

1 STATE OF NEW HAMPSHIRE  
2 PUBLIC UTILITIES COMMISSION  
3

4 April 8, 2010 - 10:01 a.m.  
5 Concord, New Hampshire  
6  
7

8 RE: DG 10-051  
9 NATIONAL GRID NH:  
Summer 2010 Cost of Gas Adjustment.  
10  
11

12 PRESENT: Commissioner Amy L. Ignatius, Presiding  
13  
14 Sandy Deno, Clerk  
15

16 APPEARANCES: Reptg. National Grid NH:  
Steven V. Camerino, Esq. (McLane, Graf...)  
17  
18 Reptg. Residential Ratepayers:  
Rorie Hollenberg, Esq.  
Kenneth E. Traum, Asst. Consumer Advocate  
19 Office of Consumer Advocate  
20  
21 Reptg. PUC Staff:  
Matthew J. Fossum, Esq.  
Stephen P. Frink, Asst. Dir. - Gas/Water Div.  
22 Robert Wyatt, Gas & Water Division

23 Court Reporter: Steven E. Patnaude, LCR No. 52  
24

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		ANN E. LEARY	
5		STEPHEN A. McCAULEY	
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EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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Summer 2010 Cost of Gas Adjustment  
filing (03-15-10)  
(CONFIDENTIAL & PROPRIETARY)

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Summer 2010 Cost of Gas Adjustment  
filing (03-15-10)  
[REDACTED - for public use]

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Revised Summer 2010 Cost of Gas  
filing (04-05-10)  
(CONFIDENTIAL & PROPRIETARY)

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Revised Summer 2010 Cost of Gas  
filing (04-05-10)  
[REDACTED - for public use]

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Revised Testimony of Ann E. Leary  
(04-05-10)

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Response to Data Request Staff 1-7

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National Grid's response to  
Tech Session Data Requests, Set 1,  
Request No. Tech 1-1

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1 P R O C E E D I N G

2 CMSR. IGNATIUS: I'd like to open this  
3 hearing in docket DG 10-051, which is a cost of gas filing  
4 by National Grid. On March 15th, 2010, EnergyNorth  
5 Natural Gas, doing business as National Grid New  
6 Hampshire, filed with the Commission its proposed cost of  
7 gas rates for the period May 1, 2010 through October 31,  
8 2010, and proposed modifications as well to its hedging  
9 policy.

10 Let's start with appearances please.

11 MR. CAMERINO: Good morning,  
12 Commissioners. Steve Camerino, from McLane, Graf,  
13 Raulerson & Middleton, on behalf of EnergyNorth Natural  
14 Gas, doing business as National Grid New Hampshire.

15 CMSR. IGNATIUS: Good morning.

16 MS. HOLLENBERG: Good morning. Rorie  
17 Hollenberg and Ken Traum here for the Office of Consumer  
18 Advocate.

19 CMSR. IGNATIUS: Good morning.

20 MR. FOSSUM: And, good morning. Matthew  
21 Fossum, from the Staff of the Public Utilities Commission.  
22 With me this morning are Bob Wyatt and Steve Frink from  
23 Commission Staff.

24 CMSR. IGNATIUS: Good morning. As you

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1       can see, we've had some unexpected scheduling conflicts,  
2       and Chairman Getz and Commissioner Below cannot be here  
3       this morning. I wanted to tell you our plan for today and  
4       get your comments. Because cost of gas cases move  
5       quickly, we did not want to reschedule the hearing unless  
6       we had to. And, so, our expectation is that I would  
7       preside today. We'd ask for an expedited transcript from  
8       Mr. Patnaude, and Chairman Getz and Commissioner Below  
9       both review, read the entire transcript, all of the  
10      documents, and participate in the decision-making.

11                       But you have a right under the statute,  
12      under RSA 363:17, to request what they call a "full  
13      commission", which is defined as "two of the three", if  
14      you wish. And, so, I don't want to force you to go  
15      forward today with just myself presiding, but assure you  
16      that, if we do go forward, it's not just me, it's all  
17      three participating, and give you an opportunity to let me  
18      know whether that's acceptable.

19                       Is there anyone who would request that  
20      we reschedule for a opportunity to have more than just  
21      myself preside?

22                       (No verbal response)

23                       CMSR. IGNATIUS: Seeing none, I think we  
24      can go forward, and I appreciate that. And, Mr. Patnaude,

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1 I appreciate your assistance in that.

2 Is there an expectation of witnesses  
3 from anyone other than National Grid today?

4 MS. HOLLENBERG: No.

5 MR. FOSSUM: No.

6 CMSR. IGNATIUS: All right. And, we  
7 have no intervenors. The OCA is a participant, but I'm  
8 not aware of any other intervention. All right. We have  
9 a publication affidavit? In the file, thank you very  
10 much. Are there any other preliminary matters before we  
11 begin?

12 (No verbal response)

13 CMSR. IGNATIUS: Seeing none, Mr.  
14 Camerino.

15 MR. CAMERINO: Thank you, Commissioner.

16 The Company proposes to call all three of its witnesses as  
17 a panel. And, our intention is just to authenticate their  
18 testimony and then make them available for  
19 cross-examination. So, if that's acceptable, the Company  
20 would ask its three witnesses take the stand.

21 CMSR. IGNATIUS: Please do. Thank you.

22 MR. CAMERINO: Okay. The Company calls  
23 Theodore Poe, Jr., Stephen McCauley, and Ann Leary. And,  
24 while they're getting situated, I've provided to the Clerk

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1 five documents that we plan to mark as exhibits. And, I'm  
2 just going to read them into the record.

3 The first one is the March 15th  
4 confidential cost of gas filing by the Company, which  
5 includes testimony of all three witnesses. Exhibit 2 for  
6 identification would be the March 15th redacted filing.  
7 Exhibit 3 for identification would be the April 5th update  
8 of that filing in confidential form. And, just to assist  
9 the Clerk, the confidential ones have a label that says  
10 "confidential" and the redacted ones have no label. So,  
11 that's how you can tell them apart.

12 So, Exhibit 1 is the March 15  
13 confidential; Exhibit 2 is the March 15th redacted;  
14 Exhibit 3 is the April 5 confidential update; Exhibit 4 is  
15 the April 5 redacted update, neither of those updates have  
16 testimony included with them; and, then, Exhibit 5 would  
17 be Ms. Leary's revised testimony filed on April 5. That's  
18 the only testimony that changes with the update. And,  
19 I've got an extra copy of that.

