STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

February 19, 2014 - 1:04 p.m.
Concord, New Hampshire

RE: **DG 13-251**
ENERGYNORTH NATURAL GAS, INC.
d/b/a LIBERTY UTILITIES, INC.:
Winter 2013-2014 Cost of Gas.
(Hearing regarding a revision to the Winter 2013-2014 Cost of Gas rates)

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

Clare E. Howard-Pike, Clerk

APPEARANCES: **Reptg. EnergyNorth Natural Gas, Inc. d/b/a Liberty Utilities, Inc.:**
Sarah B. Knowlton, Esq.

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

Reptg. PUC Staff:
Michael J. Sheehan, Esq.
Stephen P. Frink, Asst. Dir./Gas & Water Div.

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

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E X H I B I T S

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P R O C E E D I N G

CHAIRMAN IGNATIUS: All right. I'd like to open the hearing this afternoon in DG 13-251. This is Liberty Utilities' gas operations', formally EnergyNorth Natural Gas, request that it supplement its cost of gas rate that's been set by the Commission for this winter period to exceed the allowable amount that is authorized under our standards. On January 31st, 2014, Liberty Utilities made the filing to increase its rate just for the period March 1 through April 30, 2014, and to increase it up to a price of one dollar and -- up to $1.2441 per therm.

And, by order dated February 4th, 2014, we noticed this for a hearing on the merits for this afternoon, and sought opportunity for people who wanted to intervene to make their interests known.

So, let's begin first with appearances.

MS. KNOWLTON: Good afternoon, Commissioners. My name is Sarah Knowlton. I'm here today on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp., which does business under the name "Liberty Utilities". With me today from the Company are its two witnesses, Francisco DaFonte and Mark Savoie, and at counsel's table is Stephen Hall.

CHAIRMAN IGNATIUS: Welcome.

MS. HOLLENBERG: Good morning -- or, good afternoon, Commissioners. Rorie Hollenberg and Stephen Eckberg, here for the Office of Consumer Advocate.

CHAIRMAN IGNATIUS: Good afternoon.

MR. SHEEHAN: Good afternoon. Michael Sheehan, for Commission Staff. And, present with me is Stephen Frink, the Assistant Director of the Gas Division.

CHAIRMAN IGNATIUS: Good afternoon. I don't see anything in the file suggesting anyone is seeking intervention, and don't see anyone here today. So, let's move on then to taking evidence today. Have you talked about whether you're going to have a panel presentation?

MS. KNOWLTON: Yes. We did meet with the Staff and the Office of Consumer Advocate in advance of the hearing. And, we've agreed that the two Company witnesses and Mr. Frink will sit as a panel. And, we have two exhibits to mark for identification. The first is the Company's filing on January 31st, 2014, and that would be "Exhibit 6".

CHAIRMAN IGNATIUS: And, that has both the tariff pages and the testimony all attached?

MS. KNOWLTON: That's correct. It's a

39-page document. I would note that the Petition is Bates numbered 001 through 004. I wouldn't normally mark the Petition. But, where it was Bates numbered, if I may, I'd propose to leave it as one exhibit here. And, again, it's not my normal practice, but it was numbered in that way. So, I'd prefer to leave it.

CHAIRMAN IGNATIUS: That's fine.

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

MS. KNOWLTON: And, then, Exhibit 7 we have provided to the Commissioners this afternoon. And, that is a bill comparison that Mr. Savoie will address when he is on the stand.

CHAIRMAN IGNATIUS: All right. And, everyone has a copy of that?

MS. HOLLENBERG: Yes.

CHAIRMAN IGNATIUS: Great. Then, we'll mark that as "Exhibit 7" for identification.

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

CHAIRMAN IGNATIUS: And, why don't you go ahead and seat your witnesses.

MS. KNOWLTON: The Company calls Mark Savoie and Francisco DaFonte.

(Whereupon ***Mark G. Savoie***, ***Francisco C. DaFonte***, and ***Stephen P. Frink*** were duly sworn by the Court Reporter.)

CHAIRMAN IGNATIUS: Please proceed.

