STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 13, 2014 - 10:32 a.m.
Concord, New Hampshire

RE: **DG 13-086**
NORTHERN UTILITIES, INC.:
Notice of Intent to File Rate Schedules.
(Hearing on Settlement Agreement regarding permanent rates)

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Martin P. Honigberg

Sandy Deno, Clerk

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
Gary Epler, Esq.

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Stephen P. Frink, Asst. Dir./Gas & Water Div.
Leszek Stachow, Gas & Water Division

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

ORIGINAL

I N D E X

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CHAIRMAN IGNATIUS: All right. We're on the record. I'd like to open the hearing in Docket DG 13-086. This is Northern Utilities' 2013 rate case.

And, let's begin first with appearances.

MR. EPLER: Yes. Good morning, Chairman, Commissioners. My name is Gary Epler, counsel for Northern Utilities. And, with me this morning, to my right, is Thomas Meissner. He's the Chief Operating Officer of Unitil and the Senior Vice President of Northern Utilities. And, to his right is Mark Collin, the Chief Financial Officer at Unitil and Treasurer of Northern Utilities. And, then, at the end is David Chong. He's the Director of Finance at Unitil and Assistant Treasurer of Northern Utilities. And, behind me is Douglas Debski. He's a Senior Regulatory Analyst with Unitil. And, Ben Coons is a Senior Financial Analyst with Unitil. Thank you.

CHAIRMAN IGNATIUS: Good morning. Welcome, everyone.

MS. HOLLENBERG: Good morning. Rorie Hollenberg and Stephen Eckberg, here for the Office of Consumer Advocate.

CHAIRMAN IGNATIUS: Good morning.

MR. SPEIDEL: Good morning. Alexander Speidel, representing the Staff of the Public Utilities Commission. And, I have with me Stephen Frink, Assistant Director of the Gas and Water Division, and also Leszek Stachow, who is an analyst with the Gas and Water Division.

CHAIRMAN IGNATIUS: Good morning. We have -- I know that the Settlement Agreement was filed on March 5th, and some additional testimony on the Agreement. What's the plan for proceeding this morning?

MR. EPLER: Yes. The Company is prepared to present a panel of two witnesses, and I believe the Staff witness, Mr. Frink, is going to join them as part of the panel.

We have prepared, and I believe in front of you, there is a document "Proposed Exhibit List", which runs through all the exhibits we propose to introduce. I think there's agreement among the parties to waive the testimony, the initial testimony that's been filed and the attachments to that testimony. So, we don't have to walk through that. And, so, we can proceed right to that panel. The panel members are prepared to describe the Settlement Agreement and answer any questions.

CHAIRMAN IGNATIUS: All right. Any

further comment on that? Any objection?

(No verbal response)

CHAIRMAN IGNATIUS: It's very helpful having the Exhibit List. So, thank you. Then, why don't we go ahead and seat the panel.

(Whereupon ***Mark H. Collin***, ***Thomas P. Meissner, Jr.***, and ***Stephen P. Frink*** were duly sworn by the Court Reporter.)

MR. EPLER: Okay?

CHAIRMAN IGNATIUS: Please proceed.

MR. EPLER: Thank you.

MARK H. COLLIN, SWORN

THOMAS P. MEISSNER, JR., SWORN

STEPHEN P. FRINK, SWORN

DIRECT EXAMINATION

BY MR. EPLER:

Q. Mr. Collin, could you state by whom you're employed and the position that you have with that company?

A. (Collin) Yes. I'm the Chief Financial Officer of Unitil Corporation, and I'm also the Treasurer of Northern Utilities, the subject of this proceeding today.

Q. Mr. Meissner, the same question please.

A. (Meissner) I am the Chief Operating Officer of Unitil Corporation and Senior Vice President of Northern Utilities.

Q. And, Mr. Frink.

A. (Frink) I'm the Assistant Director of the Gas and Water Division of the Public Utilities Commission.

Q. And, Mr. Collin, in terms of your involvement in this docket, you prepared prefiled direct testimony that was submitted with the initial filing, is that correct?

A. (Collin) Yes, I did.

Q. And, you also answered various data requests, and you participated in technical sessions, and also in the negotiation of the Settlement Agreement, is that correct?

A. (Collin) Yes.

Q. And, Mr. Meissner, you also prepared direct testimony and schedules, and answered data requests, participated in technical sessions, and also participated in the negotiation of the Settlement Agreement?

A. (Meissner) Yes, I did.

Q. And, Mr. Frink, you also asked -- propounded discovery requests on the Company, reviewed the filing, and oversaw the -- or, at least saw the results of the Staff audit reports, and negotiated the Settlement

Agreement on behalf of Staff, is that correct?

A. (Frink) Yes, I did.

MR. EPLER: Okay. Thank you. Chairman Ignatius, do you want me to go through the Exhibit List now? Is that necessary, just to list what's been -- what we propose to premark?

CHAIRMAN IGNATIUS: Well, I think you don't need to go in all the detail you've listed here, but up through --

MR. EPLER: Perhaps I can summarize it this way.

CHAIRMAN IGNATIUS: Okay.

MR. EPLER: The Company has prepared and submitted to the Clerk a Proposed Exhibit List that lists all the documents that the parties jointly propose to make exhibits in this proceeding. And, we'll be referring to them or to a few of them during the hearing this morning.

CHAIRMAN IGNATIUS: All right. Why don't we -- initially, the Exhibit 1 is already marked and in the file. Exhibit 2 is the multi-volume notebooks, and that contains all of the testimony and some schedules. So, why don't we mark that for identification as Exhibit 2.

(The document, as described, was

herewith marked as **Exhibit 2** for identification.)

CHAIRMAN IGNATIUS: And, you've marked the Settlement as "Exhibit 3" for identification.

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

CHAIRMAN IGNATIUS: From that point on, I don't know if Mr. Speidel is going to be presenting the Staff testimony or not. I don't know how you're playing this out, either way. We can either mark them all for identification or you take them one by one. Since it's understood everyone's agreeing, I think there's no problem in marking them for identification. So, that would be through Exhibit 6, correct?

MR. EPLER: Yes.

MR. SPEIDEL: Yes.

CHAIRMAN IGNATIUS: All right. That's fine.

(The documents, as described, were herewith marked as **Exhibit 4**, **Exhibit 5**, and **Exhibit 6**, respectively, for identification.)

BY MR. EPLER:

Q. Okay. Mr. Collin, the Settlement Agreement that was filed on March 5th, 2014 has been marked as -- premarked as "Exhibit 3". If I could draw your attention to that, to the Agreement itself. Could you please describe the Settlement Agreement. What are the components of it?

A. (Collin) Yes. Let me, again, good morning, Chairman Ignatius, Commissioner Scott, and Commissioner Honigberg. Nice to be here today. It's really a pleasure to present and support the Settlement between the Company and the Staff and the OCA in this docket and working with them. The Settlement Agreement is relatively straightforward, has essentially four sections to it. The most important section is -- the first section provides a procedural history of the docket. But the second section is the main section and describes the various rate increases agreed to by the parties, including the cost of capital, rate design, step increases beyond the initial rate increase that's recommended in this Settlement. It also discusses a rate case "stay-out" provision, which I'll talk about in just a moment, which is coupled with some other factors, including an "exogenous event" provision, allowing for increases under exceptional circumstances during the stay-out period. And, it also includes an earnings sharing mechanism, and basically a provision that provides for a sharing of earnings above a certain ROE, which I'll talk about in a minute as well.

There is also provisions relative to the recoupment of the difference between the temporary rates which are now in effect in this proceeding and the permanent rates. And, then, finally, there is a provision relative to the recovery of rate case expenses.

Q. And, could you describe the exhibits that are attached to the Settlement Agreement.

A. (Collin) Yes. There are 10, 10 exhibits attached to the Settlement Agreement. And, I'll refer to some of them as we discuss in a little more detail the Settlement Agreement.

The first exhibit provides the revenue requirement schedules, which form the basis for the initial rate increase, the permanent rate increase that's recommended by the parties in the Settlement Agreement.

The second exhibit takes that revenue increase, and a portion of it is attributed to the Cost of Gas as an indirect gas cost. So, a portion of it is allocated to that component, and so that supports that allocation to the Cost of Gas.

The third exhibit, Exhibit 3, is the allocation of the revenue increase to each of the customer classes. The total revenue increase needs to be allocated to each customer class, and that's supported by Exhibit 3.

Exhibit 4, as I'll talk about in a minute, there are step adjustments in this Settlement Agreement. And, Exhibit 4 supports the calculation of the step adjustment, in particular, the one for May 1st, 2014, and also provides a projection for the step adjustment for May 1st, 2015.

Exhibit 5 provides the rate design and the distribution rates, including the step adjustment. So, in that exhibit, you can see how the rates -- how the revenue will be collected, and how the rate design is changing relative to the permanent rates, as well as the step adjustment.

Exhibit 6, as I indicated, there is a reconciliation between the permanent rates that the Commission will approve versus the temporary rates that are in place now. So, this supports that reconciliation and the calculation of that difference for collection.