20 CMSR. IGNATIUS: I'm not sure I have  
21 that.

22 MR. CAMERINO: I can give you that.

23 CMSR. IGNATIUS: Thank you.

24 (The documents, as described, were

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1                   herewith marked as Exhibits 1 through 5,  
2                   respectively, for identification.)

3                   MR. CAMERINO: So, when I question the  
4                   witnesses about or when counsel for the Staff or the  
5                   Consumer Advocate questions the witnesses about their  
6                   testimony, that can be found in Exhibits 1 or 2 for Mr.  
7                   McCauley and Mr. Poe, for Ms. Leary, you should refer to  
8                   that Exhibit 5.

9                   CMSR. IGNATIUS: And, because I have not  
10                  read Ms. Leary's testimony, somehow it wasn't in my file,  
11                  if any summary of what that is containing would be helpful  
12                  to me.

13                  MR. CAMERINO: Yes.

14                  CMSR. IGNATIUS: Thank you.

15                  MR. CAMERINO: Summary of the overall  
16                  testimony or just of the changes?

17                  CMSR. IGNATIUS: Just whatever was in  
18                  the April 5th that was changed.

19                  MR. CAMERINO: Okay.

20                  (Whereupon Theodore Poe, Jr., Ann E.  
21                  Leary, and Stephen A. McCauley were duly  
22                  sworn and cautioned by the Court  
23                  Reporter.)

24                  THEODORE POE, JR., SWORN

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[WITNESS PANEL: Poe|Leary|McCauley]

1 ANN E. LEARY, SWORN

2 STEPHEN A. McCAULEY, SWORN

3 DIRECT EXAMINATION

4 BY MR. CAMERINO:

5 Q. Okay. I'm going to just take each of you one at a  
6 time, starting with Mr. Poe and moving down to Ms.  
7 Leary. Mr. Poe, would you identify yourself for the  
8 record please.

9 A. (Poe) Yes. My name is Theodore Poe, Jr., National  
10 Grid, 40 Sylvan Road, Waltham, Mass.

11 Q. And, what's your position with the Company?

12 A. (Poe) I am Manager in Gas Load Forecasting.

13 Q. And, what's your overall role with regard to this  
14 filing in this case?

15 A. (Poe) I prepared the customer requirements and sendout  
16 forecast that is input to the cost of gas filing.

17 Q. And, the filing that was made on August 15th [March  
18 15th?], which is marked as "Exhibits 1" and "2" that  
19 contains prefiled testimony with your name on it. Are  
20 you familiar with that testimony?

21 A. (Poe) Yes, I am.

22 Q. And, was that prepared by you or under your direction?

23 A. (Poe) Yes, it was.

24 Q. And, is it true and correct to the best of your

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 knowledge and belief?
- 2 A. (Poe) Yes, it is.
- 3 Q. Thank you. Mr. McCauley, would you state your name and
- 4 business address for the record please.
- 5 A. (McCauley) I'm Steven A. McCauley, 100 East Old Country
- 6 Road, Hicksville, New York.
- 7 Q. And, what's your position with National Grid?
- 8 A. (McCauley) I'm the Director of Origination and Hedging.
- 9 Q. And, what was your role with regard to the filing that
- 10 the Company made in this case?
- 11 A. (McCauley) Preparing the modifications to the hedging
- 12 cost of -- commodity cost of gas hedging.
- 13 Q. Okay. And, the March 15th filing by the Company
- 14 contains testimony with your name on it. Was that
- 15 testimony prepared by you or under your direction?
- 16 A. (McCauley) Yes, it was.
- 17 Q. And, is that testimony true and correct to the best of
- 18 your knowledge and belief?
- 19 A. (McCauley) Yes, it is.
- 20 Q. Ms. Leary, would you state your name and business
- 21 address for the record please.
- 22 A. (Leary) Yes. My name is Ann Leary. I work at 40
- 23 Sylvan Road, Waltham, Mass. 02451.
- 24 Q. And, what's your position with National Grid?

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Leary) I am Manager of Pricing for New England.
- 2 Q. And, what's your position -- what's your
- 3 responsibilities with regard to the filing in this
- 4 case?
- 5 A. (Leary) I'm here today to explain the proposed 2010 off
- 6 peak cost of gas factor that will be effective on May
- 7 1st, 2010.
- 8 Q. And, are you the person who has overall responsibility
- 9 with regard to the schedules that were filed in this
- 10 case?
- 11 A. (Leary) Yes, I do.
- 12 Q. Okay. And, you also prepared testimony with the March
- 13 15th filing, is that correct?
- 14 A. (Leary) That is correct.
- 15 Q. As well as revised testimony filed on April 5th?
- 16 A. (Leary) That is correct.
- 17 Q. And, with the changes that are in the April 5th
- 18 testimony, is the filing and your testimony true and
- 19 correct to the best of your knowledge and belief?
- 20 A. (Leary) Yes, it is.
- 21 Q. Okay. Would you summarize for the Commission what
- 22 changed from April -- from your March 15th testimony to
- 23 your April 5th testimony and explain why those changes
- 24 occurred.

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[WITNESS PANEL: Poe|Leary|McCauley]

1     A.     (Leary) Yes. We primarily just made one major change  
2           in the filing. What it is is we updated the NYMEX  
3           pricing. The NYMEX strip has gone down since we made  
4           our initial filing on March 15th. At that point, we  
5           had used a 15-day NYMEX strip that had ended on March  
6           10th. This had an average NYMEX pricing over the  
7           summer period of about \$5.00 a decatherm. We looked at  
8           the current NYMEX, for a 15-day average ending -- I  
9           think we used March 31st, and the NYMEX there had gone  
10          down to \$4.38. As a result of this decrease in the  
11          NYMEX, it ended up having a direct correlation to the  
12          decrease in the cost of gas factor that we were  
13          proposing.

14                         So, initially, for example, we had  
15          proposed a cost of gas factor for the residential  
16          customers of 72.09 cents per therm. We -- excuse me.  
17          We initially proposed on March 15th a COG factor for  
18          our residential customers of 77.84 cents per therm. We  
19          are now proposing a cost of gas factor for residential  
20          customers of 72.09 cents per therm.

