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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 9, 2008 - 10:08 a.m.
Concord, New Hampshire

RE: DG 08-009
ENERGYNORTH NATURAL GAS, INC.
d/b/a/ NATIONAL GRID NH:
Notice of Intent to File Rate
Schedules. (Prehearing conference)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. EnergyNorth Natural Gas, Inc.
d/b/a National Grid NH:
Steven V. Camerino, Esq. (McLane, Graf...)
Thomas P. O'Neill, Esq.

Reptg. Pamela Locke:
Alan Linder, Esq. (N.H. Legal Assistance)
Daniel Feltes, Esq. (N.H. Legal Assistance)

Reptg. Unitil:
Todd Bohan

COURT REPORTER: Steven E. Patnaude, LCR No. 52

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APPEARANCES: (C o n t i n u e d)

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Rorie Hollenberg, Esq.
Kenneth Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Edward N. Damon, Esq.

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Ms. Hollenberg 19

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open this prehearing conference in docket
4 DG 08-009. On February 25, National Grid made a delivery
5 rate filing requesting the Commission to implement
6 permanent delivery rates for natural gas service and to
7 implement temporary delivery rates, and also requesting an
8 increase in the customer charge and a decrease in
9 volumetric rates, elimination of the 280 day sales service
10 and interruptible sales service, and implementation of a
11 new service and main extension policy, as well as
12 requesting to establish a pension and post-retirement
13 benefits other than pensions reconciliation mechanism.
14 The effect of the proposal to increase permanent rates
15 would be an increase of \$9.9 million, or 5.6 percent in
16 total revenues. We issued an order suspending the tariff
17 and scheduling the prehearing conference on March 14.

18 Let me note a couple of things for the
19 record. We have an affidavit of publication that was
20 filed on April 7. We also have a Notice of Participation
21 filed by the Consumer Advocate. And, let me make sure I
22 have all the requests for intervention. Mr. Giordano
23 filed a petition, as did New Hampshire Legal Assistance,
24 and Unutil, I believe that's all I have.

{DG 08-009} [Prehearing conference] (04-09-08)

1 Let's take appearances please.

2 MR. CAMERINO: Good morning,
3 Commissioners. Steve Camerino, from McLane, Graf,
4 Raulerson & Middleton, on behalf of National Grid New
5 Hampshire. And, with me today at counsel's table is
6 Thomas P. O'Neill, Senior Counsel for National Grid. Also
7 with me today from the Company are Gary Ahern, Vice
8 President for Regulation and Pricing in the Gas
9 Distribution business; Bill Sherry, Regional President for
10 National Grid NH; and Ann Leary, Manager of Pricing.

11 CHAIRMAN GETZ: Good morning.

12 CMSR. MORRISON: Good morning.

13 CMSR. BELOW: Good morning.

14 CHAIRMAN GETZ: Mr. Linder.

15 MR. LINDER: Good morning, Mr. Chairman
16 and Commissioners. This is Alan Linder, from New
17 Hampshire Legal Assistance, representing Pamela Locke,
18 who's at counsel table. And, also with me is Attorney Dan
19 Feltes, from Legal Assistance.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. MORRISON: Good morning.

22 CMSR. BELOW: Good morning.

23 MR. LINDER: Good morning.

24 MS. HOLLENBERG: Good morning. Rorie

1 Hollenberg, Meredith Hatfield, Kenneth Traum, and Steve
2 Eckberg here for the Office of Consumer Advocate.

3 CHAIRMAN GETZ: Good morning.

4 CMSR. MORRISON: Good morning.

5 CMSR. BELOW: Good morning.

6 MR. DAMON: Good morning, Commissioners.
7 Edward Damon, for the Staff. And, with me this morning is
8 Stephen Frink, Robert Wyatt, and Amanda Noonan. And, I
9 believe, before the introductions are concluded, we should
10 note that Mr. Bohan is here for Unutil, I believe.