Exhibit 7 provides the rate case expenses and details those out, and also provides the calculation of their collection.

Exhibit 8 provides the bill impacts or the impacts on each of the customer classes as a result of these rate increases. It provides significant detail relative to the different impacts at different levels of usage and different types of customer classes.

Exhibit 9 provides some revisions agreed to in the Settlement to the service quality metrics. There were some revisions proposed during the settlement process to the service quality metrics, and that is included in Exhibit 9.

And, then, finally, Exhibit 10 are all the tariff pages incorporating all the changes as a result of the Settlement Agreement, and some other housekeeping items that are typical when you file a rate case to clean up various aspects of your tariff and bring them current, if you will.

Q. Can you provide a short overview of the procedural history of the case?

A. (Collin) Yes. The Company filed this case almost eleven months ago, in April 2013. The Company's initial filing sought an annual increase in revenues of about 5.2 million, and also proposed implementing a multi-year rate plan, that was essentially structured around a capital tracker mechanism, that would allow the Company to stay out of base rate cases over a period of time by implementing the capital tracker mechanism, and that had a number of features to it as well. We also proposed some certain rate design changes in our filing. And, then, finally, as typical of a rate case filing, it also included a component for temporary rates. And, we were seeking an increase initially of 2.5 million associated with the temporary rates.

The Company's initial case, we had five witnesses from the Company in that case. We also had three outside witnesses. The Staff has also filed testimony, as the Commission is aware. After the negotiation of the Settlement, Mr. Frink filed that testimony. And, his testimony summarized our filing, and also reviewed that filing. And, Mr. Frink also reviewed the Settlement Agreement in his testimony. I think that was very helpful. And, he explains in his -- from the Staff's perspective why this is in the public interest.

The OCA did engage a consultant during the settlement process. And, we were involved in several discussions with the OCA's witness. And, they were helpful, I think, in many aspects of the Settlement and the development of that Settlement. While they did -- although they did not file testimony, they had a significant role during the Settlement discussions.

In addition to that, during the course of the proceeding, the Audit Staff of the Commission did conduct and prepare an audit report on all the test year financial information that the Company used in developing its rate case proposal. The results of that audit report were filed in October of last year, late October, October 25th, 2013.

The Audit Staff also did conduct an audit of the Company's rate case expenses more recently. And, that audit -- that audit went through all our documentation of rate case expenses and invoices, and found no exceptions. Although, the audit did note that there would be no interest allowed on any deferred rate case expense collection or carrying charge associated with that deferral, consistent with the Commission's current 1900 rules. And, the Company agrees to that, and that is a correct interpretation of the 1900 rules. And, there are, as far as we know, there are no outstanding issues remaining as a result of those audits.

More recently -- your Audit Staff has been very busy. They are a very busy bunch. More recently, they did complete an audit of the step adjustment plant additions that are included in the 2013 plant additions and that are included in this 2014 step adjustment. And, that audit also did not find any exceptions and was able to reconcile the step adjustment to the general ledger of the Company and all its plant accounts.

So, in the course of this proceeding, the Staff has completed three very comprehensive audits. And, I really do compliment them for the effort and the work they do in that area.

And, in summary, the Settlement, you know, it's been an 11-month process. It's a very complex, very involved process. Everybody puts in a lot of effort and a lot of work. And, the Settlement today is a culmination of that multi-month process. Including there is advocacy going on, as you'd expect.

There's the audits, a lot of discovery, a lot of back-and-forth in the settlement process, in addition to the prefiled testimony that's been filed, and the additional testimony of Mr. Frink. We've had several face-to-face technical sessions and meetings to go over the information. The Staff has met with our consultants and spent time with the Company. And, so, I think that the Commission, if I can express anything, should feel a great comfort that there's a lot that went into this Settlement and a lot of process and a lot of participation by both the Staff, the OCA, and a lot of sharing of data and information and audits and such, so that it was a very complete and robust process.

MR. EPLER: Madam Chairman, I would just note that the audit reports that were discussed, those, all four audit reports have been premarked as "Exhibit 5".

CHAIRMAN IGNATIUS: Thank you.

MR. EPLER: The other point that I would note, there was -- Mr. Collin discussed the rate case expenses. The Company has not officially filed the rate case expense documentation yet in this docket. We provided them to Staff as part of the audit. And, we will be making that filing so all the documentation of the rate case expenses are in the docket. And, I hope to file that tomorrow, so that that will be available and part of the record.

CHAIRMAN IGNATIUS: And, that would be available to the OCA as well?

MR. EPLER: Yes. Absolutely.

CMSR. SCOTT: And, I assume that, from your statement, there's no changes, obviously, from what you expect?

MR. EPLER: There are no changes from what was provided to the Staff auditors. Other than, as part of the rate case expense recovery, we usually flow through any expenses that the Staff incurred, if they hired an outside consultant. So, we have not yet incorporated that into it. That would be the only change. And, that would be the only change to the total that you see of the $288,000 of rate case expenses.

WITNESS COLLIN: But I believe, as a point of clarification on that, the rate case expenses, as we presented in the Settlement Agreement, are what will go into the rate case recovery. And, then, any changes for items that may come up after that rate goes into effect will be part of the reconciliation. Because it's recovered on a per therm basis, the recovery is not perfect. There can be over- and under-collections. So, any changes in expenses will just be part of that process.

CHAIRMAN IGNATIUS: Thank you.

BY MR. EPLER:

Q. Okay. Mr. Collin, could you please turn now to the body of the Settlement Agreement, Section 2, which memorializes the Settling Parties' agreements regarding revenue and rate changes. And, could you please describe those rate changes.

A. (Collin) Yes. I'm going to be on Page 4, I think, where the rate changes really begin of the Settlement Agreement. And, this is Section 2.1. It provides for an annual increase in revenues of just a little under 4.6 million, effective May 1st, 2014. Of this increase, approximately 4.4 million will be collected in the gas distribution rates, and just a little over 200,000 will be collected in the Cost of Gas Adjustment as a component of indirect gas costs. The annual increase was determined using the capital structure and weighted cost of capital that's presented in Section 2.2, and that includes a return on equity of 9.5 percent.

Q. Now, looking at Page 5 of the Agreement, at the top of that page there is a schedule showing the cost of capital and capital structure. Now, drawing your attention to the line for "Long-Term Debt", is the cost of long-term debt that's included in the capital structure the actual cost of the Company's long-term debt?

A. (Collin) Yes. That reflects the actual weighted cost of its long-term debt.

Q. Okay. And, in the Settlement Agreement approved by the Commission in Docket DG 08-048, which was the docket that provided for Unitil's acquisition of Northern Utilities, is it correct that the Company agreed to impute in rates the then existing cost of debt of the Company prior to its acquisition by Unitil until that debt would have matured?

A. (Collin) Yes.

Q. Okay. And, now that debt has matured, is that correct?

A. (Collin) Yes.

Q. And, so, the Company included in this filing the actual cost of debt when it calculated its capital structure?

A. (Collin) That's correct.

Q. Okay. Thank you. Could you please describe the step increases?

A. (Collin) Yes. Section 2.4 is the provisions relative to the step increases in the Settlement. So, in addition to the annual increase, the Settlement provides for two step increases, to recover the revenue requirements associated with certain investments in gas main related plant that the Company has made or will be making in 2013 and 2014. These are the first two years following the test year used to set the rates.

Under the Settlement, the first step adjustment will be effective May 1st, 2014, which is the same date that the annual revenue increase rates go into effect, and results in an additional increase of about 1.4 million, or 2.5 percent over the test year operating revenue, to recover the annual revenue requirement associated with the Company's 2013 investment in essentially three areas. One is mains expansion, so where we expand our mains, the investment we make to expand our mains. Two is our Pipe Replacement Program. There is investments related to mains in our Pipe Replacement Program, which is safety-related replacements of bare steel and cast iron that the Company is undertaking. And, then, three, our main replacement activities associated with state and city projects or municipal projects, where the Company is required to replace its facilities, along with infrastructure improvements and such that the state or the city is doing, and requires the Company to move its facilities or replace those at those times. So, those are the three categories that would be included in this step.

CMSR. SCOTT: Can you clarify for me? You used the term "expand" your mains. Are you talking "extensions" or are you talking about increasing size of the mains?

WITNESS COLLIN: It's primarily new main in new areas.

CMSR. SCOTT: Okay.

WITNESS COLLIN: So, it's increasing the miles of mains.

CMSR. SCOTT: Thank you.

CONTINUED BY THE WITNESS:

A. (Collin) We prepared a schedule that I think will help take all the different rate changes that are going on in the Settlement Agreement, relative to the annual increase, the step adjustments, the rate case expense recovery, the temporary rate reconciliation. And, I thought that this would be a helpful way to present to the Commission the timing and the impacts of the various rate changes.

MR. EPLER: Yes. Chairman and Commissioners, this is before you. It's a single sheet of paper that's been marked as "Exhibit 6".

CHAIRMAN IGNATIUS: Thank you.