21                         In terms of the bill impacts, I think,  
22          initially, we were looking at a 17 percent bill impact  
23          for residential heating customers. We are now down to  
24          about an 11 and a half percent bill impact for

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[WITNESS PANEL: Poe|Leary|McCauley]

1 residential heating customers as compared to last  
2 summer.

3 Q. Is it fair to say that the changes in your testimony  
4 then relate to an updating of the proposed rates in  
5 this proceeding and the bill impacts that result from  
6 that?

7 A. (Leary) That is correct.

8 Q. So, where those numbers appeared in the first  
9 testimony, they have now got the adjusted new figures?

10 A. (Leary) That is correct.

11 Q. Can you just very briefly explain, you said that this  
12 all came about because of a change in the NYMEX strip,  
13 can you just explain conceptually how the NYMEX strip  
14 is used in the cost of gas filing? In other words, why  
15 is it relevant at all?

16 A. (Leary) Yes. All of our commodity contracts, we use  
17 the NYMEX futures strip to project out what our  
18 commodity costs are going to be over the summer period.  
19 So, by using this updated forecast pricing, it had  
20 ended up changing all of the commodity pricing.

21 MR. CAMERINO: Thank you. That  
22 concludes my direct examination.

23 CMSR. IGNATIUS: Thank you.

24 Ms. Hollenberg.

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[WITNESS PANEL: Poe|Leary|McCauley]

1 MS. HOLLENBERG: Thank you. Good

2 morning, panelists.

3 CROSS-EXAMINATION

4 BY MS. HOLLENBERG:

5 Q. I have a couple of questions for you, Mr. McCauley,  
6 I'll start with. Are you aware of some recent  
7 developments with the Energy Information Administration  
8 that had been reported in the news related to how it  
9 reports to the public its gas production estimates?

10 A. (McCauley) I'm familiar with the article that came out  
11 a day or so ago, yes.

12 Q. Okay. And, would it be fair to say that there was some  
13 concern raised that the gas production estimates were  
14 too high?

15 A. (McCauley) The concerns of the article were, yes. That  
16 they were overestimating smaller producers, yes.

17 Q. Okay. Do you know if that has any impact or do you  
18 expect that that will have any impact on future costs  
19 of gas prices in the near-term future covered by this  
20 period of time that we're reviewing now?

21 A. (McCauley) For the period that we have now, I don't  
22 know if it will have a major impact. It would be more  
23 of a long-term impact. We did see, when that article  
24 came out, and I don't know if the two were correlated,

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[WITNESS PANEL: Poe|Leary|McCauley]

1 but, when that article did come out, we did see an  
2 immediate jump in the NYMEX forward curves right after  
3 that article did come out. But, since that, they  
4 peaked and they now have actually come back down. So,  
5 I think the market has looked at this information,  
6 reviewed it, tried to understand what the impact would  
7 be to the prices itself, and then all the market  
8 participants themselves felt that it was not as  
9 significant as what the article had led it to believe.  
10 If prices were to have continued going up, maybe there  
11 was more concern. But I think the market has digested  
12 the information and understood what the impact would  
13 be.

14 Q. Okay. And, if I could, I'd like to show you your  
15 response to Staff 1-7.

16 MS. HOLLENBERG: And, Commissioner, if I  
17 could have this marked for identification, I believe this  
18 would be Exhibit 6 please.

19 CMSR. IGNATIUS: Yes. We will mark this  
20 for identification as "Exhibit --

21 MS. DENO: Six.

22 CMSR. IGNATIUS: -- 6", thank you.

23 (The document, as described, was  
24 herewith marked as Exhibit 6 for

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[WITNESS PANEL: Poe|Leary|McCauley]

1 identification.)

2 BY MS. HOLLENBERG:

3 Q. Do you recognize this response to Staff 1-7?

4 A. (McCauley) Yes, I do.

5 Q. And, in your testimony, you propose some changes to the  
6 commodity cost of gas hedging done by the Company.

7 And, you were asked in this Staff 1-7 if that proposed

8 change had been in place, "beginning with May 2008,

9 what would the resulting credits/charges [be] to the

10 corresponding cost of gas periods?" And, you provided,

11 in your response, the impact that those changes would

12 have had on prior periods, is that correct?

13 A. (McCauley) That's correct.

14 Q. And, it shows that, in 2008, there would have been \$526

15 worth of credits to customers, right?

16 A. (McCauley) That's correct.

17 Q. And, approximately, or what it says is "\$11,313" worth

18 of charges?

19 A. (McCauley) Correct.

20 Q. Thank you. How is the -- the other issue that you

21 talked about in your testimony was recovering the

22 difference between the carrying charge on collateral

23 compared to the short. Was it between the collateral

24 charges that you actually recover or are charged by the

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[WITNESS PANEL: Poe|Leary|McCauley]

1 companies you're interacting with? Maybe you could

2 just summarize that better than me.

3 A. (McCauley) Sure. This is the result of that summary of  
4 the difference.

5 Q. Uh-huh.

6 A. (McCauley) What we -- what's looked at is how much  
7 money the Company has either provided to a counterparty  
8 in the form of collateral or has received.

9 Q. Uh-huh.

10 A. (McCauley) And, the dollar amount here is calculated,  
11 if the Company needs to provide collateral to a  
12 counterparty, it would have to borrow money at a  
13 short-term cost. It now gives the money to the  
14 counterparty, who puts it into an account. And, they  
15 will, like any bank, would give us interest for the  
16 money that they held for the period. The interest that  
17 is paid is not the same in every contract that's  
18 negotiated in every ISDA -- I'm sorry, there's a master  
19 agreement in ISDA, I-S-D-A, we negotiate what rate will  
20 be paid for funds held. And, that's typically a fed  
21 fund overnight rate, which is typically a very low  
22 rate.

23 Q. Uh-huh.

24 A. (McCauley) So, we look at what our costs were to

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[WITNESS PANEL: Poe|Leary|McCauley]

1 borrow, versus what we're really being paid for that  
2 money, the difference in that interest rate, multiplied  
3 by the dollar amount that has been provided in the form  
4 of collateral for each and every day. And, each and  
5 every day, whatever collateral is held by each  
6 counterparty, that dollar amount is calculated every  
7 day, and this would be the result of that.