11 MR. BOHAN: Good morning, Commissioners.
12 Todd Bohan, for Unutil.

13 CHAIRMAN GETZ: Good morning.

14 CMSR. MORRISON: Good morning.

15 CMSR. BELOW: Good morning.

16 CHAIRMAN GETZ: I'll note for the record
17 there does not appear to be anyone here this morning on
18 behalf of Mr. Giordano.

19 (No verbal response)

20 CHAIRMAN GETZ: That seems to be a true
21 statement. Are there any objections to any of the
22 petitions to intervene?

23 MR. CAMERINO: The Company submitted
24 this morning an objection to Mr. Giordano's request to

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1 intervene. It's fairly straightforward. There's a
2 statutory standard for when the Commission is required to
3 grant intervention, and essentially it requires that the
4 intervenor demonstrate that they have a right, duty,
5 privilege, or other interest that may be affected by the
6 proceeding. Mr. Giordano has indicated why he has
7 dealings with the Company, but no indication as to how
8 those interests would be affected by this rate case. And,
9 he does mention some retirement benefits in his letter.
10 And, it is the case the Company has made a proposal in
11 this docket regarding a reconciliation mechanism for the
12 ratemaking treatment for certain post-retirement
13 employment benefits. But it's our understanding, from
14 prior discussions with Mr. Giordano, that his concerns
15 don't relate in any way to the ratemaking treatment. They
16 relate to his direct interest in his benefits and those of
17 others.

18 So, while he may have certain concerns
19 in his relationship with the Company, and, obviously, the
20 Company's view on those issues may differ from his, we
21 don't think those concerns in any way relate to this case.

22 CHAIRMAN GETZ: Does anyone else have
23 any objections? Mr. Damon.

24 MR. DAMON: Yes. Thank you. I'll just

1 make a comment about the three interventions, and
2 particularly with respect to Mr. Giordano. Mr. Giordano
3 has requested full intervenor status limited to all
4 matters affecting retiree pension and PBOP benefits,
5 including policies, funding status, and compliance with
6 prior obligations filed with the New Hampshire Public
7 Utilities Commission. He seeks to intervene both as a
8 participant in the EnergyNorth pension and PBOP programs
9 and as a member of a class of former employees who have a
10 continuing interest in the financial viability of
11 EnergyNorth and its successor owners.

12 It is not clear to Staff from his
13 request how this docket affects his pension and PBOP
14 related rights and interests. It is also not clear how
15 active he wishes to be. If he would intend simply to
16 monitor the proceedings, then it would be appropriate for
17 him to be subject to limitations similar to those that
18 Staff would propose for Unitil. But, if he intends to
19 take an active role, then it is appropriate that he
20 clarify both points before the Commission considers his
21 full intervention, and that is on his full intervention as
22 an individual. He has not alleged that he has any
23 authority to represent a class of former employees. And,
24 for this reason, Staff opposes his intervention on behalf

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1 of a class of former employees, if that is his intention.

2 As to Unitil, Unitil's request raise the
3 same issues that Staff discussed with respect to Public
4 Service Company in the Unitil base rate case, which was DE
5 05-178. Staff does not object to Unitil's participation
6 on the same terms approved for PSNH in that docket. It
7 does appear that Unitil has patterned its request on those
8 terms, but Staff does not support any broader
9 participation than approved in order 24,572 at this time.

10 With respect to Pamela Locke's
11 intervention, Staff does not object. She has been
12 permitted to intervene in prior dockets involving
13 EnergyNorth as a customer.

14 CHAIRMAN GETZ: Okay. Thank you.
15 Anything else on any of the petitions to intervene?

16 (No verbal response)

17 CHAIRMAN GETZ: Okay.

18 (Chairman and Commissioners conferring.)