BY MR. EPLER:

Q. Okay. Mr. Collin, could you describe what's on this exhibit.

A. (Collin) Sure. Yes. So, if we look at the first column, labeled "May 1st, 2014", the initial increase will reflect the permanent rate annual increase and the first step adjustment. However, as you can see here, the annual permanent rate increase, a portion of that is already included in rates through the temporary rates of about 2.5 million. As a result of that, the amount of the annual increase will reflect only the amount over and above the temporary rates that are already in place.

In addition, on May 1st, 2014, the Company will begin the recovery of the difference between the temporary rates that have been in effect and the recovery of the rate case expense over the ensuing 12-month period.

So, if you take all these together, what you find at 2,000 first -- on May 1st, 2014, rates will be adjusted by the annual increase, net of the temporary rates now in place; the first step adjustment of approximately 1.4 million, as shown here in this exhibit, and it's further supported in Exhibit 4 of the Settlement; and then the temporary rate recoupment of about 1.1 million over the 12-month period, and that is supported in Exhibit 6 of the Settlement; and, then, finally, the recovery of rate case expenses of just under 300,000 over a 12-month period as well.

As a result of all these changes taking place on May 1st, 2014, the initial revenue increase we will see on May 1st, 2014 is 4.8 million, which represents about 8.8 percent of the test year operating revenue.

Now, the second step adjustment is shown on May 1st, 2015. And, that is projected to result in an initial revenue increase/step increase of just a little over 1.4 million, to recover the annual revenue requirement associated with the 2014 investments in the same eligible facilities.

I'll point out that that step adjustment is a projection at this time. It is subject to a cost cap, that the investments cannot exceed 12 million. So, it has a protection measure in there to keep it from exceeding a certain level. It is also subject to an ROE incentive that's explained in the Settlement Agreement, that scales between 9.25 percent and 9.75 percent. And, it's based on the net change in the number of customers or meter count at the end of the year compared to the prior year. And, basically, what it's incenting the Company to do is to add customers. The more customers that the Company can add to its system, the probability -- the greater probability that it will earn a slightly higher ROE on this investment, just on this incremental investment. It doesn't change the investment on the rate case total plant that's in service, but it's just on this incremental component of investment.

Now, importantly, the second step adjustment will be offset by the removal of the temporary rate recoupment, as well as the rate case expense recovery. So, from a customer perspective, if you're looking at it from a customer perspective, they will see very little rate change on 2015 in total as a result of the step adjustment.

Q. Okay. Could you now move on and describe the Rate Stay-Out and related provisions, the exogenous changes and the earnings sharing?

A. (Collin) Yes. The Settlement also contains additional provisions, including a Rate Case Stay-Out provision, an Exogenous Cost Factor, and an Earnings Sharing Mechanism. Section 2.1 of the Settlement provides that the Company's next filing of a distribution rate case shall be based on a test year of no earlier than the 12 months ended December 31st, 2016. As a result of that, once the initial increase of gas distribution rates takes effect on May 1st of this year, which is what we just looked at in Exhibit 6, this Stay-Out provision, coupled with the relatively limited net change in rates projected for 2015, which we just talked about, will result in gas distribution rates remaining relatively flat or stable through at least the middle of 2017, or for about the next three years. So, after this initial increase, we expect distribution rates to be essentially flat for at least a three-year period, depending on whether or not the Company files a rate case sometime in 2017.

That would be subject to the Exogenous Cost events and the Earnings Sharing mechanism, which are important provisions of the Stay-Out. Section 2.5 details the Exogenous Cost provision and lays out that scenarios that will allow the Company to adjust its distribution rates, upward or downward, due to exogenous events, if the total impact on the Company is greater than 200,000. So, if the event is a greater than $200,000 impact, either positive or negative on the Company, then there could be an adjustment for that exogenous event. If these events do occur, the Company will file a Certification of Exogenous Events by February of the following year detailing the impact. We will also file a certification saying "there is no exogenous events." So, either way, we will notify the Commission of that. And, additionally, the Staff and the OCA also have the ability to request an Exogenous Event change during the period of the Rate Stay-Out.

Section 2.6 provides an additional customer protection, and it's an Earnings Sharing mechanism, which will be assessed in the years 2014, this year, 2015, and 2016. Under this mechanism, the Company will retain all earnings up to an ROE of 10 percent. Earnings in excess of 10 percent, and up to 11 percent, will be shared equally between the Company and customers, 50/50. And, then, earnings in excess of 11 percent will be returned entirely to customers. So, to the extent that there's any earnings above 11 percent, that would be returned entirely to customers.

The earnings test we will use to determine the ROE will be calculated based on the Company's annual F-1 filing, which it makes with the Commission now, and will be subject to the standards and conditions of that F-1 filing that's currently in place.

Q. Could you now turn to the issues of revenue allocation and rate design, which are addressed in Section 2.3.

A. (Collin) Yes. Section 2.3, in Section 2.3, lays out that, to support the Company's class revenue allocation and rate design for the recovery of the revenue requirement, all of which is shown in Exhibit 3 of the Settlement Agreement, the Company filed both accounting and marginal cost studies. The final rates, however, reflect a compromise between the parties to reach a settlement. The rate design agreed upon reflects an increased recovery of the Company's cost of service through the fixed customer charge and a decrease in the dependence on volumetric charges for the collection of distribution costs. This will result in reduced weather volatility in customer bills, less seasonality in customer bills between the summer and winter periods, and the Company believes that it is a fairer and a more appropriate allocation of costs to provide service to customers.

Q. And, finally, can you please describe the "Other Provisions", the tariff changes, which are found in Section 3 of the Agreement?

CMSR. SCOTT: Sorry to interrupt, but, while you're on Exhibit 3 of the Settlement, I noticed its marked "confidential", but it's -- way up in the left, upper left-hand corner? I just wanted to clarify if that's the case? It doesn't have a Bates stamp.

MR. EPLER: There is no reason that that's confidential. So, that can be ignored. Thank you for pointing that out.

CHAIRMAN IGNATIUS: Okay. Thank you. So, we'll strike the word "confidential" at the top of those pages of Exhibit 3 of the Settlement Agreement. And, witnesses are okay to testify to the numbers --

MR. EPLER: Yes.

CHAIRMAN IGNATIUS: -- and they can be in the open transcript.

MR. EPLER: Yes. I apologize. It got past us.

BY MR. EPLER:

Q. Okay. Mr. Collin, I think you were about to turn to that section, Section 3.

A. (Collin) Yes. In addition to the rate changes that

I've just discussed, the Settlement contains other provisions and tariff changes that were agreed upon during the settlement process.

Section 3.1 instructs the Company to replace farm taps on an "as needed" basis due to physical deterioration, or as identified in the Company's Distribution Integrity Management Plan. Mr. Meissner can provide more details on the issue, if the Commission has any questions.

Section 3.2 contains minor modifications to customer service metrics, which are detailed in Exhibit 9. Mr. Frink also describes the reasoning behind these changes in his prefiled utility.

And, finally, Section 3.3 details an amended Line Extension Policy, which clarifies and memorializes the Company's existing policy to install up to 100 feet of service pipe at no charge to the customer in order to provide natural gas service. Exhibit 10 are the individual tariff pages incorporated in the Settlement Agreement. These include minor and non-substantive clean-up revisions to a number of existing tariffs.

Q. And, Mr. Collin, I think you already referenced it, but the Settlement Agreement includes an exhibit that shows the estimated bill impacts?

A. (Collin) Yes. Settlement Exhibit 8 provides a full range of seasonal customer bill impacts to be expected as a result of the rate changes that I've discussed, effective on May 1st, 2014.

MR. EPLER: Could we go off the record for a moment please?

CHAIRMAN IGNATIUS: Yes.

(Atty. Epler conferring with Atty. Speidel.)

MR. EPLER: Thank you. I've completed my examination of the panel. Thank you.

CHAIRMAN IGNATIUS: Thank you. Ms. Hollenberg, do you have questions for the panel?

MS. HOLLENBERG: Not at this time. I can wait and do them all, after Mr. Frink and Mr. -- or if Mr. Frink or Mr. Meissner are going to testify? Or is the panel completed?

CHAIRMAN IGNATIUS: I think that was it.

MS. HOLLENBERG: Oh. Okay.

MR. EPLER: Well, I think --

CHAIRMAN IGNATIUS: Did Staff have --

MR. EPLER: -- that the Staff may want to ask some questions of Mr. Frink.

CHAIRMAN IGNATIUS: That's fine. I didn't know if you were doing that on behalf of Staff. Or, Mr. Speidel, --

MR. SPEIDEL: Yes.

CHAIRMAN IGNATIUS: -- why don't you go ahead, if you have questions.

BY MR. SPEIDEL:

Q. Well, ultimately, Mr. Frink, has there -- what you've heard of the testimony thus far, is there any other additional clarification that you'd like to provide regarding your own testimony or the filing at large?

A. (Frink) No. I believe Mr. Collin did a fine job presenting the Settlement and explaining the basis for some of the provisions.