8 Q. And, as you proposed it for New Hampshire, how does  
9 Grid handle it in other jurisdictions?

10 A. (McCauley) The Company is, like in this case, in its  
11 rate -- in each one of its rate cases, is looking to  
12 get the same type of recovery. We currently have --  
13 are getting recovery in our Rhode Island jurisdictions,  
14 and we're working in the other jurisdictions to get the  
15 same type of recovery.

16 Q. Okay. I'm not sure who wants to handle this, I'm  
17 thinking maybe Ms. Leary, but the impact on the  
18 Settlement Agreement in DG 07-129 and DG 09-050,  
19 regarding occupant accounts. If you could just  
20 summarize the financial impact on the Summer 2010 cost  
21 of gas, as well as the projected Winter 2010-11 cost of  
22 gas?

23 A. (Leary) Yes. As a result of the settlement with the  
24 occupant accounts, the Company actually had, for the

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[WITNESS PANEL: Poe|Leary|McCauley]

1 period 2008 through 2009, a disallowance and had to  
2 reduce its cost of gas. For the summer period, we  
3 reduced the cost of gas by \$31,121. In this upcoming  
4 winter cost of gas filing, we will have to include a  
5 disallowance of 116,154. The details of that  
6 disallowance calculation can be found in Tab 14 of the  
7 filing.

8 MS. HOLLENBERG: Thank you. I don't  
9 have any other questions. Thank you so much.

10 CMSR. IGNATIUS: Thank you. Mr. Fossum.

11 MR. FOSSUM: Thank you.

12 BY MR. FOSSUM:

13 Q. Ms. Leary, beginning in your revised testimony, which I  
14 believe is Exhibit 5, on Page 6 of that testimony, you  
15 reference the six month NYMEX future strip as of March  
16 31, 2010. Do you see that?

17 A. (Leary) Yes, I do.

18 Q. And, is the NYMEX strip that you're referencing there,  
19 is that the monthly settlement prices for that day or  
20 is that a 15 day average? What does that number  
21 represent?

22 A. (Leary) Yes. That number is actually a 15 day average.  
23 If you turn to Tab 7 of the filing, I think if you look  
24 at Bates stamp Page 047, you will see the -- what we've

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[WITNESS PANEL: Poe|Leary|McCauley]

1 done is we've looked at the NYMEX strips over the past  
2 15 days ending March 31st for the period May 2010  
3 through October 2010.

4 Q. Thank you. And, you said that, as a result of the  
5 change in that strip price, there were changes to the  
6 cost of gas for this docket. Have all of the schedules  
7 that were impacted by that change been, in fact,  
8 updated?

9 A. (Leary) Yes. In fact, that's why the Company submitted  
10 an entire refiling of all the attachments and exhibits.

11 Q. Now, in relation to the 2009 Summer Cost of Gas, can  
12 you confirm that the PUC Audit Staff has reviewed the  
13 reconciliation for that period?

14 A. (Leary) Yes, they have.

15 Q. And, to your knowledge, did the Audit Staff identify  
16 any exceptions in its review?

17 A. (Leary) Their report said there were no exceptions.

18 Q. Thank you. Turn to Mr. Poe.

19 A. (Poe) Good morning.

20 Q. Good morning. In the, I guess, the original redacted  
21 filing, Exhibit 2, in your testimony, on Page 9, --

22 A. (Poe) Yes, sir. I'm there.

23 Q. Okay. You reference a supply resource associated with  
24 the Concord Lateral there?

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Poe) That's correct.
- 2 Q. As I believe -- and that is Package 1 of the Asset
- 3 Management Agreement?
- 4 A. (Poe) Yes. There were two packages, 1 and 2, uh-huh.
- 5 Q. As to Package 1, and you note that it was available for
- 6 the 2009 and '10 winter period, and that it's to be
- 7 available for May and October of this summer period.
- 8 Could you just confirm, on Schedule 1, which is Bates
- 9 Page Number 002, what the line number is for that
- 10 supply resource that you reference?
- 11 A. (Poe) Just a moment please.
- 12 Q. Sure.
- 13 A. (Poe) With regard to purchases on the Concord Lateral,
- 14 that would be Dracut supplies, and on Bates Page 002,
- 15 which is Schedule 1, Page 1 of 4, "Dracut Supply-Swing"
- 16 is Line 25.
- 17 Q. Thank you.
- 18 A. (Poe) You're welcome.
- 19 Q. And, in reviewing this schedule, is this resource
- 20 available for other months in the summer period as
- 21 well?
- 22 A. (Poe) There was no maximum monthly obligation specified
- 23 for the off-peak period months. However, the Company
- 24 could call on that supply, if needed, and could be

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[WITNESS PANEL: Poe|Leary|McCauley]

1       agreed with Repsol, or else there are numerous other  
2       supplies that would be available at the Dracut pooling  
3       point. So, the volumes that you see on Line 25 of said  
4       schedule may not represent the Repsol volumes, but

5       there would be purchases at Dracut.

6   Q.   Okay. Thank you. Turning back to your testimony, on  
7       Page 11 of your testimony?

8   A.   (Poe) Okay.

9   Q.   Beginning up at about Line 4, you compare the 2010  
10       Summer sendout requirements to the same period in 2009,  
11       and show a difference of approximately it looks like  
12       about a million therms from the prior period forecast.  
13       Now, does sendout here include both firm sales and  
14       transportation volume?

15  A.   (Poe) This would be the firm sales to the sales  
16       customers only.

17  Q.   And, have you compared the sendout forecast to the  
18       normalized and actual results from the same period last  
19       year?

20  A.   (Poe) Yes. Typically, during our forecasting period,  
21       we would establish a reference point, which would, for  
22       the first figure, the 24 million therm figure for May  
23       2009 through October 2009, that would have been  
24       established based on the off-peak period 2008. We

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[WITNESS PANEL: Poe|Leary|McCauley]

1 would then make a forecast from that reference point,  
2 and then, for the next off-peak period, make a forecast  
3 for the new forecast period, and do a comparison as  
4 well just as a bench check -- benchmark, to make sure  
5 that our forecasting processes are adequate in  
6 capturing what we're seeing. The difference here is  
7 much larger than we usually see. And, I would  
8 attribute it to, first of all, the reference point for  
9 the 24 million therm figure was just prior to the huge  
10 economic downturn that we have seen. So, we had made  
11 our best guess at the time as to what the impact would  
12 be. And, now that we have observed a year of it, the  
13 forecast that we have of 23 million therms for this  
14 off-peak period is better judged based on what our  
15 observations are.

