

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

I N D E X

WITNESS PANEL:	KAREN ZINK	PAGE NO.
	ROBERT E. RUDE	
Direct examination by Mr. Mueller		4
Cross-examination by Mr. Damon		11
Interrogatories by Cmsr. Below		29
Redirect examination by Mr. Mueller		31
WITNESS:	STEPHEN P. FRINK	
Direct examination by Mr. Damon		31

* * *

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Original Petition (08-02-07)	7
2	Settlement Agreement (11-30-07)	8
3	Testimony of Stephen P. Frink, with attachments (11-07-07)	32

CLOSING STATEMENTS BY:

Mr. Damon	36
Mr. Mueller	36

[Witness panel: Zink|Rude]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning.
We'll open the hearing in docket DG 07-083. On August 2nd, 2007 Iberdrola, S.A., along with Energy East Corporation and New Hampshire Gas Corporation, filed a petition seeking approval pursuant to RSA 369:8 and 374:33 of the acquisition of Energy East by Iberdrola. An Order of notice was issued on August 21, setting a prehearing conference that was held on September 6, which was followed by an order approving a procedural schedule. And, we have a filing on November 30th that is a Settlement Agreement between the Joint Petitioners and Staff that will be the subject of the hearing today.

Can we take appearances.

MR. MUELLER: Good morning, Commissioners. On behalf of New Hampshire Gas Corporation and Energy East Corporation, Scott Mueller, of Dewey & LeBoeuf, Boston, Massachusetts.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MR. AVERY: Good morning, Commissioners.
On behalf of Iberdrola, S.A., James Avery, of Brown, Rudnick, Berlack, Isreals.

[Witness panel: Zink|Rude]

1 CHAIRMAN GETZ: Good morning.

2 CMSR. MORRISON: Good morning.

3 CMSR. BELOW: Good morning.

4 MR. AVERY: Thank you.

5 MR. DAMON: Edward Damon, for the Staff
6 this morning. And, with me is Stephen Frink.

7 CMSR. MORRISON: Good morning.

8 CHAIRMAN GETZ: Good morning.

9 CMSR. BELOW: Good morning.

10 CHAIRMAN GETZ: I see we have a panel of
11 witnesses ready to go. Are there any procedural matters,
12 before we hear from the panel?

13 MR. MUELLER: We have none.

14 CHAIRMAN GETZ: Okay. Then,
15 Mr. Patnaude.

16 (Whereupon **Karen Zink** and **Robert E. Rude**
17 was duly sworn and cautioned by the
18 Court Reporter.)

19 **KAREN ZINK, SWORN**

20 **ROBERT E. RUDE, SWORN**

21 **DIRECT EXAMINATION**

22 BY MR. MUELLER:

23 Q. Good morning, panel.

24 A. (Rude) Good morning.

[Witness panel: Zink|Rude]

1 A. (Zink) Good morning.

2 Q. Ms. Zink, starting with you, could you please state
3 your name, title, and business address for the record.

4 A. (Zink) Yes. I'm Karen Zink. I am the Treasurer of New
5 Hampshire Gas Corporation, providing affiliate services
6 through the Berkshire Gas Company, 115 Cheshire Road,
7 Pittsfield, Massachusetts 01201.

8 Q. And, Mr. Rude, could you please state your name, title,
9 and business address for the record.

10 A. (Rude) Yes. My name is Robert E. Rude. Title is
11 Senior Vice President and Chief Regulatory Officer,
12 Energy East Corporation, 52 Farm View Drive, New
13 Gloucester, Maine.

14 Q. And, Ms. Zink, starting with you, I'm going to show you
15 a document, it's entitled "Joint Petition for Approval
16 of Stock Acquisition. It's dated August 1 of 2007.
17 And, there are three large tabs in the document. The
18 final tab, "Testimony", which is the "Direct Testimony
19 of the Benefits and Public Interest Panel". Do you
20 recognize this testimony?

21 A. (Zink) Yes, I do.

22 Q. And, was it prepared in part by you or under your
23 direction supervision?

24 A. (Zink) Yes, it was.

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 Q. And, do you have any corrections or revisions to this
2 testimony?

3 A. (Zink) No, I do not.

4 Q. And, if I were to ask you the same questions today as
5 contained herein, would your answers be the same?

6 A. (Zink) Yes, they would.

7 Q. Okay. And, Mr. Rude, I'm going to show you the same
8 document, entitled the "Direct Testimony of the
9 Benefits and Public Interest Panel". Do you recognize
10 this testimony?