MARK G. SAVOIE, SWORN

FRANCISCO C. DaFONTE, SWORN

STEPHEN P. FRINK, SWORN

DIRECT EXAMINATION

BY MS. KNOWLTON:

Q. Good afternoon. Mr. Savoie, I'll start with you. Would you please state your full name for the record.

A. (Savoie) My name is Mark Savoie.

Q. Make sure you speak up into the microphone. By whom are you employed?

A. (Savoie) I am employed by Liberty Energy Utilities New Hampshire Corp.

Q. What is your position with the Company?

A. (Savoie) I'm a Utility Analyst.

Q. Would you describe your job responsibilities as a Utility Analyst?

A. (Savoie) My responsibilities include preparing the cost of gas recovery projections, related reconciliations, administering the Company's tariff, and appearing as a witness on rate matters.

Q. Are you familiar with the document that's been marked for identification as "Exhibit 6"?

A. (Savoie) Yes.

Q. Would you describe your role with regard to that document.

A. (Savoie) Yes. I prepared the proposed revised tariff pages that are attached. And, I've prepared some testimony. And, I had three exhibits that I prepared.

Q. Do you have any corrections to your testimony or exhibits?

A. (Savoie) No corrections. Just we agree with Staff to a different increased rate. But should I get to that now?

Q. Let's walk through your testimony first. And, then, after we address that, we can discuss the agreement that Staff and the Office of Consumer Advocate have reached today. If I were to ask you the questions that are contained in your testimony today, would the answers be the same?

A. (Savoie) Yes.

Q. Mr. Savoie, would you provide a high-level overview for the Commission of what the Company is asking in this filing.

A. (Savoie) Yes. If everyone could please look at Bates Pages 014 and 015 of Exhibit 6. And, by way of history, going over the chart on Bates Page 014, the first column with figures are the initially approved rates that were approved by the Commission. The Commission authorizes us, under what we call a "trigger mechanism", to raise or lower the rate on a monthly basis. We call that the "trigger mechanism", and it's subject to a cap, where we can raise the initially approved rate by up to 25 percent, and downward as much as we need to, in order to eliminate or try to eliminate any projected over or under collection in the cost of gas.

So, we entered the winter period with a residential rate of $0.8895 per therm. And, we kept that rate in place for December. We didn't change the rate under the trigger. The first trigger adjustment is the second column with figures on Bates Page 014. And, you can see that we raised the residential rate from 0.8895 to 1.0196. And, that increase eliminated -- or, would have eliminated the projected over -- or, under collection at that period of time had all our estimates remained unchanged.

When we filed the trigger for the following month, at the end of January, which would be rates effective for February, we raised our rates to the 25 percent cap that was set by the Commission. So, now, in effect, we went from a projected under collection of about $12 million, and raising rates reduced that under collection to about $9 million.

And, in the last column of the chart, just for reference, has the Fixed Price Option rate, but that rate doesn't change during the winter period. It remains at those rates set in that column.

On Bates Page 015, we show what the rates that we're proposing, initially proposed, that reflect an increase of 0.1322 per therm, above -- that's a rate above and beyond the cap set by the Commission.

Q. And, I think I actually may move to Mr. DaFonte for a moment, because I think he can provide some helpful context for the causes for the increase. Mr. DaFonte, if you would state your full name for the record please.

A. (DaFonte) Francisco DaFonte.

Q. By whom are you employed?

A. (DaFonte) I am employed by Liberty Energy Utilities New Hampshire Corp.
Q. What is your position with that company?
A. (DaFonte) I'm the Senior Director of Energy Procurement.
Q. Would you describe your job responsibilities.
A. (DaFonte) Sure. I'm responsible for all aspects of the EnergyNorth procurement function, including the planning, optimization, and forecasting of the Company's requirements.
Q. Did you have any role in the preparation of this filing that was marked for identification as "Exhibit 6"?
A. (DaFonte) Yes. I submitted prefiled testimony.
Q. Was that prepared by you or under your direction?
A. (DaFonte) Yes, it was.
Q. Do you have any corrections to your testimony?
A. (DaFonte) I do not.
Q. If I were to ask you the questions contained in your testimony today, would the answers be the same?
A. (DaFonte) Yes, they would.
Q. Mr. DaFonte, do you have any explanation that you can offer the Commission on why the cost of gas rates increased since they were initially approved effective November 1st, 2013?