16 MR. FOSSUM: Just one moment please.

17 WITNESS POE: Certainly.

18 (Atty. Fossum conferring with Mr.  
19 Frink.)

20 BY MR. FOSSUM:

21 Q. Would the Company be willing, beginning with this  
22 coming winter's filing, to add to this section of  
23 testimony an additional comparison to prior period  
24 normalized actual results?

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (Poe) So, if I understand what you're saying, my  
2 testimony shows a normalized forecast figure for one  
3 off-peak period ago, so the off-peak period 2009. And,  
4 the next line item would then be what the actual  
5 normalized figure would have been for 2009?

6 Q. Yes.

7 A. (Poe) Yes.

8 Q. Thank you.

9 A. (Poe) You're welcome.

10 Q. All right.

11 CMSR. IGNATIUS: Mr. Fossum, is that  
12 something you're asking for --

13 MR. FOSSUM: Prospectively, not as part  
14 of this filing.

15 CMSR. IGNATIUS: Thank you.

16 BY MR. FOSSUM:

17 Q. Now, Mr. McCauley, you have, in your testimony,  
18 outlined a number of proposed changes to the Company's  
19 -- we'll call it the Company's "Hedging Program".  
20 Could you explain, fairly briefly, just sort of the key  
21 points of the existing program for a comparison?

22 A. (McCauley) Sure. The key points of the existing  
23 program, how we determine what the hedge volume we  
24 would be doing for the season, would be we looked at 67



[WITNESS PANEL: Poe|Leary|McCauley]

1       and a half percent of what was the forecasted baseload  
2       purchases for each -- for each month, and that is what  
3       determined our hedge volume. And, that was calculated,  
4       since we start our execution of a particular winter 18  
5       months in advance of the winter, we were really looking  
6       at a forecast that is almost two years in advance of  
7       that particular winter. So, that's how we determined,  
8       we looked at what our purchases were, since the NYMEX  
9       hedge that we use hedges those baseload purchases,  
10      that's what we were looking at was the baseload  
11      purchases in each one of the months during the  
12      wintertime.

13   Q.   You said you used the "NYMEX hedge", is that the  
14       Company's primary hedging instrument?

15   A.   (McCauley) What we do is we look at what is ultimately  
16       the physical price that the customers will pay, where  
17       they're paying it historically, and then you look to  
18       see what derivative mechanism is available for you to  
19       most effectively hedge that price. And, since most of  
20       our gas supplies are purchased, or a lot of our  
21       supplies are purchased in regions that are very closely  
22       correlated to NYMEX, it becomes a very effective hedge.  
23       In the analysis that we do in the past for those  
24       locations are typically in the 97 or upper, I'll say,

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[WITNESS PANEL: Poe|Leary|McCauley]

1 greater than 95 percent effectiveness on those hedges.  
2 So, even though the NYMEX doesn't hedge the full  
3 purchase price, there's a basis component. It really  
4 hedges a very, very large percent of the price risk  
5 itself. So, it reduces the amount of transactions that  
6 one might have to do, reduces the efficiency of basis  
7 hedges, when you're trying to do a basis hedge, since  
8 it's not as liquid as the NYMEX is. So, we're hedging,  
9 for all practical purposes, near 100 percent of the  
10 price risk.

11 Q. And, in so doing -- and, has the Company reviewed this  
12 existing program to determine the cost and impact on  
13 rate volatility?

14 A. (McCauley) Yes. What the Company does is it measures  
15 volatility by looking at the change in price from month  
16 to month to month within the wintertime.

17 Q. And, could you please describe, I guess fairly briefly,  
18 both the internal and external costs, to the extent  
19 that you have any, in your Hedging Program?

20 A. (McCauley) Sure. External costs would be costs that  
21 would be transaction costs, when -- if one was to put  
22 these derivative positions on using a futures account,  
23 with the futures account there would be transaction  
24 costs specific for each execution. Since the Company

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[WITNESS PANEL: Poe|Leary|McCauley]

1 uses what's called "OTC", or over-the-counter swap  
2 positions, which are bilateral agreements with  
3 counterparties, there are no transaction costs  
4 specifically with each transaction. The costs that may  
5 occur were the collateral costs that we've recently  
6 discussed. Once, if there is a credit exposure exceeds  
7 what each one of the company and the counterparty  
8 thinks is reasonable and establishes in their master  
9 agreement, if the credit exposure exceeds that  
10 threshold, then there is this collateral requirement  
11 that we talked about just before. So, from an external  
12 standpoint, those are really the types of costs that  
13 you would see.

14 From an internal cost perspective, you  
15 know, the Company has people that do the transactions,  
16 monitor the transactions, does the reporting on it,  
17 does the accounting, and those are all costs that are a  
18 part of gas supply costs. They aren't specifically  
19 categorized for just hedging itself, but it's a percent  
20 of our total gas supply adjustment, or I apologize if  
21 I'm not using the right term.

22 Q. You said it's "a percent of your total". I guess,  
23 then, by way of comparison to the overall gas costs,  
24 what would be the costs of administering this program?

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (McCauley) In our winter cost of gas filing, there we  
2 had a data request in there that we provided  
3 information on there, and it was total, I mean it --

4 A. (Leary) Yes. I mean, we were looking at, I think if  
5 you look at our total and direct gas costs, I think  
6 they're around \$25,000 right now that we have in our  
7 cost of gas filing, and hedging is only a piece of  
8 that. Because, as Steve has explained, we don't really  
9 monitor and track internally the cost of just the  
10 Hedging Program. So, when you think about our gas  
11 costs may be in the order of, I don't know, anywhere  
12 from 75 to \$100 million over the last few years, we're  
13 talking about 25,000, and only a portion of that is  
14 responsible for the Hedging Program.

15 Q. So, just a very small portion of that?

16 A. (McCauley) Yes.

17 Q. And, what, to the extent that you are able to measure,  
18 what has been the impact of this program on rate  
19 volatility?