11 A. (Rude) Yes, I do.

12 Q. And, was it in part prepared by you or under your
13 direction supervision?

14 A. (Rude) Yes, it was.

15 Q. And, do you have any corrections or revisions to this
16 testimony at this time?

17 A. (Rude) No, I do not.

18 Q. And, if I were to ask you the same questions as
19 contained herein, would your answers today be the same?

20 A. (Rude) Yes, they would.

21 Q. And, to the panel, do you adopt this as your sworn
22 testimony in this proceeding?

23 A. (Zink) Yes.

24 A. (Rude) Yes.

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 MR. MUELLER: I'd like to, I believe
2 this has been prefiled, but I will ask that the direct
3 testimony be marked as the Company's -- or, as "Exhibit
4 Number 1"?

5 CHAIRMAN GETZ: Be so marked.

6 MR. MUELLER: Okay.

7 (The document, as described, was
8 herewith marked as **Exhibit 1** for
9 identification.)

10 BY MR. MUELLER:

11 Q. Panel, I'm going to show you a second document entitled
12 the "Settlement Agreement", dated November 30, 2007.
13 Are you familiar with this agreement?

14 A. (Zink) Yes.

15 A. (Rude) Yes.

16 Q. And, is this, in fact, the agreement, Settlement
17 Agreement that both New Hampshire Gas Corporation and
18 Energy East Corporation has entered into with the Staff
19 of the New Hampshire Public Utilities Commission in
20 this proceeding?

21 A. (Zink) Yes.

22 A. (Rude) Yes, it is.

23 MR. MUELLER: This has also -- this
24 document, Service Agreement, has also been prefiled. And,

[Witness panel: Zink|Rude]

1 I would like to ask that that document be marked as
2 "Exhibit Number 2"?

3 CHAIRMAN GETZ: So marked.

4 (The document, as described, was
5 herewith marked as **Exhibit 2** for
6 identification.)

7 MR. MUELLER: And, I am providing the --
8 in prefiling, we provided the original signature page from
9 the Staff. I am handing to the court reporter a copy of
10 the Settlement which includes the original signature pages
11 from both Energy East Corporation, New Hampshire Gas
12 Corporation, as well as Iberdrola.

13 CHAIRMAN GETZ: Thank you.

14 BY MR. MUELLER:

15 Q. Turning to what we've marked as "Exhibit Number 2",
16 Mr. Rude, could you provide a overview of the
17 Settlement Agreement in this proceeding please.

18 A. (Rude) Yes, I would. Thank you. We're pleased that
19 we've been able to reach an agreement with the Staff
20 that permits Staff to support the Iberdrola acquisition
21 of Energy East, and thereby New Hampshire Gas. The
22 transaction itself is a relatively straightforward
23 change in ownership, with the current Energy East
24 organization remaining intact. Iberdrola has

[Witness panel: Zink|Rude]

1 consistently stated its plan to rely on local
2 management for business and regulatory matters, as is
3 their practice throughout the world.

4 Staff, in its response to our filing,
5 had been reluctant to support the merger, unless
6 certain operational commitments were made.

7 Specifically, I believe Staff would agree that there
8 have been some operational improvements at New
9 Hampshire Gas, and Staff wanted to be sure that the
10 progress that had been obtained did not stop or decay
11 under the new ownership. As a result, Staff asked for
12 commitments on staffing levels and capital
13 expenditures, as well as some other transaction-related
14 commitments.

15 So, in summary, the Settlement
16 provisions could be characterized as follows: One, we
17 have agreed to maintain eight full-time employees, the
18 current workload, the level of employees, for five
19 years, or through 2012, at New Hampshire Gas. We've
20 also agreed to maintain the operations and service
21 center in Keene, New Hampshire for at least five years.
22 We've also agreed to maintain an average annual capital
23 expenditure for this company greater than or equal to
24 \$275,000 a year, and that would escalate with

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 inflation.

2 All three of these provisions, however,
3 would be reviewed at the time the Company filed a base
4 rate case. The Company would have the burden to
5 demonstrate that these commitments -- any variance from
6 these commitments, and whether that variance would be
7 in the public interest. Two other items the
8 Petitioners have agreed to include in that base rate
9 case filing, if and when it's made, a feasibility study
10 on locating a LNG facility in the New Hampshire Gas
11 territory.

12 And, finally, we've reiterated in the
13 Settlement that no transaction costs to consummate the
14 merger, or any acquisition premium that might result
15 from this merger, would be recorded on New Hampshire's
16 books or recovered in rates from the New Hampshire
17 ratepayers. We further agree that any accounting
18 changes that may occur, although we're not aware of any
19 at this time, will be identified to the Commission.

20 MR. MUELLER: Thank you, Mr. Rude. That
21 completes the Petitioners' direct examination, and we make
22 the panel available for questioning.

23 CHAIRMAN GETZ: Mr. Damon.

24 MR. DAMON: Thank you.

CROSS-EXAMINATION

1
2 BY MR. DAMON:

3 Q. May I ask, what is the status of approvals of this
4 merger transaction in other states at the current time?

5 A. (Rude) Actually, if I could just expand that answer to
6 include the federal approvals as well. We've received
7 now five approvals total. We've received approval in
8 the State of Connecticut. That decision was received a
9 week or so ago, a final decision in Connecticut.
10 Yesterday, we received the approval from the Federal
11 Energy Regulatory Commission to complete the merger,
12 which was the largest federal approval required. We've
13 also received approval from the Federal Communications
14 Commission to transfer the many licenses, the
15 frequencies and licenses of the operating companies to
16 the ultimate Iberdrola ownership.