19 CHAIRMAN GETZ: Okay. Well, this is how
20 we'll proceed with the petitions to intervene. We'll
21 grant the petition from New Hampshire Legal Assistance,
22 finding they have demonstrated rights, duties, interests,
23 privileges, or other immunities that may be affected by
24 this proceeding, and we will defer for the moment a ruling

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1 on Mr. Giordano's petition to intervene. I think it might
2 be helpful, at least in that regard, Mr. Damon, if Staff
3 could contact Mr. Giordano to find out what his intention
4 is or if he has any changed position based on the
5 objection filed by National Grid.

6 And, as with respect to Unitil, I'm
7 assuming, Mr. Bohan, what really is at stake here is that
8 Unitil is concerned about precedent that might be
9 established in this proceeding. And, we'll take a look at
10 the statements made by Staff and our rulings in the PSNH
11 case, and we'll make the formal ruling on that at a later
12 time.

13 Are there any other issues that we need
14 to address, before we allow the parties an opportunity to
15 state their position in this proceeding?

16 (No verbal response)

17 CHAIRMAN GETZ: Okay. Hearing nothing,
18 then we'll begin with the Company. Mr. Camerino.

19 MR. CAMERINO: Thank you, Mr. Chairman.
20 The Company's filing was an effort on our behalf to ensure
21 that we had really comprehensively addressed the issues
22 that one would expect to be addressed in a rate case
23 filing. But, beyond that, also to address certain issues
24 that we were aware were of concern to the Staff from prior

1 dockets, including both the KeySpan/National Grid merger
2 proceeding and other recent dockets involving KeySpan. We
3 believe that the filing is comprehensive in that regard,
4 and we hope that we have done a good job of addressing
5 those issues that were of concern to the Staff.

6 It is worthy of note that this is the
7 first base rate case that this company has filed in 17
8 years. Since its last base rate increase, the Company has
9 been able to maintain its rate stability through merger
10 synergies, cost reductions and sales growth. And, as set
11 forth in the testimony, that has been during a period when
12 prices generally in the economy have increased by nearly
13 50 percent as a result of inflation. In recent years, the
14 Company has experienced significant decreases in its
15 average use per customer as a result of customer
16 conservation and energy efficiency improvements. And, in
17 addition, just since 2001, the Company has invested more
18 than \$62 million in non-growth-related capital projects to
19 improve its system reliability and the safety of the
20 distribution system.

21 So, it is as a result of all of those
22 influences combined that the Company's earned rate of
23 return for the test year, which is the year ended June
24 30th, 2007, was only 3.94 percent. And, that's as

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1 compared to its last allowed rate of return of
2 9.83 percent, and the overall rate of return being
3 proposed by the Company in this rate case of 9.26 percent.
4 Obviously, a significant level of under earning.

5 As a result of that, the Company's
6 filing seeks an increase in annual revenues of about
7 \$10 million. And, that represents an increase on average
8 of 5.6 percent on a customer's total bill. For the
9 Commission's information, the full panoply of rate impacts
10 by class is set out on the Report of Proposed Rate
11 Changes, which is Tab 12 of Volume I of the initial
12 filing.

13 With regard to temporary rates, the
14 Company is proposing that temporary rates be effective as
15 of August 24 of this year, and that's consistent with the
16 settlement agreement in the KeySpan/National Grid merger
17 docket. The Company is proposing temporary rates that
18 would produce an increase of approximately \$6.6 million on
19 an annual basis, which is an average increase of
20 3.75 percent per customer.

21 From a rate design standpoint, the
22 Company is proposing to set the customer charge for each
23 rate class at a level that's closer to the marginal cost
24 to serve the class, and to reduce the tail block and head

1 block charges. That proposed rate design is intended to
2 allow the Company to recover more of its fixed costs to
3 serve through a demand base rate, and reduce its reliance
4 on a revenue stream that is based on variable charges
5 associated with customer use. It reflects the fact that
6 the Company's base rates are primarily intended to recover
7 fixed costs that the Company incurs regardless of the
8 level of consumption. And, I know that NHLA, in
9 particular, has expressed some concern about how that type
10 of change in rate structure relates to the Company's and
11 the Commission's goals in terms of energy efficiency.
12 And, I would note that conservation efforts by customers
13 under this proposed rate structure, rate design would
14 still result in significant savings for them, because the
15 commodity charges that they pay, especially if you
16 consider the cost of gas component, not just base rates,
17 will be about 70 percent of their total bill. So, by
18 conserving on usage, they will still have significant
19 savings, and the incentive for conservation and energy
20 efficiency will remain.