20 A. (McCauley) What we've looked at is we look at the  
21 volatility of NYMEX from month to month to month within  
22 the winter, and we use a, I would say, fairly common  
23 analysis, which looks at the log normal price change  
24 from month to month to month. And, if you look at

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[WITNESS PANEL: Poe|Leary|McCauley]

1 NYMEX volatility has been over the last couple of  
2 years, it's been as high as 26 percent, and as low as  
3 6.6 percent. And, if you look at the hedges that we've  
4 put on, the hedge volume itself, that price of that  
5 hedge volume has been a high of only 12.3 percent and a  
6 low of 6.5 percent. So, from a volatility standpoint,  
7 executing hedges could have a -- I'll say a significant  
8 impact on the price that you're buying. Now, blend  
9 that in with storage and then the volume that's not  
10 hedged, and it's going to be somewhere in between that  
11 26 percent from the max and 12 percent.

12 Q. Now, turning to some of the changes that you've  
13 indicated you'd like to make to the program, the  
14 Company has proposed to eliminate hedging of storage  
15 injection. How would elimination of that impact the  
16 costs or rate volatility?

17 A. (McCauley) Again, we looked at doing the same type of  
18 analysis. We looked at what our hedges would have been  
19 with the storage hedge included and without, and it was  
20 less than a percent, as far as volatility is concerned.

21 Q. Now, when you say "less than a percent as far as  
22 volatility is concerned", is that volatility of  
23 customer rates or is that volatility -- what volatility  
24 is that?

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[WITNESS PANEL: Poe|Leary|McCauley]

1 A. (McCauley) Again, it's a volatility of the hedge price  
2 itself. So, it would even have a less of effect, once  
3 you incorporate all other costs, storage, non-hedge  
4 volume.

5 Q. Thank you. In addition to getting rid of hedges on  
6 storage, you've also proposed reducing non-storage  
7 hedging. What would the impact be of that reduction?

8 A. (McCauley) Again, I would look at the same thing. When  
9 we're forecasting for next year, the volume percent  
10 that we talked about reducing, if we had used our  
11 current hedge calculation for the '10-11 winter, versus  
12 the proposed, it's about a 6 percent change. So, I  
13 don't know -- I don't know what the volatility is going  
14 to be in the future just yet, so I can't tell you what  
15 it's going to reduce it by. But the fact that we're  
16 reducing our volume by 6 percent, it would have a, I  
17 would imagine, a 6 percent impact on the hedge  
18 volatility -- 6 percent of the hedge volatility itself,  
19 so let's say 6 percent of that 12 percent that I  
20 referenced before.

21 Q. Now, do you recall during the tech session that we had  
22 on this docket the Company was asked to prepare a  
23 schedule comparing the amount of fixed price supplies  
24 under the current and proposed hedging policies? Do

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[WITNESS PANEL: Poe|Leary|McCauley]

1           you recall that request?

2    A.   (McCauley) Tech 1-1, yes.

3    Q.   And, that's where I was going. So, and as a result,  
4           I'll let you look at this, is this the schedule that  
5           the Company prepared in response?

6    A.   (McCauley) Yes, it is.

7                       MR. FOSSUM: I'd like to admit for  
8           identification, I guess we're up to Exhibit 7, the  
9           Company's response to Tech 1-1.

10                      CMSR. IGNATIUS: So marked as Exhibit 7  
11           for identification.

12                      (The document, as described, was  
13                      herewith marked as Exhibit 7 for  
14                      identification.)

15   BY MR. FOSSUM:

16   Q.   Now, the comparison that you prepared shows a decrease  
17           in supply -- in fixed price supplies from 78 percent  
18           down to 62 percent. Why was 62 percent selected as the  
19           target amount?

20   A.   (McCauley) Sixty-two (62) percent, if you look above on  
21           that same -- the table that really is above what we  
22           did, and 62 percent is a -- I'll say is an average of  
23           the monthly percent hedge. So, we had "40 percent",  
24           the fifth line down on the top table, so it's

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[WITNESS PANEL: Poe|Leary|McCauley]

1 "50 percent" in November, "66 percent" in December  
2 through March, and then "50 percent" again in April.  
3 And, what we -- why we ultimately get down to  
4 62 percent is we were looking to have about two-thirds  
5 of our portfolio hedged in the core winter months of  
6 December, January, February, and March. And, that was  
7 -- and, we're looking at 66 percent of the firm sales  
8 load, where before we were looking at just the  
9 purchases themselves. And, what we found is that, when  
10 you start changing storage volumes and you make other  
11 changes to the portfolio, you're going to have a  
12 varying hedge percent. So, we're trying to be more  
13 consistent from year to year by starting off with a  
14 different baseline meeting firm sales, and then trying  
15 to be more consistent from a hedge percentage, which  
16 now includes -- that hedge percentage of 66 percent  
17 will include storage, where we hadn't from -- that  
18 created our target and any fixed price contracts that  
19 we have. So, we're really trying to get back to a  
20 balanced hedge and more consistent hedge percentage  
21 from year to year.

22 In addition to that, there was some  
23 concern about FPO participation and marketer  
24 participation, and we wanted to make sure that we

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[WITNESS PANEL: Poe|Leary|McCauley]

1           weren't in a situation that the customers would be in a  
2           excessively hedged position near 100 percent. So, we  
3           looked at trying to take that into account also.

4   Q.   Now, to the extent that you know, this 62 percent  
5           average, how would that compare with hedges done by  
6           other gas utilities?

7   A.   (McCauley) What I have in my -- we're part of AGA, and  
8           we participate in and we're a part of an AGA survey  
9           each year, and we do get the results back from that. I  
10          know that information is proprietary, but I assume I  
11          can share at this point? I'm looking to my attorney.

12   Q.   Well, I guess we don't need the specifics. I'm just  
13          curious, as a matter of comparison.

14   A.   (McCauley) And, I'll try, if I can, without sharing  
15          information, if you look at what --

16                   MR. CAMERINO: I think, if I can just  
17          interrupt, I think you're -- I'm confident that you're  
18          free to give a sense of where National Grid is relative to  
19          other utilities, if you're not giving the specific data of  
20          the other utilities, I don't think we're going to be in a  
21          problem area.