17 There is a relatively new requirement,
18 called the "Exxon-Florio Requirement", federal
19 requirement for a foreign ownership of a domestic
20 company, and that review process has been completed by
21 the federal government. As well as the -- what is
22 referred to as the Hart-Scott-Rodino Anti-Trust Review,
23 that has also been completed by the Department of
24 Justice.

[Witness panel: Zink|Rude]

1 Q. Okay. And, in what other states are requested
2 approvals pending?

3 A. (Rude) In addition to New Hampshire, it would be Maine
4 and New York.

5 Q. And, can you tell us where in the proceeding the merger
6 approval request is in Maine?

7 A. (Rude) In Maine, the Company has, obviously, made its
8 filing, and there have been responsive filings by the
9 Staff of the Commission and a few other parties.
10 Hearings are scheduled to begin the week after next in
11 Maine, with a Commission decision scheduled for the end
12 of January.

13 Q. Are those, at the moment, contested? Is that a
14 contested proceeding at the moment or is it one in
15 which a settlement agreement has been filed?

16 A. (Rude) No settlement agreement has been filed; a
17 settlement is possible.

18 Q. Okay.

19 A. (Rude) But there is no settlement agreement pending.

20 Q. Okay. Are there parties in Maine who are contesting
21 the merger approval?

22 A. (Rude) There is a party called the "Industrial Energy
23 Consumer Group", who has asked for certain conditions
24 to be applied to the merger, as has the Office of

[Witness panel: Zink|Rude]

1 Public Advocate in Maine. But, not opposing the
2 merger, *per se*, but, if the merger was to go through,
3 that these conditions should be applied.

4 Q. And, could you summarize briefly what those requested
5 conditions are?

6 A. (Rude) The conditions proposed by the Public Advocate
7 are -- I would characterize them as conditions relating
8 to access to books and records, conditions on
9 protecting CMP from possible problems, any financial
10 problems at Iberdrola, whether it be a credit rating
11 change or something of that nature. Commitments
12 similar to what we've made in New Hampshire, on at
13 least reporting on any changes to officers or directors
14 and things of that nature.

15 The IECG conditions are more, without
16 using a pejorative term, I would call them "esoteric".
17 Things like transferring their vote in the Independent
18 System Operator to some other entity. Agreeing to
19 assist in getting out of the ISO. And, there's a third
20 condition that I can't recall. But these are some of
21 the larger structural issues that are being debated in
22 Maine, as you might be aware.

23 Q. Thank you. And, now, could you give us an update on
24 the status of the proceeding in New York?

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 A. (Rude) Yes. The New York proceeding, it is similar to
2 Maine, although it's -- New York is the one state where
3 there is no statutory time period for a transaction of
4 this kind. We have, however, though agreed upon a
5 schedule. The schedule had two tracks; it had a
6 settlement track and a litigation track. The initial
7 attempt at settlement was not successful. So, we have
8 continued onto the litigation track. And, the Staff of
9 the Commission and any other interested party has until
10 January 11th to file testimony. Hearings would then
11 follow -- We would then have two weeks to file
12 rebuttal, and hearings would then followed at the end
13 of February. The requisite briefing would occur. And,
14 then, a decision would be expected at the Maine -- at
15 the May open session of the Commission. Unlike many
16 other commissions, New York only meets -- excuse me,
17 the New York Commission only meets once a month in
18 session.

19 Q. What Energy East utility is affected by the New York
20 proceeding specifically?

21 A. (Rude) There are, excuse me, there are two utilities
22 with what I would call "four rate jurisdictions".
23 There are two combination companies in New York that
24 Energy East owns. New York State Electric & Gas

[Witness panel: Zink|Rude]

1 Corporation, that serves central New York, as well as
2 the Adirondacks.

3 Q. That's called "NYSEG"?

4 A. (Rude) NYSEG, yes. And, Rochester Gas & Electric
5 Corporation, that serves the greater Rochester area, as
6 well as some other parts of western New York. That's
7 also a combination electric and gas utility. And,
8 those are the two entities over which the change in
9 ownership triggers New York approval.

10 Q. Okay. And, are the Maine statutes regarding mergers
11 triggered because Central Maine Power is part of Energy
12 East?