21 The Company's filing also includes what
22 it refers to as an "OPEB Reconciliation Adjustment
23 Mechanism". "OPEB" is post retirement benefits other than
24 pensions. And, as the Commission knows, there are

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1 reconciling mechanisms, most notably the cost of gas
2 mechanism, that it has approved from time to time, where
3 there are rapidly fluctuating costs that a utility incurs
4 and over which it has little or no control. We believe
5 the OPEB expense is just such an expense. Similar to the
6 commodity cost of gas, it varies significantly from year
7 to year. In this case, it varies because of rules that
8 are established by FASB, the Financial Accounting
9 Standards Board, which dictates how those are calculated,
10 and they can go up and down quite a bit from year to year.
11 The goal is to ensure that the Company recovers no more
12 and no less than its actual expense. And, the risk is
13 that, without such a mechanism, when the rates are set at
14 a given point in time, the Company may actually
15 significantly over recover, and in another point in time
16 under recover that expense, if one just looked at the test
17 year and locked in that figure. And, we think this would
18 be an appropriate way to address that concern and
19 beneficial to both the Company and customers.

20 Briefly, other points addressed in the
21 filing. Consistent with a prior settlement agreement with
22 the Staff, the Company has submitted a proposal for
23 changes in its customer collections process and submitted
24 the accompanying projections of cost changes that that

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1 would result in. The Company expects to meet with the
2 Staff and parties to discuss that proposal and come to
3 agreement on any modifications to the Company's collection
4 process.

5 The Company has also set forth its
6 proposal for dealing with emergency response times, which
7 were agreed in the merger settlement agreement that those
8 costs would be recoverable through this rate case, once
9 fully implemented. And, so, those costs are subject to
10 review in this case.

11 The Company has performed a new
12 depreciation study, and, as a result of that study,
13 adjusted the depreciation rates, and that results in a
14 near for a change in the rates in this case as well. In
15 addition, the Company's rate case goes through
16 item-by-item all of the compliance items in the merger
17 settlement agreement and demonstrates how those were
18 complied with.

19 Lastly, a couple of other small items.
20 You've noticed, obviously, that we've used the "National
21 Grid" name in this case for the first time and not the
22 "KeySpan" name. That is because, in the coming months,
23 the Company plans to begin using the National Grid name
24 publicly with its gas customers. And, as part of the

1 compliance filing at the conclusion of this case, we would
2 expect to submit an entire new tariff changing the
3 "KeySpan" name throughout to "National Grid NH".

4 And, there's one short piece of
5 testimony which will need to be added to the filing as
6 soon as it's available. Mr. Gobel submitted some
7 testimony on cash working capital, that did not include
8 his calculation of the working capital for the non-gas or
9 O&M expenses. That is currently being completed and will
10 be submitted as soon as it's ready. It will have some
11 kind of impact on the revenue deficiency being requested,
12 but we wanted to alert both the Commission and the Staff
13 and parties to that.

14 Thank you very much.

15 CHAIRMAN GETZ: Thank you. Mr. Bohan.

16 MR. BOHAN: Nothing.

17 CHAIRMAN GETZ: Mr. Linder.

18 MR. LINDER: Yes. Thank you, Mr.

19 Chairman. We did file yesterday a document entitled
20 "Preliminary Statement of Position of Pamela Locke", and I
21 assume the Commissioners have that in front of them. I
22 see that you do.

