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June 7, 2007

Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301

Re: DG 07-033 Northern Utilities, Inc.
2007 Summer Cost of Gas

Dear Ms. Howland:

On June 5, 2007, Northern Utilities, Inc. (Nothern) filed a letter with the Commission asking for leave to reply to staff's May 25, 2007, brief (Staff Brief) in order to correct alleged "material misstatements of the evidence." The undersigned as well as staff analyst, George McCluskey, have been designated as staff advocates in this proceeding. The staff advocates have reviewed Northern's purported "clarification" and believe that it is both confusing and not supported by the record. As a result, the staff advocates urge the Commission to, either disregard Northern's June 5th letter, or in the alternative, accept Northern's clarification together with the staff's further clarification contained in this letter.

1. Staff advocates disagree that the Staff Brief contains any "material misstatements of the evidence." The first alleged misstatement relates to Staff's argument at page 8 that "the monthly over/under reconciliation calculation that determines the amount of carrying costs to be collected from customers each month does *not* include a full month of revenues in the first month of each season, although it does include a full month of costs." The Company alleges that the Staff Brief ignores Mr. Ferro's testimony that "in that same first month, Northern records ½ month of revenues in the "off-season" account with zero associated costs." The Company's allegation is misleading, as can be seen from the following passage, which appears on page 6 of the Staff Brief:

> Furthermore, the Commission should note that Mr. Ferro contradicted his own testimony on this point. Referring to Attachment 1 to Exhibit 5, Mr. Ferro states that "in November '05, they show -- [Northern] show[s] billed revenues that's a half month of prorated revenues for the winter period." Transcript page 92. The fact that Mr. Ferro goes on to argue that the other half of the November billed revenue is tacked onto the end of the summer period reconciliation is of no consequence because that accounting fails to eliminate the carrying costs that result from matching in November a full month of gas costs with half a month of revenue. The Commission should also note that the under-collection resulting from this November mismatch impacts the monthly balances during the rest of the winter period and in the process burdens customers with additional carrying costs.

Staff's point is that tacking the other half of the November billed revenue onto the end of the prior summer period reconciliation, and matching it with zero November costs, produces a one-month over-collection at the end of the summer period. As a result, customers are paid the carrying costs on this one-month over-collection. In contrast, the under-collection resulting from matching a full month of gas costs in the first month of the winter period reconciliation (i.e., November) with half a month of revenue must be carried by the Company throughout the winter period, requiring customers to pay six months of carrying costs. In summary, the existing summer and winter reconciliation calculations are structured in such a way as to ensure the Company receives more in interest payments than it pays out. The timing difference that produces this disparity is eliminated under Staff's accrual accounting recommendation. Thus, staff has correctly considered and explained the way revenues and expenses are matched through the Company's summer and winter reconciliation mechanisms.

2. The second alleged misstatement relates to staff's argument at page 8 that the revenue lag from billing to collection reflected in Northern's lead/lag study was calculated using monthly accounts receivable balances. The Company alleges that the Staff Brief ignores Northern's discovery responses and Mr. Ferro's testimony that its lead/lag study reflects a "simple average of the annual data." The Commission should note at the outset that, neither Mr. Ferro's pre-filed rebuttal testimony, nor the April 23, 2007 hearing transcript contain the terms "simple average" or "annual data." Accordingly, it is not completely clear what the phrase "simple average of the annual data" means. Because this phrase did not appear in the record, the Staff Brief does not address this concept. Mr. Ferro's rebuttal testimony does, however, include at page 10 the following statement:

> The Collection Lag is determined by dividing the average daily revenue into the average accounts receivable balance for the test year. Northern used monthly customer accounts receivable balances from the books and records to determine its average accounts receivable balance opposed to daily amounts from its billing system.

Not only does this statement contradict the Company's claim that the lead/lag study "does not reflect monthly differences," it supports the statement in the Staff Brief that the

"the average revenue lag from billing to collection is calculated in Northern's lead/lag study using monthly accounts receivable balances." If Northern's claim is that averaging monthly accounts receivable balances over a year does not adequately compensate it for those monthly variations, it has failed to support that claim either qualitatively. or quantitatively. Staff brief at p 10.

Staff advocates respectfully request that, if the Commission considers Northern's clarification, it also consider Staff advocates' further clarification contained in this letter.

Sincerely yours,

F. Anne Ross
Staff Attorney

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