13 A. (Rude) And, Maine Natural Gas. Maine Natural Gas is a
14 small gas utility also opened by Energy East.

15 Q. Where does Maine Natural Gas do business?

16 A. (Rude) They do business in, excuse me, Windham and
17 Brunswick, Maine, Gorham Maine.

18 Q. How many customers do they have?

19 A. (Rude) It's a relatively small company. I would say
20 maybe five to ten thousand customers.

21 A. (Zink) A thousand.

22 A. (Rude) A thousand customers. Thank you.

23 Q. Okay. Mr. Rude, you've been in close communication, I
24 think, with personnel from Iberdrola during the

[Witness panel: Zink|Rude]

1 pendency of this merger transaction and so on?

2 A. (Rude) Yes. Yes, both before and after announcement.

3 Q. Okay.

4 A. (Rude) Yes.

5 Q. And, who is your primary contact there?

6 A. (Rude) Mr. Azagra, Pedro Azagra.

7 Q. Okay. And, he's one of the people whose name was
8 attached to the testimony in Exhibit 1?

9 A. (Rude) That's correct.

10 Q. Okay. And, based on your personal knowledge and based
11 on the communications you've had with Mr. Azagra, do
12 you believe that the information that's in the joint
13 testimony that relates to Iberdrola is true and
14 accurate?

15 A. (Rude) Oh, absolutely. Yes.

16 MR. DAMON: Thank you. I note that, in
17 Exhibit 1, I think the only -- the notebook that is up
18 there I believe has the petition in it as well. So, I
19 would request that, in addition to the testimony that's
20 been prefiled here as "Exhibit 1", that the remainder of
21 the contents of that filing also be marked either as part
22 of Exhibit 1 or as a separate exhibit, if it's deemed
23 useful to do that.

24 MR. MUELLER: The Petitioners have no

[Witness panel: Zink|Rude]

1 objection to that.

2 CHAIRMAN GETZ: So, it's basically the
3 entire petition, as filed, should be "Exhibit 1"?

4 MR. DAMON: Yes.

5 CHAIRMAN GETZ: Okay.

6 (Whereupon the entire petition, as
7 filed, was incorporated into Exhibit 1.)

8 BY MR. DAMON:

9 Q. And, I know you've alluded to this on your direct
10 examination, but can I just ask you to confirm, and
11 this is a question to either of the witnesses, the --
12 there are certain statements made in Paragraphs 30, 31,
13 33, 34, and 35 of the petition, that are in the nature
14 of commitments regarding the effects of this
15 transaction. And, I'd just like to ask you both to
16 confirm that those continue to be true and accurate?

17 A. (Rude) Yes, I can confirm that, that all of these
18 conditions and commitments remain accurate.

19 Q. And, Ms. Zink, as well, from your point of view?

20 A. (Zink) Yes, I agree.

21 Q. Okay. Thank you. Now, as I understand it, Iberdrola
22 has, at least indirectly, been involved in certain
23 activities in New Hampshire already. And, I'd ask
24 either one of you to describe what projects Iberdrola

[Witness panel: Zink|Rude]

1 has been involved in in New Hampshire?

2 A. (Rude) I do not have an intimate knowledge of, really,
3 what projects they have been involved in. I believe
4 they have been renewable energy projects, but I do not
5 have detailed knowledge.

6 Q. I'm not asking for particularly detailed knowledge, but
7 there is a wind farm that has been the subject of a
8 proceeding before the Site Evaluation Committee in New
9 Hampshire, I believe?

10 A. (Rude) Yes. Yes, they have been, you know, they're
11 active in the region, have been active in the region in
12 wind development, and in New York as well.

13 Q. Okay. And, in particular, the project I think the
14 Commissioners are familiar with is the one in Lempster,
15 New Hampshire?

16 A. (Rude) Okay.

17 Q. Does that sound familiar?

18 A. (Zink) Yes.

19 CHAIRMAN GETZ: It sounds familiar to
20 us.

21 (Laughter.)

22 MR. DAMON: Okay. Well, then, I won't,
23 if the Commissioners are aware that Iberdrola is behind
24 that ultimately, that's all I care to bring out. Thank

[Witness panel: Zink|Rude]

1 you.

2 CMSR. BELOW: So is the court reporter.

3 BY MR. DAMON:

4 Q. Ms. Zink, the Settlement Agreement, in Exhibit 2, does
5 refer to the commitment to retain eight full-time
6 employees at New Hampshire Gas Company. And, those are
7 employees that work directly for New Hampshire Gas
8 Company?

9 A. (Zink) That is correct.

10 Q. But New Hampshire Gas Company also receives the benefit
11 of services provided by Berkshire Gas Company through
12 an affiliate services agreement, correct?

13 A. (Zink) Yes, that's correct.

14 Q. Yes. And, that agreement is included in Exhibit 1,
15 right, as one of the tabs, I believe it's Tab 5?

16 A. (Zink) Yes, that's correct.

17 Q. And, I think we -- Staff discovered during the review
18 of this case that this agreement, so far as we're
19 aware, has not actually been filed as such with the
20 Commission. Do you recall that?

