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STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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4

September 8, 2009 - 10:16 a.m.
Concord, New Hampshire

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RE: DG 07-033

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NORTHERN UTILITIES, INC.:

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Northern Utilities, Inc., proposed cost
of gas filing for the Summer Period of
May 2007 through October 2007.

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

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Sandy Deno, Clerk

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APPEARANCES: Reptg. Northern Utilities, Inc.:
Susan S. Geiger, Esq. (Orr & Reno)

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Reptg. PUC Staff:

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F. Anne Ross, Esq.

Stephen Frink, Asst. Dir - Gas & Water Div.

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George McCluskey, Electric Division

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

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I N D E X

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PAGE NO.

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WITNESS PANEL: LAWRENCE BROCK
 GEORGE McCLUSKEY

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Direct examination by Ms. Geiger

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Interrogatories by Cmsr. Below

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Interrogatories by Cmsr. Ignatius

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E X H I B I T S

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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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Settlement Agreement re:
Investigation into Indirect
Gas Costs

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CLOSING STATEMENTS BY:

PAGE NO.

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Ms. Ross

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Ms. Geiger

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1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning.

3 We'll open the hearing in docket DG 07-033. On April 3,
4 2009, Staff and Northern Utilities filed a settlement
5 agreement in this proceeding, and a secretarial letter was
6 issued August 14 setting a hearing on the merits for this
7 morning.

8 So, let's take appearances please.

9 MS. GEIGER: Good morning, Mr. Chairman,
10 Commissioner Below, Commissioner Ignatius. I'm Susan
11 Geiger, from the law firm of Orr & Reno and I represent
12 Northern Utilities this morning. And, with me from the
13 Company is Lawrence Brock.

14 CHAIRMAN GETZ: Good morning.

15 MS. ROSS: Good morning, Commissioners.
16 Anne Ross, with the Commission Staff. And, with me today
17 is an analyst, George McCluskey, and head of the Gas
18 Division, Steve Frink.

19 CHAIRMAN GETZ: Good morning. And, how
20 do the parties intend to proceed today?

21 MS. GEIGER: Yes, Mr. Chairman. I've
22 conferred with Attorney Ross, and we've decided that we'd
23 proceed with a panel comprised of Mr. McCluskey and Mr.
24 Brock.

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[WITNESS PANEL: Brock|McCluskey]

1 CHAIRMAN GETZ: Please proceed.

2 MS. GEIGER: And, while the witnesses
3 are getting settled, I'd just like to ask the Bench if
4 they have copies of the Settlement Agreement?

5 CHAIRMAN GETZ: We do.

6 (Whereupon Lawrence Brock and George
7 McCluskey were duly sworn and cautioned
8 by the Court Reporter.)

9 LAWRENCE BROCK, SWORN

10 GEORGE McCLUSKEY, SWORN

11 DIRECT EXAMINATION

12 BY MS. GEIGER:

13 Q. Why don't we proceed with Mr. Brock. Would us please
14 state your name for the record.

15 A. (Brock) My name is Lawrence Brock.

16 Q. And, what is your position?

17 A. (Brock) I am the Controller at Unitil.

18 Q. And, Mr. McCluskey, please state your name for the
19 record.

20 A. (McCluskey) My name is George McCluskey.

21 Q. And, what is your position with the Commission?

22 A. (McCluskey) I'm an analyst in the Electric Division.

23 Q. Thank you. And, have both of you reviewed what I'm
24 going to show you that is captioned "Settlement

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[WITNESS PANEL: Brock|McCluskey]

1 Agreement" in this case?

2 A. (McCluskey) I have.

3 A. (Brock) Yes, I have.

4 MS. GEIGER: And, I'd like to ask that
5 the Settlement Agreement dated April 2nd, 2009 be marked
6 for identification as the next exhibit.

7 MS. DENO: Eleven.

8 MS. GEIGER: Exhibit 11.

9 CHAIRMAN GETZ: It will be so marked.

10 (The document, as described, was
11 herewith marked as Exhibit 11 for
12 identification.)

13 MS. GEIGER: Thank you.

14 BY MS. GEIGER:

15 Q. Mr. McCluskey, could you please summarize for the Bench
16 the more salient provisions of the Settlement
17 Agreement?

18 A. (McCluskey) Yes. Docket DG 07-033 started as a winter
19 cost of gas proceeding, obviously, several years ago.
20 One of the issues that was raised by Staff in that
21 proceeding was related to the reconciliation mechanism
22 that the Company used for its direct gas costs. For
23 many years the Company had been comparing in that
24 reconciliation mechanism the accrued costs for a

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[WITNESS PANEL: Brock|McCluskey]

1 particular month with billed revenues. Staff took the
2 position in this proceeding that the appropriate
3 mechanism should be comparing accrued costs with
4 accrued revenues.

5 The Commission eventually issued an
6 order, Order Number 24,786, which directed that the
7 under/over collection should be calculated on an
8 accrued basis, both accrued revenues and accrued costs.
9 However, they did not specify how the Company should
10 transition from the old mechanism to the new mechanism.
11 And, as a result, we have the issue of the transition
12 issue, which is the subject of this particular
13 Settlement Agreement.