22   CONTINUED BY THE WITNESS:

23   A.   (McCauley) Okay. From the standpoint, we looked at  
24          companies that were within the around 50 percent, so

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[WITNESS PANEL: Poe|Leary|McCauley]

1 let's just say 40 to 60 percent, and it's about near  
2 50 percent of the AGA customers are hedging in that,  
3 let's say, 40 to 60 percent range. So, I think, where  
4 there are definitely companies that hedge more than  
5 60 percent, and then there are definitely companies  
6 that hedge less. But I would say that we are about  
7 where most other utilities are that are AGA members.

8 BY MR. FOSSUM:

9 Q. Now, to the extent you know offhand, I guess, how would  
10 the hedging done for EnergyNorth compare to the hedging  
11 for other National Grid companies?

12 A. (McCauley) Again, there are slight differences with  
13 each utility, but we try and use that two-thirds, to  
14 make sure that our price hedge is about two-thirds of  
15 our total portfolio going into the winter. So, it's --  
16 they're very similar.

17 MR. FOSSUM: I have nothing further.

18 CMSR. IGNATIUS: Thank you.

19 BY CMSR. IGNATIUS:

20 Q. Mr. McCauley, while we're looking at Exhibit 7, can you  
21 just explain a little bit more the starting point of  
22 all of this? Are the numbers for the months that have  
23 already passed actual numbers or are they a scenario of  
24 what you would do, what numbers would look like under

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[WITNESS PANEL: Poe|Leary|McCauley]

1           this proposal?

2    A.    (McCauley) Exhibit 7, I'm sorry, is that Tech 1-1?

3    Q.    Yes.

4    A.    (McCauley) Okay. 1-1, when we initially provided  
5           similar information during a tech session, we did this  
6           table based on what the forecast of what was filed  
7           prior to the winter season. The Tech 1-1 asked us to  
8           go back and look at "what was the volumes when we were  
9           entering into these hedge transactions?" So, these  
10          volumes here are the volumes that, when we created the  
11          hedge volume that we were going to do, so this was  
12          based on a forecast that was about two years old.

13   Q.    All right. Thank you. Ms. Leary, I have a couple of  
14          questions, looking at your March 15th testimony in  
15          Exhibit 1, or 2, but I think there's nothing  
16          confidential here, I don't believe. On Page 7, you  
17          talk about a "prior period over collection", and end up  
18          with a net resulting under collection, and I get lost.  
19          So, can you just walk through how you get from an over  
20          collection to an under collection and what's moving up  
21          and down there?

22   A.    (Leary) Yes. And, what we're trying to explain here  
23          is, the off-peak filing that we had for 2009, we would  
24          have had the reconciliation of our off-peak gas costs

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[WITNESS PANEL: Poe|Leary|McCauley]

1 for 2008. And, at that point, we had had a over  
2 collection. The reason why, back in 2008, we had an  
3 over collection had to do with the price volatility of  
4 the gas during the summer. We actually had come in --  
5 the gas prices were going through the roof. We had  
6 come in and actually had made a special filing to  
7 increase our cost of gas filing. After we had done  
8 that, I think we did that maybe in June or July, after  
9 we had made the filing, the price of the NYMEX again  
10 began to fall. Because we had a cap, at that point in  
11 time we had a cap on the amount -- on how much we could  
12 lower our cost of gas factor, we were capped and we  
13 ended up in an over collected position. We ran out of  
14 time in September and October, and we didn't have  
15 enough, the 45 day time, to come in and make a filing.  
16 So, that caused a over collection of about like  
17 \$2 million that was reflected in our filing last year.  
18 We don't have that over collection this year. This  
19 year, I think we ended up with a total net, it was  
20 pretty close to zero, it was a very small number. So,  
21 because of that, last year's cost of gas off-peak  
22 factor was, you know, significantly lower, I think it  
23 was in the tune of eight cents lower than it would have  
24 been had we not had this huge over collection. So,

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[WITNESS PANEL: Poe|Leary|McCauley]

1           that's what's driving that.

2   Q.    So, we now come into an under collection of \$38,700?

3   A.    (Leary) Right.  Where we had the \$2 million over  
4           collection the prior year.

5   Q.    All right.  And, then, you, on the next page, 8, you  
6           talk about the "seasonal bill impacts", is the seasonal  
7           bill May through October?

8   A.    (Leary) That is correct.

9   Q.    All right.  So, those amounts of an impact in the  
10          original testimony was \$59, that would have been over a  
11          six-month period?

12  A.    (Leary) That is correct.  And, now, they're down to  
13          \$40, I think, with the revised cost of gas factor.

14  Q.    All right.  Thank you.  You also describe that, in  
15          addition to the cost of gas adjustment, you have the  
16          base rate bill increase going on at the same time,  
17          correct?

18  A.    (Leary) Yes.  That was a very small change.  We had  
19          implemented the new base rates as a result of the rate  
20          case in DG 08-009 back in July.  So, for a few of the  
21          months, let's say May and June, we would have had a  
22          comparison of the temp. rates that were in effect back  
23          in May and June of 2009.

24  Q.    Mr. McCauley, a couple of questions about hedging.

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[WITNESS PANEL: Poe|Leary|McCauley]

1 Your testimony describes one of the reasons to look at  
2 your hedging policy and volumes is the changes in the  
3 Fixed Price offering, the number of customers who take  
4 that program. Because you described a long time  
5 period, 18 months out for hedging, how do you adjust if  
6 customer preference changes again, and there is a  
7 greater interest in Fixed Price than there has been  
8 recently?

9 A. (McCauley) If there was another increase in the FPO  
10 participation, we'd have to revisit the volume that  
11 we're doing, and then have to adjust it again, if it's  
12 a significant -- a significant increase. So, it would  
13 just be something that we'd have to monitor.

14 Q. Is there a mechanism for monitoring that and working  
15 with the Staff in monitoring those numbers, to make  
16 sure that you don't get caught with it changing without  
17 having had a chance to think it through? Do you report  
18 routinely on those numbers or --

19 A. (McCauley) I would have to, as far as -- I don't report  
20 those numbers. I typically get those numbers from Ann,  
21 provides those to me, we take a look at them, see if  
22 there has been any significant change in the percent,  
23 and then we would have to make a recommended change,  
24 like we are today.