MR. SPEIDEL: Very well. Staff has no further direct questions.

CHAIRMAN IGNATIUS: Thank you. Ms. Hollenberg, questions?

MS. HOLLENBERG: No questions. Thank you.

CHAIRMAN IGNATIUS: All right. Then, questions from the Commissioners? Commissioner Scott, do you have questions?

CMSR. SCOTT: Sure. Good morning.

WITNESS COLLIN: Good morning.

WITNESS MEISSNER: Good morning.

BY CMSR. SCOTT:

Q. In no particular order, I guess this first one would be for Mr. Frink. Your summary, if I -- I don't have it in front of me at the moment, but my notes tell me that you had an attachment to your summary of the Settlement labeled "SPF-3", which compared the Maine and the New Hampshire filings, is that correct?

A. (Frink) Yes. That's correct.

Q. I was just curious what the status of the Maine filing was?

A. (Frink) The Maine filing, they actually have nine points to resolve their rate cases, so it was resolved well in advance of this proceeding. And, it's actually very helpful that it is that way, because we're able to review a lot of their discovery and the process and their settlement, everything else that goes on in it. And, so, essentially, the filings are identical. There may be a few minor differences in the two. But so -- and, also, the Company's consultants, the cost of capital, other consultants, those costs are split between presenting for Maine and New Hampshire. So, it's -- that's been resolved, and we knew the results coming into our settlement discussions. And, some of the issues that were raised in this proceeding were addressed through what was done in Maine. So, it is done, and it was very helpful. And, I think our Settlement is -- it's not identical, because they did approve a TIRA in Maine. But we both have a rate plan that kind of keeps the two, the Company's rate filings on track. So, it's likely that the next proceeding -- the next distribution rate increase that the Company requests will be done in concert with Maine's.

Q. You anticipated my next question. I was -- it sounded like it's, I'm sure it's arduous for the Company, but it sounds like there are some economies to doing both states at the same time, is that correct?

A. (Collin) Yes. Yes. There's, as Mr. Frink described, obviously, the sharing of consultants and such. But I will just tell you, from an internal basis as well, staff resources and focus on the case, it's a much more efficient case when we can do both jurisdictions at the same time.

Q. Great. Well, I'm glad that worked our or seems like it's working out. Another issue I wanted to explore a little bit was the -- I'm intrigued by the variable ROE tied to customer growth. I was curious where the 4.5

percent projection came from. Was that based on assuming this Settlement was approved or was that just business as usual before the Settlement? And, whoever would -- is the best, the best qualified, that's fine.

A. (Meissner) My understanding is that it was actually developed from the projections in my own testimony of our anticipated customer growth over the next few years. So, the 4.5 percent I believe was based on what we had forecast for 2014.

Q. Okay. So, I'll rephrase that. So, is that independent of the ROE incentive that's in this Settlement?

A. (Meissner) It's independent. I will say it offers an incentive, clearly, and meeting that objective is going to be quite difficult. So, I would characterize it as sort of a "stretch objective", in some respects. But we definitely intend to aggressively try to achieve that target this year.

Q. Okay. And, so, the incentive triggers -- the ROE triggers, if I read the Settlement correctly, if you, depending on -- you'll do a comparison 2013 compared to 2014, and that will -- whatever number you get is where the trigger will be for your ROE, correct?

A. (Meissner) That's correct. It will be based on our reported year-end meter count.

Q. Okay. So, going past 2014, 2015, do you still have that incentive?

A. (Meissner) In terms of a financial incentive through the return on equity, we will not. But, in terms of the Company's plans, we're continuing to ramp up to a level of activity, and we don't expect that to come down at any point in the future. We're continuing to try to achieve more and more aggressive targets in the future.

Q. And, again, on the same topic, I notice you changed your -- my understanding is you changed your tariff regarding customer contribution for new customers, if they're within 100 feet of a main, is that correct?

A. (Meissner) That, in fact, had been our practice, but our undocumented practice, in terms of the tariff. So, what we did was formalize that as part of the tariff, to ensure that that remain the practice in the future.

Q. Okay. So, that's not an additional incentive for customers, since you're already doing it or have been doing it?

A. (Meissner) That's correct. And, I think the rationale for it in the past was that the revenue that we would receive from a customer, consistent with our DCF evaluation, would support 100 feet of main or service.

So, theoretically, in the future, there could have been a change. And, this essentially memorializes that as a permanent part of our tariff.

Q. Okay. And, to the extent that, I assume we're talking -- well, I know we're talking about customer growth, because, obviously, the economics of natural gas are such that most people, if they can, would like to get off oil and other more expensive products. Are you seeing -- do you follow or do you -- you have your normal tariff. But, in a hypothetical, you have a new industry coming into your franchise area, in a development that would make sense to have on gas, for your line extension policies, do you try to put those people together or do you let them come to you? How does that work?

A. (Meissner) No, we do have people out actively marketing, and trying to find anchor customers and put anchor customers together in a way that allows us to expand natural gas to an area. And, to provide one example of that, for example. We're actively marketing to a group of customers in Brentwood right now. And, we're hopeful to have that executed in the next month. And, there's four particular anchor customers involved in that, which, if we're successful, will result in a main extension of over four miles. And, we'll then make service available to many other customers along those routes.

Q. Obviously, so, those, you know, to the extent there's an incentive in the ROE, you've officially changed your tariff. Are there other impediments to growth, customer growth?

A. (Meissner) I think the only real impediment that we've experienced to date is customer conversion costs, and customer's own ability to finance their portion of converting to natural gas. And, you know, each year we've been ramping up significantly, and I think we're starting to reach that point where we're seeing the saturation of customer demand. And, as a result of that, we're pursuing some other programs that we hope to make available to customers this year, including financing programs through a local bank. And, we're also evaluating potentially conversion burners as an option, for customers that have equipment that's not that old.

Q. Uh-huh. Interesting.

A. (Frink) I would like to add one thing. It's Staff's understanding that the growth in -- to meet this extraordinary growth, which really, compared to their historical growth, is extraordinary, there is a problem with the number of crews available to do this type of service -- this type of work. And, Northern is forecasting even greater growth in their Maine Division. So, the capacity to be able to do, to meet all the growth that they're forecasting, that's a challenge to them. And that, I think the requests are there to possibly do even greater growth, but that is a limiting factor. So, that was another point in setting an incentive to meet the New Hampshire objective. They don't have a similar incentive in Maine. But, you know, it could be, there's only a limited number of crews that serve both divisions. This hopefully will help them achieve their goals here in New Hampshire. But, hopefully, they can meet their goals in both jurisdictions. But that it is my understanding that that is a -- that there is a limited number of resources for installing mains and services.

Q. Well, we trust they will take care of New Hampshire first, I'm sure.

A. (Frink) They're based here.

Q. Thank you. On a different topic, I wanted to just get a better feeling for the Replacement Program. So, my understanding is the Bare Steel Replacement Program that we're looking at, there's a 2017 target date to finish, is that correct?

A. (Meissner) That's correct. Under the Settlement Agreement when we acquired Northern, we had agreed to replace all bare steel mains by 2017. And, as we're implementing the program, it's our goal to actually complete all bare steel mains, cast iron mains, and bare steel services by that date.

Q. So, will there be a need for a program beyond that?

A. (Meissner) Our system should be constructed of all contemporary materials after 2017, all plastic or cathodically protected coated steel.

Q. Great. And, it goes without saying, any new expansions, you're going to use, obviously, new materials. So, --

A. (Meissner) That's correct. The vast majority of our expansion is plastic, although we do install steel in limited applications.

Q. Okay. And, I think my final question -- well, I shouldn't say that, because I'm sure I'll think of something later.

CHAIRMAN IGNATIUS: We can come back later. Don't worry.

BY CMSR. SCOTT:

Q. Is, in Mr. Norman's testimony in Exhibit 2, he referred to class -- the various classes and subsidization between the classes. And, again, whoever would like to talk about that. Is that a concern I should have with this Settlement?

A. (Collin) No, I don't think so. You know, what we typically do, when preparing a rate case, is we do a fully allocated accounting cost of service study, which is what Mr. Norman prepares, and as well as marginal cost studies. And, what he tries to look at is, is the cost to serve each of the customer classes, not just the total Company's costs, in line with the revenues that you collect from that customer class? And, there are different ways of evaluating that. Again, we filed two studies, a marginal and accounting. They both inform the Company, and different parties look at them in different ways. Some don't like both studies and such. There's a lot of subjectivity and a lot of judgment. But, I think, overall, they help inform. And, in this case, when we look at assigning revenue to the classes, we take in a number of rate design objectives, including, you know, continuity from period to period, fairness, stability. And, I think all that has been taken into account by all of the parties. And that, I think, you know, I can speak for the Company, we're very comfortable with the allocation between the classes at this time.

CMSR. SCOTT: Thank you.

CHAIRMAN IGNATIUS: All right. Commissioner Honigberg, questions?

