality issues that are the subject of an open 2004 docket. In early September 2006, Verizon filed a letter with the PUC seeking to withdraw the Stipulation. Later that day, the OCA filed a letter requesting that the PUC proceed with the docket notwithstanding Verizon's

withdrawal. To date, no public activity has taken place in this docket.

In January 2007 Verizon New Hampshire filed, together with FairPoint Communications, Inc. (FairPoint), a joint petition for approval to transfer Verizon New Hampshire's wireline assets and franchise in New Hampshire to FairPoint. The importance of the outcome of this unprecedented docket to New Hampshire and Verizon ratepayers can not be overstated. Verizon serves over 350,000 residential customers in New Hampshire. The financial, managerial and operational abilities of any successor to Verizon are of critical importance to these customers and to the state's economy.

In light of this fact, the Legislature authorized the PUC to make a special assessment of up to \$150,000.00 against FairPoint to fund the costs of the OCA's expert witnesses. In terms of scale, this special assessment approximates one and a half times the OCA's entire budget for consultants for the year. During the spring of 2007, the OCA's experts assisted it with a rapid and complex period of discovery, during which the parties analyzed the joint petition and testimony filed by Verizon and FairPoint. The remainder of the case will be completed in the next biennium, with hearings scheduled for late fall 2007.

In addition to its work on Verizon cases, the OCA participated in a PUC docket involving Union Telephone Company (Union), a small Independent Local Exchange Company (ILEC) that serves Alton, New Durham, Center Barnstead and Gilmanton Iron Works. In December 2006, Union filed a revised tariff that reduced its terminating intrastate access charges and increased basic residential rates, which was supported by Staff. The OCA opposed the

filing, taking the position that the burdens of increases to basic residential rates outweighed the benefits of a reduction to access charges. Following a contested hearing, the PUC ruled that it lacked sufficient evidence to approve the tariff and gave the parties and Staff the opportunity to explore a negotiated resolution. In the end, the OCA, Staff and Union reached a compromise, which the Commission approved in May 2007. The settlement approved by the PUC resulted in a smaller rate increase, which was applicable to both residential and business customers.

In the spring of 2007, the PUC opened a docket to review plans for an alternative form of regulation (AFOR) for four subsidiaries of TDS Telecom: Kearsarge Telephone, Wilton Telephone, Hollis Telephone, and Merrimack County Telephone (TDS Companies). Together, the TDS Companies serve nearly 25,000 customers in the following communities: Andover, Antrim, Boscawen, Bradford, Chichester, Contoocook, Henniker, Hillsborough, Hollis, Melvin Village, Meriden, New London, Salisbury, Sutton, Warner, and Wilton. In pertinent part, the proposed plans allow for rate increases of up to 10% per year and, if the TDS Companies interpretation of the statute prevails, in some circumstances, even higher rate increases. The OCA is in the process of hiring a consultant to assist it with this docket, which is expected to continue through the fall of 2007. A threshold issue is whether the majority of TDS customers have access to competitive telecommunications options.

NATURAL GAS INDUSTRY

The OCA remained active in dockets related to the cost of gas for New Hampshire's two natural gas utilities,

Keyspan and Northern Utilities, Inc. (Northern), as well as integrated least cost planning dockets, which examine how the utilities plan, on a cost-effective basis, to meet future customer demands.

Because of the significant volatility of natural gas costs, the OCA has consistently advocated measures to stabilize those costs. Typically, those measures involve two approaches: first, having the utility offer a fixed-price option to customers; and second, having the utility take measures to hedge supplies. Price hedging serves as an insurance policy to protect against major price increases. Keyspan offers a fixed-price option and diversifies the timing and source of its gas purchases to hedge prices. While not offering a fixed-price option, Northern similarly takes steps to hedge its gas supplies.

The OCA expended considerable resources on the development of cost effective gas energy efficiency programs and the establishment of a low income assistance program for residential gas customers who use natural gas to heat their homes. The low income gas program is estimated to reduce the cost of heating for eligible customers by 10 - 15%.