A. (DaFonte) Sure. This may take a moment. Part of the issue -- it's a multipronged issue. One is certainly the fact that the weather here in New England and the Northeast has been much colder than normal. Up through and including January 31st, it was about 8.3 percent colder than normal. The other factor is also related to weather, which is that weather across the entire country has been much colder than normal.

Typically, what we see is a weather pattern that moves from west to east, and you see a demand that also follows that same weather pattern. What's happened this winter is that we've seen weather, cold weather, that's sat essentially across the entire nation on coincident periods. And, so, the pipelines delivering the gas and the supply has been strained, because it's been needed in the Gulf Coast, the Midwest, and the Northeast, and Mid-Atlantic all at the same time. So, with that, it creates some strain, as I said, on supply, and therefore prices start to go up as a function of the supply and demand.

And, the other issue that adds to the pricing increases here in New England is that we have a lack of appropriate pipeline infrastructure. Such that we have abundant supplies of natural gas very close to us, in Pennsylvania and New York, in the Marcellus Shale production area. But we do not have the capacity on the pipelines to extract that gas and move it to the New England market.

From the north, we do have capacity on fairly new pipelines that were built within the last 14-15 years, however, the supply feeding those pipelines has dwindled. Some of it was production off of the coast of Nova Scotia, and that has dropped from an initial level of about 500,000 decatherms per day, down to about 200 or so thousand [200,000] decatherms per day.

We also had supply coming in in the form of LNG from a terminal up in Canaport, in New Brunswick. The supply of LNG has also been cut back significantly, because of the higher prices that are paid in the Asian and European markets. We also have LNG that's imported in Boston through the Everett Marine Terminal, and that LNG has also been cut back significantly.

So, all of that rolled together has created sort of this "perfect storm" that's caused prices to increase significantly, particularly on the coldest of days. But, in effect, even during a baseload period for a particular month, those prices have also gone up significantly, to the point where we've seen record what we call "first-of-the-month prices" for the months of January and for February. And, those prices, when I say they're "record highs", they're almost double what the prior record was.

Q. Mr. DaFonte, were there any actions that the Company took to attempt to mitigate those price increases this winter?

A. (DaFonte) We always dispatch our lowest cost supplies first. So, we, of course, baseloaded our cheapest alternatives, which was our Gulf Coast pipeline capacity. And, then, on top of that, we would dispatch as much storage as we could. And, storage is typically priced much lower, because it's gas that's put into storage during the summer period. And, then, in addition to that, we then go out and try to procure the cheapest supply possible.

The unfortunate aspect of that is that we have about 45 percent of our pipeline capacity in the market area. And, so, we are, in effect, subject to the price increases that occur primarily in the market area. And, that's just a function of the portfolio of capacity that was inherited and has been part of the EnergyNorth portfolio for some years now. That is something that we're certainly looking into, in terms of trying to get access to capacity that will alleviate some of the price increases by going back to the Marcellus Shale or an equivalent liquid point.

Q. Would you explain what you mean by "market area"?

A. (DaFonte) The "market area" is essentially the primary delivery point for the pipeline supplies, in particularly the Northeast. So, it's the consuming region, if you will, of the natural gas. And, in the past, the closest production has been essentially the Gulf Coast, and some up in the Nova Scotia area. But, in the last five to six years, we have seen an abundant supply of Marcellus Shale gas. But, even though that's closer to the consuming region, we don't have the capacity that's required to bring that supply to market. And, so, we're essentially in a location where from the south we have insufficient capacity and from the north we have insufficient supply. So, we're kind of caught in between. And, that's kind of what comprises the "market area" or the "consuming region".

Q. Are you familiar with the waiver request that the Company filed with the Commission with regard to the seven-day storage requirement?