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[WITNESS PANEL: Poe|Leary|McCauley]

- 1 A. (Leary) Just wanted to add, if I can add on though, in  
2 terms of the FPO enrollment, we do cap the FPO  
3 enrollment each year. We cap it, I can't remember if  
4 it's 30 or 32 percent that we had in the filing. And,  
5 I think that you're still hedging beyond that, in terms  
6 of the amount of gas that you have hedged. So, we  
7 should cover that, even if all 30 percent of the  
8 customers took --
- 9 A. (McCauley) That's correct.
- 10 A. (Leary) -- enrolled in the program.
- 11 A. (McCauley) It would mean then there would be less for  
12 the remaining customers.
- 13 A. (Leary) Correct.
- 14 Q. So, you don't see any risk in changing, for example,  
15 taking the storage gas out of the picture for hedging,  
16 you don't anticipate that you're in any way making  
17 things any riskier as a result?
- 18 A. (McCauley) No.
- 19 Q. And, your description of storage gas being hedging that  
20 is something of "a hedge of a hedge" was interesting.  
21 Is that, in the industry generally, does storage gas  
22 tend to be treated differently for hedging purposes?
- 23 A. (McCauley) I think people look at storage as another  
24 means to hedge price. And, as I said, really what

[WITNESS PANEL: Poe|Leary|McCauley]

1 we're doing, when we're hedging the storage injections,  
2 was just extending the time period in which that we  
3 were locking up the price prior to the wintertime. So,  
4 you're just, in essence, fixing the price before the  
5 wintertime itself. But the industry does look at  
6 storage and fixed price contracts as just one  
7 component, in addition to financial hedges of a hedge  
8 mechanism.

9 CMSR. IGNATIUS: All right. I have  
10 nothing else. Thank you very much. Mr. Camerino, unless  
11 there's any redirect?

12 MR. CAMERINO: No redirect.

13 CMSR. IGNATIUS: All right. Then, the  
14 witnesses are excused. Ms. Hollenberg, no witnesses?

15 MS. HOLLENBERG: No thank you.

16 CMSR. IGNATIUS: And, Staff?

17 MR. FOSSUM: No.

18 CMSR. IGNATIUS: Thank you. Then, I  
19 think we have only a question of whether to strike the  
20 identifications on the exhibits, any objection to them  
21 being introduced as full exhibits?

22 (No verbal response)

23 CMSR. IGNATIUS: Seeing none, we will  
24 strike the identification and admit them as full evidence.

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1 And, turn to closing statements, unless there are any  
2 other preliminary matters?

3 (No verbal response)

4 CMSR. IGNATIUS: If not, Ms. Hollenberg.

5 MS. HOLLENBERG: Thank you. The OCA  
6 does not oppose the proposed cost of gas in this docket.  
7 And, we thank the Staff and the Company representatives  
8 and their counsel for working with us through this

9 proceeding.

10 CMSR. IGNATIUS: Mr. Fossum.

11 MR. FOSSUM: Thank you. Staff supports  
12 the Company's filing, the proposed 2010 Summer Cost of Gas  
13 rates, as they have been revised. As noted, the Audit  
14 Staff has reviewed last summer's reconciliation and has  
15 found it to be accurate. And, the sales forecast for the  
16 coming period does appear to be consistent with the  
17 Company's past practices. The supply plan is based on  
18 least cost planning that reflects their actual costs for  
19 hedged supplies and, as noted, the recently updated NYMEX  
20 prices for non-hedged supplies. There will be a  
21 reconciliation of the 2010 projected and actual costs, so  
22 that any concerns that may arise about their summer gas  
23 planning and dispatch may be raised and addressed in the  
24 next summer cost of gas proceeding.

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1                   Staff also recommends approval of the  
2       revisions to the Company's hedging policy. While the  
3       Company does have little to no control over price  
4       volatility, its hedging policy has served to limit some of  
5       the rate spikes at relatively low cost, and the revised  
6       policy is expected to provide a comparable protection.  
7       Locking in 62 percent on average of the projected supply  
8       costs, as has been described, prior to setting the winter  
9       cost of gas rate appears reasonable and within the range  
10      of hedging performed by other utilities. Staff would also  
11      like to note that it's within the range of the hedging  
12      recently approved by the Commission for Northern Utilities  
13      in docket DG 09-141.

14                   Hedging is meant to protect against rate  
15      spikes and is for the benefit of ratepayers, and,  
16      accordingly, the costs and benefits do get passed along to  
17      ratepayers through the cost of gas. And, therefore, Staff  
18      does find it appropriate that the collateral savings and  
19      costs described by Mr. McCauley be passed through the cost  
20      of gas. When, or if, these savings and costs occur, they  
21      are expected to be small and are likely to have little  
22      impact on rates.

23                   As such, Staff supports the Company's  
24      filing and appreciates the Company's work in amending its

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1 policy.

2 CMSR. IGNATIUS: Thank you. Mr.  
3 Camerino.

4 MR. CAMERINO: Thank you. The Company  
5 appreciates the support of the Consumer Advocate and the  
6 Staff with regard to its filing, and also requests that  
7 the proposed changes to the hedging policy and the  
8 proposed cost of gas rates be approved as just and  
9 reasonable. As well, the prior period or Summer 2009 gas  
10 costs are the subject of this proceeding, the Company  
11 filed its reconciliation and it was reviewed by the Staff  
12 and no exceptions were noted. And, the Company had  
13 requested that those costs be found to be reasonable.

14 The Company also very much appreciates  
15 the advance guidance that it received in this docket and  
16 frequently receives from the Staff and the OCA as to the  
17 issues of concern, so that they can come to this hearing  
18 and provide the Commission with the information it needs  
19 to reach a resolution. Thank you.

20 CMSR. IGNATIUS: Thank you. Is there  
21 anything further?

22 (No verbal response)

23 CMSR. IGNATIUS: If not, then we will  
24 close the hearing. And, appreciate the work of

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1       Mr. Patnaude to give us an expedited transcript, because I  
2       know these move quickly and you're looking for  
3       implementation May 1st. Thank you. Appreciate it. Take  
4       it under advisement.

5                       (Whereupon the hearing ended at 10:57  
6                       a.m.)

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