BY CMSR. HONIGBERG:

Q. I want to make sure someone who is looking this up on the Internet and trying to figure out what the effect on bills would be would know exactly where to look, if they were a customer, relatively educated and knew how to find something. It's in Exhibit 8, right?

A. (Collin) Yes.

Q. And, it looks like the last page would be the place they would want to go to figure out what they might be looking at, because it's a 22-page exhibit with a lot of little type in it. At least that's the residential page.

A. (Collin) Yes. I think Page 24 lays out the most -- if I had to talk to a residential customer and talk about what their monthly bill was going to look like, what are the impacts, this is the type of thing that I would provide them. We typically provide information and training to our Customer Service personnel to help them discuss with a customer what the rate change was, what they can expect for an impact. And, so, they won't provide all this detail, usually it's done over the phone, but they will help a customer understand what's happening, in terms of rate design, as well as impact as well. That's part of our rollout of the rate change.

CMSR. HONIGBERG: That's really all I wanted to talk about. Thank you.

BY CHAIRMAN IGNATIUS:

Q. Let's keep going a little bit on the bill impacts, because it is dizzying. Looking at that Page 24, the bottom line shows the percentage increase for -- this is for a typical residential heat customer, across the year, so they'll have huge fluctuations in terms of winter and summer. But, over the course of the -- you've blocked out month-by-month the changes. And, so, this is showing that both the projected cost of gas that you're just making certain assumptions for periods that are beyond what we're currently in, plus current rates, plus the revenue increase and the first step adjustment, would result in that bottom line of the percentage increase over what they're currently paying or over what they were paying before the temporary rate

amount went into effect?
A. (Collin) It's the latter. Where this is a little different is it basically ignores the temporary rate, takes that out, and says "What were rates before the Company filed its rate case? And, what will they be after the Commission approves these permanent rates?" And, here's the percent change. So, we would expect the change to actually be a little less than this, because we already put in place the temporary rate component.
Q. But you'll also have the adjustment between temporaries and permanents that would have some charge?
A. (Collin) Yes. That's correct.
Q. And, the reason that it fluctuates between November and through April is because of the cost of gas fluctuations, the amount they would be spending in gas costs?
A. (Collin) No. Primarily, the fluctuation is based on the typical usage or average usage during those periods. So, it's more volume-related.
Q. That's what I meant to say. Thank you.
A. (Collin) Yes.
Q. So, it's their usage of gas during that period.
A. (Collin) Yes.

Q. Then, in May, you get -- well, first of all, when does the Cost of Gas change come in, would that be April 1st?

MS. HOLLENBERG: May 1st.

BY THE WITNESS:

A. (Frink) May 1st.

BY CHAIRMAN IGNATIUS:

Q. May 1st. All right. So, those are both happening at the same time. And, May 1st you would have the first step -- I mean, sorry, the second step adjustment kick in?

A. (Collin) That's correct.

Q. And, is that reflected on this chart or not?

A. (Frink) This chart actually includes the rate case expense surcharge and the reconciliation of permanent and temporary rates. If you look at Line 21, you can see those are in there. Now, as Exhibit 6 shows, when those go away, they almost exactly equal the estimated step adjustment that will take place on May 1st, 2015. So, it should really be a wash, as far as customers. At 15 percent increase on an average residential heating customer, is actually something a little less, because temporary rates are already in place, and there really shouldn't be a change come -- customers really shouldn't see a change in their bill as a result of the step increase and the elimination of the surcharges.

Q. Well, that's -- I still need to understand just what we're seeing here. Because the top title on the chart says that it includes the "May 2014 Step Adjustment". It doesn't say anything about the second step adjustment.

A. (Collin) You're correct. It includes all adjustments that are expected to occur on May 1st, 2014 under the Settlement. So, in terms of the rates calculated here, it's all those adjustments. In terms of calculating the percentage change and the impact, it uses as the base the rates that were in effect prior to the temporary rates going into effect. So, it ignores that there's been a temporary rate put into effect in July, and says "what were your rates before you filed your rate case?" And, that forms the basis. And, then, it says "what will your rates be on May 1st, 2014?" With all of the things we're talking about, the rate case expense recovery, the recovery of the -- the Cost of Gas allocation, the annual increase, and the step adjustment, all those things are included, and then -- so, it calculates that impact of the permanent rates over what was in place prior to this approval.

Q. And, at the top of the "November", your first month you show, is that November 2013?

A. (Collin) It's based on test year usage. So, this is a hypothetical year. Again, you have to make all kinds of assumptions. So, what this says is that, based on our test year usage in November, this is what a bill impact would be on a residential customer, given what's approved for May 1st, 2014, relative to had the Company never made a filing.

Q. I'm sorry, that -- I didn't follow that.

CMSR. HONIGBERG: Let me try --

MR. EPLER: Perhaps --

CMSR. HONIGBERG: Let me try -- can I try this a different way? Mr. Epler, maybe you're going to do it better than I will, but let me give it a shot.

BY CMSR. HONIGBERG:

Q. If you were -- since you include on Line 21 all those things that are going to be added in on May 1, 2014, this is -- the "November" in Column (1) is really a hypothetical 2014 bill. The "May" column, I'm not sure if that's a hypothetical 2014 or 2015. I think it's 2014, I think, based on what you guys have been saying. So, if we had shifted the six months that start with May and put them first, it would be clearer than what we're talking about is this -- the year that's about to start May 1, 2014, that's what this shows for hypothetical customers. Did I get that right?

A. (Collin) Yes, you did.

CHAIRMAN IGNATIUS: All right. Thank you.

BY CHAIRMAN IGNATIUS:

Q. So, from a customer's point of view, on May 1st, 2014, assuming the usage rates that are in this chart are close, they would see a 17.3 percent increase overall on their bill, if they were comparing it to what they would have paid prior to the temporary rates going into effect?

A. (Collin) Perfect.

Q. All right. And, because they don't see it that way, they see it compared to last month's bill, what increase will they see, assuming that these rates are all approved, your estimates are correct, and they have got both the rate increase, the first step in, the reconciliation of the difference between temporaries and permanents, and the rate case surcharge imposed?

A. (Collin) We don't have a schedule showing that. But I would -- if we go back to that exhibit that I handed out, the total rate change that's taking place on May

1st, 2014 is roughly 4.8 million. And, I think what's modeled in here is something very similar to that. So that it's not -- it's not going to be materially different than you're looking at here. But we can, I mean, we could do that specific calculation, but it's going to be very similar to this, in terms of May 1st, 2014.

Q. It would be useful. When all is said and done, customers don't need to know, don't want to know all of the many comments, they want to know "what are they paying?"

A. (Collin) Yes.

Q. And, "why?"

MR. EPLER: Chairman Ignatius?

CHAIRMAN IGNATIUS: Yes.

MR. EPLER: Mr. Douglas Debski, who is seated right behind me, might be able to address that directly, that question directly.

CHAIRMAN IGNATIUS: All right.

MR. EPLER: If he could be sworn.

CHAIRMAN IGNATIUS: Mr. Patnaude, if you want to swear him.

(Whereupon ***Douglas J. Debski*** was duly sworn by the Court Reporter.)

DOUGLAS DEBSKI, SWORN

BY MR. EPLER:

Q. Mr. Debski, have you followed the conversation between the witnesses and the Bench?

A. (Debski) Yes, I have.

Q. And, can you provide information as to the rate increase that a typical customer would experience, compared to what they were -- what they're paying now, with temporary rates in effect, and if all the increases that are proposed in the Settlement Agreement are approved?

A. (Debski) Yes, I can. The Company actually has prepared a schedule that is similar to what is in the Settlement, but also includes the temporary rates that are currently in effect. And, what I'm seeing for May 1st is a 13.9 percent rate increase for that typical residential heating customer.

Q. And, do you know the dollar amount, just --

A. (Debski) $8.44.

CMSR. HONIGBERG: Is that compared to the prior year's May? Compared to the prior May, correct?

WITNESS DEBSKI: Well, what this schedule does show, basically, is May 2014 through April of 2015. So, we're just basically doing a comparison of the current rates versus the proposed rates.

CMSR. HONIGBERG: But, if you just want to -- if you looked at what the April payment was, versus the May payment, the May payment is going to be lower, for a variety of reasons, isn't it? So, the number you just gave us is actually, I think, a May to May comparison. If you do an April to May comparison, I'm almost certain you're going to see a drop.

BY CHAIRMAN IGNATIUS:

Q. Another way of doing it would be, if you took just the distribution charge, we left -- I appreciate having the gas costs in there, because that's what customers really see, but -- because all of this is happening at the same time, both the Cost of Gas change and the distribution rates changing. If you just did the distribution rates alone and left the gas out of it, that might be helpful, too.

A. (Collin) And, there's two ways of measuring the impact. One is to look at the unit rates that are being charged, the other is to look at the bill, the total bill. And, where you'll get the difference, I think, as Commissioner Honigberg was talking about, is that, between April and May, you'll get a usage difference, a dramatically different usage difference. So, the bill is going to go down, simply because the customer is using less, even if the rates go up. So, --

A. (Frink) If you look at Line 24, you can see the April bill is $142, and, in May, that bill is $69.

A. (Collin) So, when we do rate comparisons, we typically try to use like period to like period. So, the reason this shows May versus May is so that you've taken out volume differences, and all of your focusing then is on rate differences.