23 CHAIRMAN GETZ: Yes, we have it.

24 MR. LINDER: And, accordingly, I'll just

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1 make a very brief opening statement. The Preliminary
2 Statement of Position, the written one, lists a number of
3 concerns that we have. One which, of course, is that
4 Ms. Locke, being a low income client, is concerned about
5 the impact of the rate increase on low income customers,
6 many of whom are on the residential R-4 low income rate,
7 some, though, are also on the regular residential R-3
8 heating customer rate. So, the concern really affects low
9 income customers who are on both of those rates.

10 Along with that, as the Commission
11 knows, the Commission has approved in the past a low
12 income discount. And, we note that the filing does not
13 make any proposal with respect to a low income discount
14 itself, and as to whether that discount itself should be
15 increased to mitigate the impact of the proposed rate
16 increase.

17 The third concern we have is partially
18 because of the rate design that currently exists, which
19 will be further impacted by the proposed rate design
20 changes, is the -- what we see as a disparity in the
21 impact of the rate increase on residential customers,
22 depending on the amount of therms that they use. And, so,
23 if one would look at the typical bill analysis charts that
24 are attached, one would see that, for the lower users, the

1 percentage impact, percentage increase is higher than for
2 the higher users. So, that is a concern we have that
3 extends across both the R-3 and R-4 class, as well as the
4 non-heating class, the R-1. And, that leads to a concern
5 that we have about the design of the rates, which is it
6 rates -- the per therm charges are set up in two blocks,
7 it's a declining block, so that the more expensive therms
8 are in the initial block. And, we see that as a rate
9 design that does not promote conservation. It can really
10 have an incentive of increasing consumption, and that may
11 be, in part, why the impact of the rate increase is higher
12 on the low use customers.

13 We have a concern about the combination
14 rate design changes that significantly increase the
15 customer charge and reduce the per therm charge. The
16 effect of which is to recover the bulk of the revenues in
17 the customer charge, the fixed charge, and that is a -- so
18 that, regardless of usage, it just creates a minimum bill
19 that now the customer charge is doubled.

20 We also have a concern regarding the
21 temporary rates. I know this may be -- appear premature,
22 but I thought we would put it out at this point. While
23 there may not be an objection to temporary rates, a
24 reasonable level of temporary rates are being requested,

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1 the concern is the Company's proposal to put into effect,
2 along with the temporary rates, the proposed rate design
3 changes, which have the impact that I described earlier.
4 And, the concern would be that the Commission will not
5 have had the opportunity to determine the justness and
6 reasonableness of the proposed rate design changes when
7 and if temporary rates go into effect. So, our concern
8 would be whether the proposed rate design changes should
9 be permitted to go into effect as part of the temporary
10 rates, even though the amount requested might go into
11 effect.

12 Those are our preliminary concerns.
13 Thank you very much.

14 CHAIRMAN GETZ: Thank you.
15 Ms. Hollenberg.

16 MS. HOLLENBERG: Thank you. The Office
17 of Consumer Advocate is interested in all the issues that
18 the Commission identified in its order of notice on Page
19 4, except for the Company's proposal to eliminate the 280
20 day sales service and interruptible sales service. On
21 most of the remaining issues, the Office of Consumer
22 Advocate has yet to form a position at this early point in
23 the proceedings. One component of the temporary rates
24 issue, however, the OCA does have a position. The OCA

1 objects to the Company's request to implement the
2 temporary rate increase in accordance with the rate design
3 proposal set forth in the Company's permanent rate filing.

4 Generally speaking, the Company's
5 proposed doubling of the customer charge and reduction of
6 usage rates is a significant change in rate design. As
7 such, it will require a thorough examination more
8 appropriate to the permanent rate portion of these
9 proceedings. The Office of Consumer Advocate has spoken
10 with the Company about its concerns about the rate design
11 of temporary rates and remains hopeful that a negotiated
12 resolution will be reached on this issue.