21 A. (Zink) I do not believe that it is filed with the
22 Commission, correct.

23 Q. Okay. But the Company has agreed to file that as soon
24 as is practicable, with a request that the late filing

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 be allowed?

2 A. (Zink) Just bear with me for one second.

3 Q. I mean, that's not part of the Settlement, *per se*?

4 A. (Zink) No, but I believe there was a data request
5 regarding that, and I just wanted to review it quickly.
6 It was Data Response NHG-0015, referring to the PUHCA
7 reference. And, what the Company did say was that we
8 would amend the PUHCA language in future service
9 agreements. But I do not believe that we filed an
10 amended agreement. So, we can do that, if that's
11 something that would be requested.

12 Q. It's required, it's not -- it's also requested, but it
13 is required that you file the affiliate services
14 agreement. That's just an aside. And, let me just ask
15 whether or not there are any plans to change the level
16 of services provided to New Hampshire Gas by Berkshire
17 Gas Company through this agreement?

18 A. (Zink) The level of service will be at least at where
19 it is today. And, when things change, where we may
20 need to include certain departments, say, if we're
21 doing a safety review or an environmental review,
22 something that may not occur all the time, but that, at
23 some point in time, may be required, we will always be
24 available to provide that additional service. So, at a

[Witness panel: Zink|Rude]

1 minimum, what we provide today will continue.

2 Q. Okay. Let me ask another question. The Settlement
3 Agreement refers to the commitment to maintain an
4 average annual capital investment of \$275,000. And,
5 what is that figure based on?

6 A. (Zink) The Company reviewed what its annual
7 expenditures for capital have been over the last
8 approximately five years. And, the \$275,000 figure
9 would relate to items such as cast and wrought iron
10 main replacement, meter replacement and change-out
11 programs, normal growth and development that may be
12 going on, bare steel. There's been a large project in
13 the Town of Keene, where they had been doing some work
14 throughout the City. And, at the time that the streets
15 had been opened up within the City, the Company has
16 been going in and replacing its main at the same time.
17 That will be going on at least for the next five years.
18 And, they have been replacing about 5,000 feet a year
19 for that. So, that will continue. Your normal capital
20 investments that would --

21 Q. Okay. But would you --

22 A. (Zink) -- would be required.

23 Q. Yes. It's true, though, isn't it, that the \$275,000
24 was based on an eight year average of capital

[Witness panel: Zink|Rude]

1 expenditures in the immediate past?

2 A. (Zink) Yes, that's correct.

3 Q. Okay. Thank you. And, may I ask how the
4 merger-related costs will be accounted for?

5 A. (Rude) Well, the merger-related costs that Energy East
6 is incurring are expensed as they're incurred. We've
7 already incurred some. These costs are -- We are
8 taking measures to make sure that those costs are
9 captured and identified and expensed at the holding
10 company, if possible. So, for example, my time here
11 today would not be allocated to New Hampshire Gas.

12 Q. Okay.

13 A. (Rude) There may be some costs subsequent to closing
14 that are booked subsequent to closing, and they would
15 be treated in the same way. But Iberdrola's costs
16 would be on their books as well, and they have already
17 agreed that any transaction costs would remain there.
18 They would not push those down to Energy East or any of
19 the other subsidiaries. So, right now, they're really,
20 I guess the answer for both companies would be, they're
21 expensed as incurred, but absorbed at the holding
22 company level.

23 Q. And, specifically, how will Energy East ensure that
24 that actually happens? I know, in the technical

[Witness panel: Zink|Rude]

1 sessions, you talked about a method that you were --

2 A. (Rude) Well, we set up a, if you will, an account
3 number to capture those costs. And, we've instructed
4 all the people working on the merger to charge that
5 account, really, is the way that we're capturing those
6 costs.

7 Q. Okay.

8 A. (Rude) There aren't that many employees involved. You
9 know, there's a lot of external costs, and they're
10 being captured in the same way.

11 Q. Do you expect there to be any accounting changes that
12 are made as a result of the merger that would affect
13 New Hampshire Gas's own books?

14 A. (Rude) No, we're not aware of any. It is true,
15 however, that Iberdrola is under a different accounting
16 standard. They're under international accounting
17 standards. In fact, the SEC has just passed a new rule
18 that would permit them to use international accounting
19 standards, or not just Iberdrola, but any foreign
20 company, and not have to translate that to Generally
21 Accepted Accounting Principles.

22 Energy East, in order to consolidate its
23 books of account with Iberdrola, will have to do some
24 sort of conversion, or Iberdrola will have to do the

[Witness panel: Zink|Rude]

1 conversion for us. But that does not affect -- that
2 will not affect the New Hampshire books or any of the
3 subsidiary books.

4 Q. Okay. So, just to be clear in my own mind anyway, you
5 don't expect there to be accounting entries on New
6 Hampshire Gas's books that result from the fact that
7 the merger has been completed?