BY CMSR. HONIGBERG:

Q. And, one of the benefits of adjusting your rates effective May 1st and raising them at that time is that it doesn't trigger much larger bills. You get fewer phone calls, right?

A. (Collin) That's true. Yes.

BY CMSR. SCOTT:

Q. And, this may be a better question for Mr. Debski. But, when you say a "typical customer", too, that's something else we try to get our hands around. And, what is that?

A. (Collin) And, we would look at the test Year, 2012 test year, and we would essentially take an average of what a residential heating customer's usage was.

Q. And, we have that?

A. (Collin) That's what this is based on here, all across the period. But we also -- we have that information, yes. And, it's in the docket as well.

CHAIRMAN IGNATIUS: Did you have more, Mr. Debski? I think I'm feeling more clear about what we're doing here.

WITNESS DEBSKI: I think the only thing that I really wanted to add is, if we go to the annual basis, including the temporary adjustment that's currently in effect, --

CHAIRMAN IGNATIUS: Are you still on that Page 24?

WITNESS DEBSKI: I am.

CHAIRMAN IGNATIUS: Okay.

WITNESS DEBSKI: Yes. In the Settlement, it shows an increase of "$173", and a "15 percent" increase. If we include the temporary adjustment that's currently in effect, that decreases to $142, and 12 percent.

CHAIRMAN IGNATIUS: Okay. Thank you.

BY CHAIRMAN IGNATIUS:

Q. I had some other questions, other issues in the Settlement itself. And, probably just follow in the order that it's done in the document, so I don't get lost. Looking at Page 7 of the Agreement, can someone explain the theory of adjusting the ROE according to the percentage growth, and then, more importantly, the mechanics of how you apply, the timing of when you apply, how you assess that growth, and when you make the adjustment, how that adjustment impacts rates?

A. (Frink) Sure. I'll take it. It's really very simple. Year-end customer counts from a prior year to year-end customer count at the end of 2014. So, if there's a growth between 4 and 5 percent, this doesn't come into play. If it's at something less, then it's going to be, when we calculate the revenue requirement, which they will be doing a filing with their eligible plant, and it's the calculation of how we do the revenue requirements, it's included in here, Exhibit 4, Attachment 4. And, the way it's done now, the way it's being done for 2013, in the permanent rates, we're using the 9.5 percent return on equity. So, once we get the customer count established, whether it should be 9.25, 9.5 or 9.75, then that will simply be plugged in when you calculate, once you -- you have the eligible facilities, which will be the same regardless, and then you simply apply that, the cost of capital, using the return on equity that's adjusted accordingly.

So, it's really a pretty simple process.

If you're looking for the reasons behind it, that's addressed in my testimony, and we've discussed it some. But it's an attempt to incent the Company to expand service to New Hampshire customers. So, there is a concern that there are limited resources. And, if it's economic, they should be doing this. We're trying to make it a little more economic, get those crews in here, get that growth. It benefits the customers who are requesting service. And, ultimately, it benefits the existing customers, as it will produce more revenue and apply against the fixed costs.

So, hopefully, after, again, our understanding is that the greatest challenge in meeting that growth is that the demand is there, but there's a limited capacity to do that work. And, they have added more crews from last year, and they are ramping up to meet this kind of growth. And, so, hopefully, once they get those crews on board, and once everything gets flowing, it shouldn't be a problem going forward. But there is a concern that, in this first year, they may not be able to meet that. And, so, hopefully, and with this incentive, they will achieve those goals and earn a higher return and everybody will benefit from it. It also benefits the Company in the respect that, after 2015, there won't be another step adjustment. So, again, while they have this opportunity, grow the system, some of it which is revenue-producing, and that will help to serve them going forward and give them a better chance to achieve their allowed rate of return.

Q. So, after the 2015 step adjustment, which could, if the growth from the prior year was high, it could increase the ROE; if the growth had been low, it could decrease the ROE. That will factor into the 2015 calculation, correct?

A. (Frink) That is correct.

Q. And, then, after the 2015 step adjustment, it remains at 9.5?

A. (Frink) Well, there will be no more delivery rate adjustments until they file another rate case.

Q. So, it could remain higher or lower, however it came out at the end of that calculation?

A. (Frink) Right. The Company will file their rate of return, their F-1, which they file quarterly. And, they will use their approved rate of return. Actually, they're going to use it even -- other than this revenue requirement calculation for the 2015 step adjustment, that's the only time you'll see a variable rate, and it would be applied to the qualified facilities. Otherwise, everything is done, the return is calculated on the approved rate of return, the 9.5 return on equity.

Q. I'm sorry, I think I just misunderstood what you said. At the end -- we go into it with a 9.5. You then see what the actual growth has been. And, in the 2015 step adjustment, you calculate the ROE depending on the actual growth for the prior year, correct?

A. (Frink) We do the revenue calculation using the ROE based on the growth, yes.

Q. Yes. Thank you. A better way to put it. And, then, once that's established, what is the ROE that's assumed until the next full rate case?

A. (Frink) Well, as part of the Settlement, the approved return on equity is 9.5. And, that's how it is until the next rate case. And, the over-earning mechanism is all based on 9.5. So, even if the 2015 step adjustment is based on a 9.25 return on the eligible facilities, well, the 9.5 over-earning mechanisms -- the over-earning mechanism is still 9.5, the allowed return is 9.5. That doesn't change. If this gets approved, their return on equity is 9.5 until the next rate case.

Q. But one component of those rates is based on -- could be based on something higher or lower than 9.5?
A. (Frink) There is one step adjustment that, when you calculate the revenue requirement, could be something other than 9.5.
Q. All right. I understand that. I'm sorry if I'm being dense here. It's the day after that 2015 step adjustment is approved, you will evaluate earnings based on 9.5, correct?
A. (Frink) That's correct.
Q. And, the rates themselves, however they're set after that 2015 step adjustment, will be a blend of 9.5, that's for all of the existing facilities and whatever the actual ROE applied for the new portion put in through the step adjustment, which could be higher or lower than 9.5?
A. (Frink) There are no other step adjustments beyond that 2015 step adjustment.
Q. Right. I'm just talking about rates going forward. Maybe we don't have another rate case until 2018. So, the rates that are in effect will have been based on 9.5 for all facilities, except for the facilities put in between the 2000 -- for the facilities put in -- well, that's where I just don't know. If you have a

different number for the 2015 step, different ROE, does that different ROE apply only to the facilities constructed during a 12-month period of time or does it apply to all the rate base?

A. (Frink) It only applies to the eligible facilities that are added in 2014.

Q. All right. So, you have a blend of two different ROEs going forward? The 9.5 for everything, except the 2014 investments, which could be higher or lower than 9.5?

A. (Frink) It's correct to say that there is a blend on what the rates were based on when that revenue requirement was calculated. But the fact is, their earnings will be measured, whether they are over-earning or under-earning, everything is tied to the 9.5. And, that is -- we're setting rates on the 9.5. You're right. There is one small piece where we're going to have a rate adjustment that could be something different than that 9.5. And, so, you could say, when these rates were set in 2015, there is a slight blend on what they were allowed to earn. But, as far as their -- when Staff reviews their earnings and the Company looks at their earnings, we're measuring against the 9.5.

Q. All right.

A. (Collin) And, Chairman Ignatius, if I just may?

Q. Yes.

A. (Collin) That, what you're describing, is exactly the incentive to the Company, is it will continue to have a revenue requirement based on a 9.75 percent return on that incremental investment. And, we will recover it that way every year thereafter. So, it does go on. And, that's part of the incentive for us to grow the system and to achieve higher growth.

Q. On the Exogenous Events, which is on Page 8, the calculation of those are that if, in total, any of those four items occur, if any of them or together they come to more than $200,000, then that provision kicks in, is that correct, in a calendar year?

A. (Collin) My interpretation is it has to be "an event", that you can't aggregate events. So, if you had a bunch of $20,000 events that added up over 200,000, those -- that would not qualify. It would take an event over 200,000 to qualify. It's to prevent you from kind of aggregating a bunch of little ups and downs that go on. It's intended to be a significant, extraordinary item in its -- on a stand-alone basis that causes that 200,000.