14 Essentially, what the transition issue
15 gets to is, with regard to the cutover to accrued
16 accounting, "what is the appropriate starting balance
17 for accrued accounting?" The Company and Staff
18 disagreed on that, until we eventually agreed in
19 settlement. And, what -- just one more thing about the
20 Commission's order with regard to accrued accounting.
21 It specified that accrued accounting would begin
22 starting November 1, 2005.

23 In this particular Settlement Agreement,
24 we have entered into an agreement that specifies the

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[WITNESS PANEL: Brock|McCluskey]

1 starting balance for accrued accounting, but we have
2 also pushed off the starting data for accrued
3 accounting until November 1, 2008. So that, in
4 essence, is the compromise. And, Staff was able to
5 demonstrate an appropriate position for the starting
6 balance. And, Staff also agreed with the Company that
7 this new mechanism should begin at a much later date,
8 three years later.

9 And, the Article II, 2.1, is the
10 paragraph of the Settlement Agreement which specifies
11 the dollars which will be used to establish the
12 starting balance for accrued accounting.

13 And, I think that, in summary, is what
14 we've agreed to.

15 Q. Thank you, Mr. McCluskey. Mr. Brock, do you have
16 anything else to add to Mr. McCluskey's summary of the
17 Settlement Agreement?

18 A. (Brock) I do not. I agree with Mr. McCluskey's summary
19 of the Settlement.

20 MS. GEIGER: Thank you. I have no
21 further questions.

22 CHAIRMAN GETZ: Thank you. Ms. Ross?

23 MS. ROSS: We have no further questions
24 of the witnesses. It's up to the Commissioners if you

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[WITNESS PANEL: Brock|McCluskey]

1 want more detail on the actual transition.

2 CHAIRMAN GETZ: Commissioner Below.

3 BY CMSR. BELOW:

4 Q. Could you characterize in any way what the impact might
5 be on rates, of both moving the date in this particular
6 settlement, as opposed to perhaps other positions that
7 were taken earlier?

8 A. (McCluskey) I haven't -- I haven't actually looked at
9 the impact on the rates. What the -- what the
10 reconciliation mechanism does, it obviously tracks the
11 Company's over or under collection at any point in
12 time. But, importantly, it also determines the amount
13 of interest on the over or under collection that the
14 Company receives or has to pay customers. And, it's
15 the amount of interest that really is impacted by this
16 Settlement Agreement.

17 I can't give you a -- a year or so ago,
18 when we were in the thick of this proceeding, I
19 probably could have told you to the dollar what the
20 impact would be. But this Settlement Agreement
21 significantly reduces the annual interest that the
22 Company would receive on, say, an over collection or
23 have to pay customers on an under collection. And, did
24 I get that -- is that the right way?

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[WITNESS PANEL: Brock|McCluskey]

1 MS. ROSS: Yes. Maybe the Company might
2 have those numbers?

3 BY THE WITNESS:

4 A. (Brock) Yes. As Mr. McCluskey has said, it does
5 significantly reduce the amount of interest the Company
6 would collect on a going forward basis after
7 November 1st, 2008. The estimate of the impact on
8 interest, using the numbers in Article 2.1, which we
9 have agreed on an opening balance of approximately two
10 and a half million dollars, at 4 percent, which is the
11 interest rate in the schedules, for every million
12 dollars of decrease in under collection or a decrease
13 in over collection, excuse me, the impact would be
14 \$40,000. And, so, the impact derived from the numbers
15 in Article 2.1, the two and a half million, estimates
16 that there would be an annual impact to decrease the
17 amount of interest collected by the Company of
18 approximately \$100,000. And, so, there would be a
19 decrease, a corresponding decrease in rates relative to
20 that amount of money on an annual basis, estimated
21 based on these figures.

22 BY CMSR. BELOW:

23 Q. And, how does that compare roughly with the total
24 collections for a given season, a winter period?

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[WITNESS PANEL: Brock|McCluskey]

1 A. (McCluskey) On Exhibit A to the Settlement Agreement,
2 Page 1 of 3 -- actually, if you go to Page 2 of 3.
3 And, if I could just tell you to go to Page 3 of 3,
4 which has the January 2008 through November cost of gas
5 numbers. So, looking at the second block in this Page
6 3 of 3, "Winter Period", and the second row, you have
7 the cost of gas. Unfortunately, Commissioners, we
8 don't have a total there. But you can see, in January,
9 February, and March, you're looking at significant
10 sums, certainly over \$5 million a month.

11 Q. Would it be fair to characterize total billings to
12 customers on the order of, you know, over \$20 million
13 for the Winter '08 season?

14 A. (McCluskey) Yes. That seems to be an approximate
15 figure.

16 Q. And, thus, would it be reasonable to characterize this,
17 the impact of this accounting transition, to be very
18 small in the scheme of things, sort of noise, in terms
19 of the effect on rates from one season or year to the
20 next?