8 A. (Rude) Right, I do not expect any accounting entries on
9 it.

10 Q. Okay. But I think the Settlement Agreement does say
11 that you will address that in the annual report, --

12 A. (Rude) Yes.

13 Q. -- as part of the report?

14 A. (Rude) Yes.

15 Q. New Hampshire Gas has not yet completed all its
16 proposed steps to reduce the unaccounted for gas that
17 has been the subject of several cost of gas
18 proceedings. And, let me ask whether the Company
19 expects that those steps will be completed as
20 scheduled, notwithstanding that the merger goes
21 through?

22 A. (Zink) Yes. Yes, that will be completed. And, I
23 believe there was one item that had not been completed,
24 where they were going to install a turbine meter at the

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 plant. That is expected to be installed sometime in
2 2008.

3 Q. Okay. Could I also ask the panel to address
4 Iberdrola's experience operating gas utilities, such as
5 New Hampshire Gas? I know they don't have one that's
6 probably like that, since it's kind of unique. But
7 could you just address its general experience in gas
8 utility operations?

9 A. (Rude) Their experience has been primarily on the
10 electric side. But they have been a distribution
11 company for over 100 years, have some gas properties.
12 They also have gas, you know, upstream properties,
13 storage assets. I think their experience is generally
14 on -- is really more on energy distribution. And, I
15 believe one of the attractions of this, of this
16 transaction to them, was to become more involved in the
17 gas business, a business that they're very interested
18 in on the distribution side. So, I think their
19 experience is primarily electric distribution. But,
20 you know, worldwide, or certainly in the Americas and
21 in Europe.

22 Q. You don't have any doubt of their competence to operate
23 a gas utility successfully?

24 A. (Rude) Not at all. Nor did the Connecticut Commission.

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 This was examined carefully by Connecticut. That's
2 really the standard there, the managerial and technical
3 capability. And, particularly because Iberdrola
4 intends to utilize local management and local -- allow
5 local management to make those operational decisions,
6 Connecticut was comfortable with that approach.

7 Q. Okay. It's apparent that Iberdrola has had extensive
8 experience in renewables and green technology. Is that
9 experience something that Iberdrola or you expect
10 Iberdrola to be looking to bring to the New Hampshire
11 Gas Company's activities in some way?

12 A. (Rude) It's possible. I don't believe that that's been
13 looked at at that level of detail, nor has it been
14 looked at for any of the utilities. However, Energy
15 East, as we looked at Iberdrola as a potential partner
16 here, saw a very good fit with what our initiatives, we
17 had started to move in this direction. And, we thought
18 that Iberdrola, really, as a worldwide leader in
19 sustainable development, renewable technology, would be
20 really an outstanding fit for the Company. So, I think
21 the future opportunities and cultural similarities with
22 the companies will be very helpful.

23 Q. Okay. And, the Settlement Agreement recites certain
24 commitments that the Company has made for a five year

[Witness panel: Zink|Rude]

1 period, subject to being reevaluated during a rate
2 case. But does the Company -- does New Hampshire Gas
3 Company have any plans for operations after 2012 at the
4 present time?

5 A. (Zink) I think that would be something that would just
6 be looked at from a business perspective. I don't see
7 why anything would change at this point. The business
8 will continue to operate as it's operated. And, you
9 know, we look at the financial situation of the
10 Company, file a rate case when it's necessary to file,
11 and continue to do the things we've done.

12 A. (Rude) And, there have been no discussions with
13 Iberdrola about, you know, any operational activities
14 past that point.

15 Q. Okay. Is New Hampshire Gas Company currently,
16 according to its books, earning its authorized rate of
17 return?

18 A. (Zink) No, it is not.

19 Q. And, can you tell us what the situation there is a
20 little bit more specifically?

21 A. (Zink) Well, part of the problem there is that there's
22 limited growth opportunity, because the operating plant
23 that's there is a little bit on the older side.

24 Although, we have upgraded it and done some work to be

[Witness panel: Zink|Rude]

1 able to expand a little bit. But, from where they're
2 located, as far as growing, a lot of the issue is
3 market pricing and competition, although all energy
4 prices are higher today, so that's always a marketing
5 tool that a utility can use. Don't sell on the price,
6 sell on the benefits of the fuel that you're using.

7 But that's an issue. When you're small,
8 and you have limited growth opportunities, and you're
9 trying to spread your costs over a small customer base,
10 you have to look at making sure that you don't lose the
11 load that you have when you increase your rates. So,
12 the Company has been careful about how it's increased
13 its rates over time, to try to minimize the bill
14 impacts. But, certainly, we'll need to look at some
15 type of rate relief in the near -- I would say more in
16 the near future, as opposed to the long future.