Q. All right. So, if any of the four items had an event

over $200,000, that would trigger the provision?
A. (Collin) Yes.
Q. And, if you had -- each of them had, say, a $60,000 impact, although that together would add up to more than 200,000, it would not trigger the provision?
A. (Collin) Yes.
Q. Okay. Thank you. The step adjustments -- I'm sorry, the Exogenous Factor adjustment would require a notice and hearing, correct, because I'm looking at Page 10?
A. (Collin) Yes.
Q. The 2015 step adjustment, does that require a notice and hearing?
A. (Collin) Yes.
Q. Thank you. Then, turning to Page 11, we get to the Earnings Share provision. And, I think of "earnings share" as another form of incentive. And, so, we have sort of incentives on top of incentives here, between the ROE provisions and the Earnings Share. What's the thinking behind having those, both of those sorts of incentives built in?
A. (Collin) From the Company's perspective, again, I can't necessarily talk for the other parties, but, when we look at the Earnings Sharing, I'm not sure we viewed that as an incentive, as much as we did a consumer

protection. And, that was the concern that, you know, we all sat around, we looked at the Company's costs, we decided on a revenue requirement, we're giving them, and I'm kind of talking through what I'm thinking they're thinking. "We give them a couple step adjustments, jeez, what if they over-earn? What happens if there's an over-earning, that we've just been too generous?" I'll put it in that simple term. And, we want to protect -- protect from that. And, so -- but, at the same time, we want to continue to encourage the Company to manage its costs effectively, to achieve, you know, the best return it can. And, so, we don't want to take away the total incentive for the Company to manage costs and try to achieve a return. So, a way of doing that is, say, let's share earnings over what we see as a, you know, a reasonable level of return on equity, 50/50. And, then, if you get to a level that's kind of in that range where we'd say "you probably should be coming in to reduce rates", let's just automate it. Let's just have that reduction.

Oftentimes, mechanisms like this can be symmetrical, where it has a low side, too. Where it says "Well, you're in a stay-out. But, if you fall below 7 percent, let's say, the stay-out is no longer applicable." And, we talked about that. And, you know, as part of this Settlement, we didn't gain that, that part of the Settlement. And, so, it is just -- it's a little asymmetrical. It only shares earnings on the upside, it has no downside protection. So, as I stated earlier, I think we see this as more, given its asymmetry, to be more of a consumer protection, from keeping the Company from over-earning and not returning that to consumers.

Q. Thank you.

A. (Frink) And, I would second that on Staff's behalf. This was not intended to be an incentive. In the initial rate filing, they actually included an off-ramp for under-earnings, and we eliminated that. With a Stay-Out provision, the objective is to avoid additional rate cases and the expenses that go along with that. And, so, we really didn't want an off-ramp, but we did want the consumer protections, and that is what this does. And, I've been here a long time. And, typically, if a utility is over-earning by half a percentage, you're not going to call them in. If you start getting to -- if you get to 11 percent, then, you know, you probably should be. So, this seemed like a reasonable protection for consumers. And, it does allow for a bit of over-earning without requiring a rate case, but it also protects customers, to the extent that large over-earnings would be returned to them. So, that was the purpose of this was it's not an incentive to the Company.

Q. All right. Thank you. That's a good clarification. On the provision on Page 13 regarding "Farm Taps". And, I saw the description of what those have been historically. It described them as posing a corrosion risk, and they're to be replaced kind of "as needed" as things pop up. But do they also pose a safety risk? Is it okay to leave it just as sort of "get to them when we get to them"?

A. (Meissner) The corrosion risk would be the safety risk associated with farm taps, one aspect of the risk. But the goal here is that they are addressed in the Company's Distribution Integrity Management Plan, in terms of both the risk and probability. And, therefore, the Company is proposing to manage the replacement of those in accordance with our DIMP, which is a risk-based program. So, the "as needed" may not give that connotation. But the intent is, it's going to be managed as part of our risk-based Distribution Integrity Management Plan.

Q. Okay. That's helpful. Thank you.

A. (Frink) I would like to add one thing. It's Staff's understanding that replacing the farm taps is a requirement in Maine. And, our Safety Division looked at this and had a different perspective. And, there was a substantial investment in replacing farm taps, over 2 million a year, I believe, over $2 million. And, the Safety Division didn't feel that that was necessary. That, you know, monitoring it, and then, if it needs to be replaced, replace it. They review the DIMP that Northern files. So, it was really an agreement between the Safety Division and the Company as to the proper way to handle this.

Q. At the bottom of Page 13, it describes a few modifications to the customer service metrics that have been worked out in prior proceedings here. Whoever best wants to describe the changes and how, basically, how it's been going in meeting the metrics that have been ordered by the Commission would be helpful.

A. (Frink) It was actually Staff that initiated those changes, and Amanda Noonan of the Consumer Affairs Division. These metrics have been in place for quite some time. It was done before Unitil actually acquired the Company. These issues that -- there were issues back in 2001 that really are no longer an issue. And, Ms. Noonan reviews what the Maine standards are and what the Company -- how the Company -- there's reporting on these metrics. And, there were changes in the metrics in Maine. So, we decided we -- you know, this was a good opportunity to adjust the metrics to more fit the situation that -- as it is now. And, so, Ms. Noonan consulted with the Company, and they determined that, as an efficiency measure, you no longer have to report this particular measure, because it's no longer an issue. The other one, there were problems with the -- there were a lot of calls from Northern customers, and now it's a third of what they were at the time, and the requirements are just too tight. So, they loosened the requirements because of that. I address it in my testimony some, but that's really what the driving force is. One, the busy signals are no longer an issue. And, two, the number of calls have gone down to such an extent that using a percentage basis with such a tight timeframe no longer made sense.

Q. On Page 14 of the Agreement, at the top of the page it describes the Line Extension Policy. And, Mr. Frink, are you familiar with the policy that Liberty recently came in proposing?

A. (Frink) Yes. I'm very familiar with those.

Q. How do the two compare? Are they generally similar in terms or are they very different?

A. (Frink) They are similar. There are a couple of significant differences. Northern uses a discounted cash flow analysis, whereas Liberty has a revenue requirement that is based on a number of years that they recover the initial investment over. And, we looked at what the recovery period is for Northern under the discounted cash flow analysis, and it's similar to the years that are specified in the Liberty policy. So, in that respect, the customer contributions that would be required under both policies are the same.

One difference, the only really significant difference is Liberty looks at the potential revenue requirement along an extension. So, Northern does the same thing, but Liberty, they're required to include a certain percentage of the potential customer growth that could occur. So, I forget exactly what the number is, but, if you put in a line extension that goes two miles and passes ten houses, I think you would include 60 percent of the revenue that would be attained from adding those, 60, if they're residential customers, 60 percent of the revenues from those customers.

Northern, on the other hand, and they go that same mile and those houses along the way, they will canvas those homes and they will try to add those customers, but they will not include the potential revenues from those customers or any percentage of those, if they aren't able to add them at that time. So, that is a significant difference, and the only difference.

One reason we didn't -- Staff didn't pursue that -- one reason Staff didn't pursue that is because the customer growth that Northern has proposed is actually much higher than what Liberty is anticipating for the same period. So, we're generally satisfied with the growth we're seeing on the Northern system under their current policy. It's one of those, "if it's not broke, you don't fix it." Where, other than memorializing the 100 feet free -- the 100 feet for free for residential heating customers, we didn't see a need to change their policy.

Q. Thank you. On the bottom of Page 14 it describes when cost of service studies might be done. And, I just wanted to be clear in my mind whether the step adjustment in 2015 would trigger this discussion of a cost of service study or whether that provision was really designed towards the next full rate case?

A. (Frink) The Settlement actually lays out the rate design that it's going to be based on, the rate design in this proceeding, adjusted proportionally. This is for the next distribution rate filing. So, sometime, the earliest would be 2017. As you've heard earlier, there are -- different parties have different opinions as to the appropriate cost of service studies, the methodology and results and so forth. And, it would -- I think it's in everybody's interest, and everybody agreed to it, that we should have a discussion on this before the Company goes out and hires a consultant, and whether it's even needed, and, if so, what we'd be looking for and how it should be presented. So, it really is for the next delivery rate filing, and it does not apply to this rate case filing.

Q. Thank you. And, finally, it's not in the Settlement Agreement, but does Northern have a Least Cost Integrated Resource Plan on file?

A. (Frink) It does. And, there hasn't been a settlement reached on that Integrated Resource Plan. Staff has completed its review, and a settlement was filed, and, though, a decision hasn't been rendered on it, the settlement calls for a new Integrated Resource Plan to be filed no later than December of 2014. So, we will be looking at their resource plans and portfolio this year.

Q. Is there anything in the Settlement Agreement that would be inconsistent with the last approved LCIRP for the Company?

A. (Frink) No, there is not.

CHAIRMAN IGNATIUS: Thank you. Anything else? Commissioner Honigberg.

CMSR. HONIGBERG: Does someone want to revise and extend or clarify the remarks of how the Exogenous Events thing gets calculated? Looking at Page 8 of the Settlement Agreement.

MR. EPLER: Could we go off the record for a moment please?

CHAIRMAN IGNATIUS: Yes. That's fine, if you want to take a break for a few minutes.

MR. EPLER: May I approach the witnesses?

(Atty. Epler conferring with the Company's witnesses.)

(Off-the-record discussion ensued, and thereafter a recess was taken at 12:09 p.m. and the hearing resumed at 12:19 p.m.)

CHAIRMAN IGNATIUS: We're back on the record. And, after a quick break, Mr. Epler, did you have more on the issue of the exogenous thresholds?