21 A. (McCluskey) It is small. I would not characterize it
22 as "noise". In rate cases, we've fought over items of
23 significantly smaller in dollar amount.

24 Q. Well, I'm not trying to diminish the significance and

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1 importance of getting this accounting issue squared
2 away. I'm just trying to put it in a context of the
3 overall impact on rates.

4 A. (McCluskey) The impact is quite minor.

5 Q. Okay.

6 A. (McCluskey) And, it probably would not be in the 0.1 of
7 a percent range -- it probably would not rise to the
8 level of 0.10 percent.

9 Q. And, for each of you, do you think this is a reasonable
10 -- a just and reasonable resolution of this issue and,
11 you know, reasonably consistent with accounting
12 practices, Generally Accepted Accounting Practices, the
13 way this is being accounted for?

14 A. (McCluskey) I believe it does. What it does is it
15 maintains the accrued accounting approach. And, it
16 simply starts the clock ticking on the accrued
17 accounting at a later date than otherwise would have
18 happened.

19 A. (Brock) Yes. The Company agrees that this settlement
20 is a fair way to resolve the issue of transitioning to
21 the accrued accounting.

22 CMSR. BELOW: Okay. That's all.

23 CHAIRMAN GETZ: Commissioner Ignatius.

24 CMSR. IGNATIUS: Thank you.

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[WITNESS PANEL: Brock|McCluskey]

1 BY CMSR. IGNATIUS:

2 Q. Mr. McCluskey, when will we first see this transition
3 in place? Will it be a part of the upcoming cost of
4 gas filings?

5 A. (McCluskey) In talking to Mr. Frink this morning, he
6 indicated that, with regard to EnergyNorth, I believe
7 he said they have already made the filing for the
8 winter proceeding, but not Northern at this point.
9 And, I believe the Company, because the Commission
10 hasn't issued an order on the Settlement for
11 EnergyNorth at this point, I don't believe they have
12 fully reflected the Settlement Agreement in their
13 filing at this time.

14 Q. Is there an issue with the longer the transition time
15 takes, if you're going back to November 1, 2008, is
16 there an impact for customers that grows if it doesn't
17 get picked up in the actual filing until next summer's
18 filing?

19 A. (McCluskey) No. There's no financial impact. Because
20 the start date, regardless of when the Company makes
21 the filing, the start date will be November 1, 2008.
22 They will have to adjust their reconciliation account
23 back, using the principles set out in the Settlement
24 Agreement, back to that date, regardless of whether

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1 they do it tomorrow or a year hence.

2 CMSR. IGNATIUS: All right. Thank you.

3 CHAIRMAN GETZ: Any redirect? Other
4 questions for the witnesses?

5 MS. GEIGER: No thank you, Mr. Chairman.

6 CHAIRMAN GETZ: Okay. Hearing nothing,
7 then the witnesses are excused. Thank you, gentlemen.

8 Any objection to striking the
9 identification and admitting Exhibit 11 into evidence?

10 (No verbal response)

11 CHAIRMAN GETZ: Hearing no objection,
12 they will be admitted into evidence.

13 Opportunity for closing? Ms. Ross.

14 MS. ROSS: Yes. Staff believes that
15 this Settlement is a reasonable resolution of the
16 transition issue. It actually supports the Staff's
17 litigated position, but the compromise is that the
18 effective date is delayed significantly, which allowed the
19 companies to continue to collect the higher interest rates
20 through 2006 and 2007, and on till November 1st, 2008.
21 But, going forward, it will, as you've heard testimony,
22 reduce this Company's interest in its reconciliation
23 accounts.

24 And, Staff believes that not only does

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1 it reduce recovery to the Company, that's not a rationale
2 for necessarily supporting a change, but it does also make
3 the accounting of costs and revenues in the reconciliation
4 consistent, so that both costs and revenues are accounted
5 for on an accrued basis, which this Commission has
6 supported in its previous orders. And, we do that by
7 adjusting the balance in the accrued accounts on
8 November 1st to take into account revenues that are
9 actually billed in November for usage in October.

10 So, we do recommend this Settlement.

11 Thank you.

12 CHAIRMAN GETZ: Thank you. Ms. Geiger.

13 MS. GEIGER: Thank you, Mr. Chairman.

14 Northern would respectfully ask that the Commission
15 approve the Settlement Agreement as in the public
16 interest. It was produced in the spirit of compromise.
17 And, we'd note that the mechanism and the methodology
18 that's been agreed to here for Northern is consistent with
19 the way Unitil handles its accounting. And, therefore,
20 the Company, since it has been acquired by Unitil, was in
21 a better position to settle with Staff than when the
22 docket was initially opened. So, we would ask that it be
23 approved. Thank you.

24 CHAIRMAN GETZ: Okay. Thank you. Then,

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[WITNESS PANEL: Brock|McCluskey]

1 we'll close the hearing and take the matter under
2 advisement.

3 (Whereupon the hearing ended at 10:34
4 a.m.)

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