17 Q. And, that is true whether or not this merger is carried
18 out?

19 A. (Zink) Absolutely.

20 Q. And, just for the record, could you state what the
21 authorized rate of return for the Company is?

22 A. (Zink) I don't recall what that is off the top of my
23 head, and I apologize. I'd have to go back and pull
24 out the old -- the rate settlement, which was back in

[Witness panel: Zink|Rude]

1 2000, I believe.

2 Q. Okay. But how would you characterize the extent of the
3 under earnings? Is it significant?

4 A. (Zink) Well, what I would say is that the Company
5 barely breaks even. And, in fact, this year they're
6 about in -- in the position to probably break even by
7 the end of year. The year before that they had a small
8 increase, you know, small earnings target or level.
9 And, the year before that, their earnings may have been
10 slightly higher, but at the time we had changed -- we
11 had done an accounting change for how the unbilled
12 revenues were booked, which actually provided a
13 benefit, but not a true cash benefit, it was really a
14 paper benefit. So, they -- you know, I'd say no more
15 than 25 to \$50,000 a year is about what their earnings
16 might be.

17 MR. DAMON: Okay. Thank you. No
18 further questions. Thank you.

19 BY CMSR. BELOW:

20 Q. I just have one little question. It's a little bit
21 silly. But, in -- I guess it's not an exhibit, but, in
22 the Staff testimony by Mr. Frink, there's an attachment
23 -- now I can't find it. Just a second. Ah, here it
24 is. It's Attachment SPF-2, and it's a data response.

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 And, I think, Ms. Zink, you were the respondent?

2 A. (Zink) Yes.

3 Q. Have you found that?

4 A. (Zink) Yes.

5 Q. In the response, in the third sentence it says
6 "Recently, the Company installed an RTU at the propane
7 plant which affords computerized control over the
8 outlet pressure". Is that a Roof-Top Unit?

9 A. (Zink) Yes.

10 Q. The "RTU"?

11 A. (Zink) Yes.

12 CMSR. BELOW: Okay. Thanks. That's
13 all.

14 CHAIRMAN GETZ: Redirect?

15 MR. MUELLER: The Company has none, the
16 Petitioners have none.

17 CHAIRMAN GETZ: Then, the witnesses are
18 excused. Thank you. Mr. Damon, were you still intending
19 to introduce Mr. Frink or his testimony or how were you --

20 MR. DAMON: Yes.

21 MR. MUELLER: Actually, I'm going to ask
22 my witnesses, could I have a pass? And, I'd like to clear
23 up one thing on the record, if I could have a minute with
24 the witnesses, to do just a short redirect?

{DG 07-083} (12-07-07)

[Witness panel: Zink|Rude]

1 (Atty. Mueller conferring with the
2 Witnesses.)

3 **REDIRECT EXAMINATION**

4 BY MR. MUELLER:

5 Q. Ms. Zink, do you recall a question from the Bench
6 asking you what the acronym "RTU" stood for?

7 A. (Zink) Yes, and I misstated. It's a "Remote Terminal
8 Unit". It's a computer.

9 MR. MUELLER: Okay. Thank you.

10 WITNESS ZINK: Thank you.

11 CMSR. BELOW: That makes more sense, I
12 think.

13 MR. MUELLER: That completes the
14 Company's redirect.

15 CHAIRMAN GETZ: Thank you. Mr. Damon.

16 MR. DAMON: Staff would ask Mr. Frink to
17 take the witness stand and testify.

18 (Whereupon **Stephen P. Frink** was duly
19 sworn and cautioned by the Court
20 Reporter.)

21 **STEPHEN P. FRINK, SWORN**

22 **DIRECT EXAMINATION**

23 BY MR. DAMON:

24 Q. Please state your name, employment, and business

[Witness: Frink]

1 address for the record please.

2 A. My name is Stephen Frink. I am on the Staff of the New
3 Hampshire Commission. And, my business address is 21
4 South Fruit Street, in Concord, New Hampshire.

5 Q. And, Mr. Frink, have you filed prefiled testimony in
6 this docket?

7 A. Yes, I have.

8 Q. And, I'll show you a document and ask if that document
9 is the testimony that you prefiled in this case?

10 A. Yes, it is.

11 MR. DAMON: And, I'd ask that this be
12 marked for identification as "Exhibit 3", I believe?

13 CHAIRMAN GETZ: So marked.

14 (The document, as described, was
15 herewith marked as **Exhibit 3** for
16 identification.)

17 BY MR. DAMON:

18 Q. Do you have any corrections or modifications that you
19 wish to make to your testimony at this time?

20 A. No, I don't.

21 Q. And, is your testimony, as contained in Exhibit 3, true
22 and accurate to the best of your knowledge and belief?

23 A. Yes, it is.

24 Q. Let me ask you a question. Do you have any doubts

[Witness: Frink]

1 about the managerial capability of Iberdrola to
2 successfully operate a company that includes New
3 Hampshire Gas Company, and with particular reference to
4 New Hampshire Gas Company's activities?