MR. EPLER: Yes, I did, Chairman. And, I thank you for the opportunity to address this. The parties did quickly meet and discuss this, and we think it's appropriate to actually change the Settlement Agreement to reflect the understanding that was expressed by Mr. Collin. So, if you'd turn to that Page 8, and Paragraph 2.5.1. And, if you look at the last three lines of that paragraph, we would -- it would read "distribution revenue impact (positive or negative) of any such event", singular, "exceeds 200,000." And, then, in the line immediately above, we would cross out "total". So, that clause would now read, as corrected, "if the distribution revenue impact (positive or negative) of any such event exceeds $200,000."

CHAIRMAN IGNATIUS: All right. And, that's everyone else's understanding as well?

MS. HOLLENBERG: Yes.

MR. SPEIDEL: As of today, yes.

CHAIRMAN IGNATIUS: Thank you. I'm glad that we're clear, so we don't have to, in years to come, debate what it really was supposed to be.

CMSR. HONIGBERG: I have a question about that. So, if there's a $201,000 event in one direction and a $50,000 event in another direction, what's the answer?

MR. EPLER: I think, speaking for the Company, I think this clause would provide the Company the opportunity to request that change. And, that's why there's a requirement that we file for it, it's not automatic. And, I think that the other parties would be able to come in and say "well, yes, but there's these offsetting events that you need to take into account." And, then, the Company could say "well, yes, but then there's this other thing." So, I think that's the purpose. The threshold here is to get us in front of you, not to determine whether some change occurs.

CHAIRMAN IGNATIUS: Thank you. That's a good clarification. All right. I know, Commissioner Scott, you had other questions?

CMSR. SCOTT: Yes, I did. I just didn't want to disappoint when I said "I may be back." So, two real quick questions, I hope.

BY CMSR. SCOTT:

Q. It was touched upon earlier, relatively speaking, from if I were -- as a consumer, this looks like a big change. Can you outline what outreach has been done so far to your customers, so they know this is coming? Do they know this is coming? How would they know this is coming?

A. (Collin) Yes. There's several different communication channels that communicate this to consumers. As you know, the Company is required to put certain information in the local newspapers relative to rate changes. We do press releases relative to rate changes. In addition to that, we do do bill messaging, where actually on bills we message any changes that take place, in terms of the rate. So, through all those channels. As I said, in addition to that, Customer Service personnel are both aware of the rate changes and trained, in terms of the different aspects of the changes that will be going on. And, we do often get several calls explaining this. I think as someone mentioned that, because of the period of year, the time of year that this is going to be occurring, it probably won't be as noticed as it might be if it occurred during the winter period, at the beginning of the winter period, largely because usage is going down. So, customer bills typically are going down. But we have -- we do put forward a very coordinated effort to make sure that we notify as many customers in as many ways as we can that this rate change is coming.

Q. So, that would answer "how does a customer know, once we've approved the rate change, that it's coming?"

A. (Collin) Yes.

Q. The other half of that, in my mind, is how this whole almost year long process, how would -- if I were a customer who was an interested -- how do I know this is going on and how did I know this was going on?

A. (Collin) Some of it is, again, we message in the bill. When we file, we're required to let customers know that we have filed for a rate increase and the amount of the rate increase, and then other public notice requirements. Those are primarily the ways that it gets noticed.

Q. Okay. One of the reasons I asked is, because I understand, you know, we can be kind of a little bit shielded, but we haven't seen a lot of -- usually, any rate case we get some people saying "Oh, my God, what are you doing to us? Look at the economy. What are you doing?" So, I haven't seen a lot of that. Is that a fair characterization or am I just shielded from that?

A. (Collin) Well, I think it's a very fair characterization. I don't think we've had a lot of customer issues or concerns relative to this rate change. I think we've done a good job explaining why it's happening, and the expansion we're making to the system and the improvements in safety-related investments we're making. And, I think those are important messages for customers to understand. And, I think there's been a good acceptance of what we've been able to deliver in the territories we serve.

Q. I hope that's the case. And, I don't mean to -- and, obviously, the impact to customers is very important, so I don't mean to minimize that in any way. And, my other quick question was, we talked earlier about expansion, and maybe this is better answered in the LCIRP. But, I assume, to the extent you have a projected expansion, you have a plan also to get additional gas to those customers?

A. (Collin) Yes. We're, and the Commission may or may not be aware, but we're -- our pipeline capacity issues in particular are forefront in our gas planning currently, and as we have several pipeline -- long-term pipeline contracts that will be expiring in the next two to three years. And, we're looking to replace much of that with new contracts, and have signed on as a partner, if you will, or initial supporter of the Spectra Project, which is designed to bring gas off the Algonquin system, really, for the first time up into New Hampshire and North. And, so, we're very excited about that project. And, we will be bringing that before the Commission for more consideration and discussion.

CMSR. SCOTT: That was my understanding. Thank you.

CHAIRMAN IGNATIUS: All right. Any redirect, Mr. Epler?

MR. EPLER: No thank you.

CHAIRMAN IGNATIUS: And, I guess, since this is a panel, any redirect from anyone?

MS. HOLLENBERG: No thank you.

(Atty. Speidel shaking head in a negative manner.)

CHAIRMAN IGNATIUS: All right. Then, the witnesses are excused. Thank you very much for your testimony, and for the obvious tremendous amount of work that went into pulling together all of the disputed issues into a common settlement.

Is there any objection to striking the identification from exhibits?

(No verbal response)

CHAIRMAN IGNATIUS: All right. Seeing none, we'll do that. I'm assuming we have no other witnesses, correct?

(No verbal response)

CHAIRMAN IGNATIUS: Sounds like that's correct. Then, I think the only final thing then would be closing statements. And, let's begin first with Ms. Hollenberg.

MS. HOLLENBERG: Thank you. The Office of Consumer Advocate supports the proposed Settlement of these proceedings according to the terms of the Settlement Agreement as filed, with the additional changes that we made today to Section 2.5.1. This resolution represents a reasonable compromise of the parties' various interests and positions, and will avoid the Parties' costs to litigate, which costs are borne by the Company's customers. The terms of the proposed Settlement Agreement are comparable to terms approved by the Commission in recent electric cases, including DE 10-055, which concern the Company's electric affiliate, Unitil. Another similar resolution was approved in PSNH's last distribution rate case, DE 09-035. Commonalities across these cases include some kind of rate case stay-out or rate plan during which rates remain stable, but for limited cost recovery associated with certain capital investment projects or goals executed during the rate plan period. Also common are provisions for handling exogenous changes and over-earnings, equally applicable to the Company and the ratepayers.

The Northern agreement in this case is unique, in that it includes an ROE adder for the 2015 step adjustment revenue requirement tied to distribution system growth, growth which customers are increasingly asking for in order to access the cost savings associated with using natural gas for heat. This ROE incentive, coupled with the formalization of the Company's tariff provision providing service line extensions up to 100 feet at no charge to customers, should improve customers' access to natural gas going forward.

The OCA is particularly pleased with the resolution of the cost of service and rate design issues, which will impact low use customers less than the Company's original proposal, and which provides an opportunity before the next rate case for the parties to talk about cost of service issues and rate design issues, in order to maximize our efficiencies in considering these issues and minimize costs associated with this consideration, which ratepayers ultimately will bear.

We enjoyed a good working relationship with the Company and Staff representatives throughout this proceeding, which we appreciate. In closing, we ask for you to approve the Settlement Agreement as filed and modified this morning in the hearing. Thank you.

CHAIRMAN IGNATIUS: Thank you. Mr. Speidel.

MR. SPEIDEL: Thank you, Chairman. Staff would also like to express its support and request for approval of the Settlement by the Commission as modified today. Staff would also like to thank the Company's representatives and also the Office of Consumer Advocate's representatives for a very collegial and hard working approach to resolving issues in this rate case filing.

Staff would also like to make mention of the fact that rate case expenses will be subject to further review. However, in general terms, Staff would like to express its, really, I suppose, pleasure in seeing a rate case expense level that's in the $200,000 range, versus some of the higher figures that we've seen in recent years from other filings from other companies. I would say that, on behalf of Staff, that the Company has demonstrated the commitment to rate case expense control that's admirable. Again, we will look at all the line item costs very carefully, the Office of Consumer Advocate staff, and the Commission will have the last word. But it's worthy of mention to saying that they have done a very good job of rate case cost control in this proceeding. Thank you very much.

CHAIRMAN IGNATIUS: Thank you. Mr. Epler.

MR. EPLER: Yes. Thank you. On behalf of the Company, I first want to express our appreciation of the kind words that were just said by the OCA and the Staff. And, we do feel this was a good effort on the part of all involved. And, so, I won't spend more time in going through. We hope we've given you sufficient basis for you to approve the Settlement. And, any further questions, we're available. Thank you.

CHAIRMAN IGNATIUS: Thank you. Then, unless there's anything further?

(No verbal response)

CHAIRMAN IGNATIUS: We will take this under advisement, and appreciate everyone's work in getting to this point today. Thank you. We're adjourned.

(Whereupon the hearing was adjourned at 12:30 p.m.)