13 With regard to the permanent rate
14 filing, the Office of Consumer Advocate is particularly
15 interested in the following issues: The proposed rate
16 design, return on equity, and the proposed reconcilable
17 surcharge for pension and OPEB costs. The OCA will also
18 focus its attention on any proposed 12 month pro forma
19 expense adjustments, the calculation of the weather
20 normalization offset, and bad debt issues.

21 With regard to the Company's request to
22 waive PUC 1604.01(a)(25), the Office of Consumer Advocate
23 takes no position. Thank you.

24 CHAIRMAN GETZ: Thank you. Mr. Damon.

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1 MR. DAMON: As the Company stated,
2 EnergyNorth last filed for a general rate increase in
3 1991, and, since that time, has been through two mergers,
4 the most recent of which took place last August.
5 Consequently, the filing is very comprehensive, addressing
6 normal areas of concern, such as rate design,
7 depreciation, cost of capital. But, in addition, the
8 Company has proposed a pension and OPEB adjustment
9 mechanism, change in its main extension policy, the
10 elimination of the 280 day and interruptible sales
11 service. And, pursuant to the terms of the approved
12 merger settlement, has filed a comparison of the merger
13 benefits to New Hampshire customers with the merger
14 benefits to the New York customers.

15 EnergyNorth also requests a waiver of
16 certain filing requirements related to the parent
17 company's books. Under the approved merger settlement
18 agreement, EnergyNorth cannot implement a rate change
19 until August 24, which is one year from the date of the
20 merger. Staff will be able to provide testimony regarding
21 the appropriate revenue requirement to be recovered
22 through temporary rates, but it is opposed to implementing
23 temporary rates under the rate design proposed by the
24 Company. The proposed rate design is a major departure

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1 from that currently in effect, with a doubling of the
2 customer charge and rate impacts that vary significantly
3 between customer classes and within customer classes.
4 And, implementation of the proposed rate design should not
5 be done on an expedited schedule.

6 Staff expects to carefully explore the
7 substantive issues involved in the filing, as it would in
8 any rate case. One of the issues the Staff will be
9 certainly interested in scrutinizing further would be the
10 request for this OPEB Reconciliation Mechanism, and
11 whether -- and, if so, to what extent the proposal differs
12 from the proposal that Unitil put forth to the Commission
13 a couple of years ago and the Commission ruled on.

14 In addition, Staff expects to carefully
15 scrutinize any rate case expenses sought to be recovered
16 from ratepayers for reasonableness and prudence. As we
17 saw in the Unitil base rate case, those expenses can
18 become quite large with the use of outside consultants and
19 attorneys, and it's important the Company conduct the case
20 efficiently and economically.

21 Staff does not object to EnergyNorth's
22 request for a waiver of certain provisions of PUC
23 1604.01(a)(25), related to certain -- related to filing
24 certain information about the parent company. Since the

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1 parent company is a very large, international electricity
2 and gas company, it's reasonable to assume that much of
3 the financial information regarding the parent company
4 required pursuant to the Commission rules is of little or
5 no relevance to the Commission review. However, Staff
6 does reserve its right to request that information through
7 discovery, if it should subsequently determine that such
8 information is relevant. Thank you.

9 CHAIRMAN GETZ: Thank you. All right.
10 Is there anything else that we need to address this
11 morning then?

12 (No verbal response)

13 CHAIRMAN GETZ: Okay. Then, I guess at
14 this point we'll close the prehearing conference, and
15 we'll await a recommendation from the parties as to a
16 procedural schedule, and we'll approve a procedural
17 schedule as soon as we get a recommendation. And, let me
18 just make sure, is there nothing else that we need to
19 address?

20 (No verbal response)

21 CHAIRMAN GETZ: Okay. All right. Then,
22 we'll close the prehearing conference. Thank you,
23 everyone.

24 (Whereupon the prehearing conference ended at 10:37 a.m.)

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