5 A. Right. With the fact that it will be the same people
6 operating the Company essentially, under the merger as
7 there are now, there shouldn't be an issue there.

8 Q. Do you have an opinion as to whether or not the minimum
9 average annual capital investment provided for in the
10 Settlement Agreement is reasonable?

11 A. Yes, I believe it's reasonable. There has been a lot
12 of progress made in improving the system. And, it is
13 averaged over eight years. And, so, if they're a
14 little low one year and a little high in another, it
15 gives some flexibility, but it will help maintain the
16 improvements that have been reached, but it's not so
17 high as to trigger a rate case in and of itself. I
18 think that the cap is a reasonable number.

19 Q. In your view, does having a minimum investment
20 requirement aid the New Hampshire Gas customers?

21 A. Absent, although Energy East has no plans to cut the
22 New Hampshire staffing or spending, absent the
23 Settlement, New Hampshire Gas could have done that.
24 And, under the Settlement, with this minimum spending

[Witness: Frink]

1 requirement, without a rate case it wouldn't be able to
2 do that. And, if they filed a rate case, then that
3 will necessitate Commission review. So, there is that
4 slight benefit, in that, with this Settlement, those
5 minimums will be met.

6 Q. The Staff has signed and executed the Settlement
7 Agreement. Would you please explain Staff's support
8 for the Settlement.

9 A. Well, there's always a concern when a small local
10 utility is acquired by a much larger, out-of-state
11 utility, that the needs of the acquired company will be
12 overlooked, and particularly if the company isn't
13 contributing to the bottom line. And, in 1998, when
14 Energy East, serving 3 million customers in four
15 states, acquired New Hampshire Gas, that didn't happen.
16 New Hampshire Gas serves a thousand customers in Keene,
17 and was operating at a lot at the time. Energy East,
18 through a large infusion of equity, made substantial
19 investments in the propane air plant and the
20 distribution system, maintained adequate staffing and
21 improved employee training. As a result, New Hampshire
22 Gas safety and reliability has improved under Energy
23 East.

24 Also, in 2002, New Hampshire Gas filed

[Witness: Frink]

1 for a rate increase that was well below what could have
2 been requested under traditional ratemaking. And, with
3 the Commission approval, New Hampshire Gas implemented
4 the increase over the course of several years to limit
5 the rate impact on customers. And, more recently, New
6 Hampshire Gas has implemented a plan designed to reduce
7 unaccounted for gas. That has been very successful,
8 which has helped lower customer bills.

9 The Settlement presented today assures
10 that the New Hampshire Gas operations and maintenance
11 will be maintained at the current standards, and that
12 the cost of the merger will in no way increase New
13 Hampshire gas rates. As a result, New Hampshire Gas
14 customers will not be harmed as a result of the merger.

15 MR. DAMON: I have no further questions.

16 CHAIRMAN GETZ: Mr. Mueller?

17 MR. MUELLER: The Petitioners have no
18 cross-examination for the witness.

19 CHAIRMAN GETZ: Then, I believe that
20 completes Mr. Frink's examination.

21 WITNESS FRINK: All right.

22 CHAIRMAN GETZ: Thank you. Is there any
23 objection to striking identifications and admitting the
24 exhibits as full exhibits?

1 MR. MUELLER: No objection.

2 MR. DAMON: No objection.

3 CHAIRMAN GETZ: They will be admitted as
4 full exhibits. Is there anything else to address before
5 we provide an opportunity for a closing?

6 (No verbal response)

7 CHAIRMAN GETZ: Hearing nothing, then,
8 Mr. Damon.

9 MR. DAMON: Yes. Clearly, for the
10 reasons that Mr. Frink has just addressed, the Staff
11 supports the Settlement Agreement and the closing and
12 implementation of the proposed merger.

13 CHAIRMAN GETZ: Thank you. Mr. Mueller.

14 MR. MUELLER: The Petitioners would
15 first like to thank the Staff for their participation in
16 the proceeding. I think we had a good back-and-forth, and
17 appreciate the fact that we are able to enter into a
18 settlement agreement. I believe, as indicated in the
19 Settlement Agreement, both of the parties, the Staff and
20 the Petitioners, agree that the proposed acquisition meets
21 the standards under RSA 369:8 and that the transaction
22 will not have an adverse effect on the rate, terms,
23 service, or operations of New Hampshire Gas Corporation.
24 And, that the transaction also meets the standards under

1 RSA 374:33, that the acquisition is lawful, proper, and in
2 the public interest. And, accordingly, the Petitioners
3 respectfully request that the Commission issue an order
4 approving the settlement and the transaction at its
5 earliest convenience.

6 CHAIRMAN GETZ: All right. Thank you.
7 We'll close the hearing then, and take the matter under
8 advisement. Thank you.

9 **(Whereupon the hearing ended at 11:57**
10 **a.m.)**

11
12
13
14
15
16
17
18
19
20
21
22
23
24