Among the OCA's more significant efforts in the gas industry beyond our continued involvement in the semi-annual cost of gas proceedings was our involvement in the complex negotiations and settlement of issues involving Northern's service to both Maine and New Hampshire. The other parties included representatives of the Maine Public Utilities Commission staff, Northern Utilities, competitive suppliers and the PUC staff. The central issue concerned how Northern allocates costs between New Hampshire and Maine customers. The result

will save New Hampshire customers at least \$100,000 annually.

In another docket, the PUC staff uncovered a billing error by Keyspan related to how it charged customers for gas. Keyspan, without the permission of the PUC or notice to customers, changed the way it measured the amount of gas used by customers. As a result, for several years customers were charged more than Keyspan had the authority to charge. The OCA participated in the settlement of that error, which was corrected on a going-forward basis. The settlement provided Keyspan customers with a credit of \$3,076,708, which included interest of over \$800,000. Keyspan also agreed to contribute \$200,000 in non-recoverable funds to its low income energy efficiency programs.

As also noted in the electric section, the OCA took an active part in negotiations and a settlement which allows National Grid to acquire KeySpan. The terms of the settlement were, in part, aimed at improving customer service, safety, and delaying a rate case for KeySpan.

WATER INDUSTRY

During the last biennium, the OCA participated at the PUC in a number of dockets involving water utilities. The issues in these dockets included acquisitions, rate increases, and service quality.

The OCA continued to monitor Nashua's petition to take, by eminent domain, the assets of Pennichuck Water Works (PWW). The OCA has not filed testimony or taken a position on Nashua's petition. In January 2007, after several days of hearings, the PUC suspended the hearings at the request of Nashua and PWW, who

requested the opportunity to negotiate a resolution of their dispute. As the negotiations did not result in an agreement, hearings resumed in September 2007.

In addition to the eminent domain case, the OCA monitored or participated in cases involving the voluntary sale and acquisition of water utilities. The OCA monitored the sale of Consolidated Water Company (Consolidated) and Central Water Company (Central) to Pittsfield Aqueduct Company (PAC). This docket concerned approximately 1,000 customers in the communities of Barnstead, North Conway and Middleton, New Hampshire. Primarily among the OCA's concerns were the long history of service quality problems experienced by the customers of Consolidated and Central and PAC's intentions to resolve these issues in a way that did not significantly increase rates.

The OCA also participated in the docket concerning the acquisition by Macquarie Utilities, Inc. (Macquarie) of Aquarion Water Company of New Hampshire (Aquarion). Aquarion serves approximately 8,700 customers in Hampton, North Hampton and Rye, New Hampshire. Chief among the OCA's objectives and efforts was ensuring that customers did not experience harm after Macquarie's purchase. The OCA asked for and the Commission approved requirements that Macquarie maintain a local customer service presence and a customer advisory council following its purchase.

The OCA continues to participate in general rate cases filed by water utilities serving customers and communities throughout New Hampshire including: PWW; Pennichuck East Utilities; Hampstead Water Company; Aquarion Water Company; Lakes Region Water

Company; Hanover Water Works Company; and the Fryeburg Water Company.

Typically, the OCA's activity in these dockets included propounding data requests and negotiating terms for settlement and looking at conservation efforts. Generally, the rates of water companies in New Hampshire are increasing. In large part, these increases are due to requirements beyond the control of the water utilities, including those of the federal Safe Drinking Water Act.

After years of advocacy by the OCA on behalf of the residential customers of Fryeburg Water Company (Fryeburg) and ceaseless efforts of two customers of Fryeburg, in July 2006, the Commission ordered Fryeburg to replace a significantly corroded distribution main that was more than 120 years old, which served East Conway, New Hampshire. Fryeburg replaced the pipe in August 2006 and, as a result, for the first time in many years, the East Conway customers of Fryeburg receive consistently clear water through their taps. The OCA is now monitoring Fryeburg's Maine PUC rate case to ensure that costs are not shifted unfairly to the East Conway customers.

CONCLUSION

The activities described above, as well as others, have kept the OCA very busy during the last biennium. In spite of a relatively small staff and budget, the OCA endeavored to provide its constituents with substantial financial and non-financial relief through a broad scope of advocacy efforts. The OCA also worked to empower its constituents by providing pertinent and timely information about the utilities that serve them, and the activities of the agencies that regulate these utilities. We look forward to continuing to serve the ratepayers of New Hampshire as effectively and efficiently as possible in the next biennium.



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