A. (DaFonte) Yes, I am.

Q. Did that waiver request have any impact on the Company's ability to dispatch least cost options?

A. (DaFonte) Yes. One of the -- one of the issues that came up was that, because it's been such a cold winter, we were kind of bumping up against the seven-day storage requirement. And, that prevented us from dispatching cheaper propane as it turns out. The propane that we had in inventory was roughly in the $16 range. And, we would like to dispatch more of that, but we would have been in violation of the seven-day storage requirement. So, we asked for a waiver of that requirement, so that we could use a little bit more of that propane to try to avoid the purchase of much higher pipeline supplies, which we did on a couple of occasions. So, that was very necessary.

Q. Are there any efforts that the Company could undertake with regard to the future to try to mitigate any price increases that may come along that are similar to what the Company has experienced this winter?

A. (DaFonte) Yes. We're looking at several options. I've mentioned the fact that there is insufficient pipeline capacity coming into the region. That is going to remain so probably for the next three years. There are new projects being proposed, but those projects wouldn't be in service until 2018 or so. The other thing that we are looking at doing as well is to change the existing hedging program, modify it, so that, instead of hedging the NYMEX futures, we would hedge the basis. And, basis is really the differential between the supply area, in this case it's the Henry Hub/Louisiana location, versus the actual market area, which is New England, New York, essentially, the Northeast. And, so, that basis is what has really caused prices to increase. And, so, what we're trying to -- what we're looking at doing is coming up with a way to hedge that basis, so that we can at least lock it in and have more price certainty. And, that's something we'll be proposing in a filing that we hope to have to the Commission in the next 60 days or so.

Q. Mr. Savoie, back to you for a few minutes. Would you continue to walk us through what the Company's proposal was on January 31st, 2014, with regard to an increase in the winter cost of gas rates?

A. (Savoie) Yes. When we raised the rates to the cap, we were projecting an under-collection of $9 million. And, we recognize that's a large amount and that needs to be at least partly dealt with now. And, we did consider asking to increase rates enough to cover the entire under-collection, but that would have been about a 40 cents per therm increase. And, we recognize the rate shock, that that's too much to ask for. So, we used our judgment. We looked at a few scenarios. And, we determined, let's ask for one-third now, to reduce that under-collection from 9 million down to about 6 million, because that was about as much of a bill impact as we thought would be prudent. But it's still very subjective. It wasn't -- you know, it's not a scientific number, it's definitely an art, as to "how much can we afford to shift into the current winter period, given we have only March and April to recover those dollars under?"

Q. And, why can the Company only recover those dollars in March and April of this year?

A. (Savoie) Because, in February, we hit the cap. We couldn't go any higher. The rate was set for a residential at 1.119 per therm. We couldn't go any higher than that. And, there wouldn't have been time to ask the Commission for permission to go any higher. So, February had to stay at the capped rate. So, then, that forced us, with only March and April remaining, to recover that under-collection.

Q. And, when you say "remaining", remaining in what?
A. (Savoie) The remaining under-collection. We have only certain volumes in March and April that we could take that under-collection and spread over.
Q. Is the winter period -- winter cost of gas period limited to it goes through the end of April?
A. (Savoie) Yes. The winter period begins on November 1 and ends on April 30. And, then, we enter into the summer period where different rates are set.
Q. And, in your testimony, you indicate that the Company is considering submitting a proposal to the Commission to recover an additional amount of this under recovery in the summer period cost of gas. Is that still the Company's plan?
A. (Savoie) No. The Company at this time doesn't intend, and nor does it foresee, asking to recover any of the under-collection during the summer period.
Q. And, why is that?
A. (Savoie) Staff pointed out a few issues, including differences in baseload and heating load between different classes of customers, that there would be some additional subsidies going on there. And, we agreed that that wouldn't be a prudent thing to do.
Q. And, if you could explain that a little bit further.

Does that mean that there are customers that receive service from the Company in the winter that don't receive service from the Company in the summer?

A. (Savoie) Well, take a non-heating customer, for example. They have maybe just cooking and doing clothes drying, and they're not heating their homes. So, they have a heavy baseload and no heating load, versus somebody who heats during the winter, and then might not even be cooking during the summer. So, you could have a residential heating customer who has very, very low usage during the summertime, but you have somebody who's doing their clothes drying and their cooking year-round, and they would get a heavier burden of making up this under-collection.

Q. What is the bill impact of the Company's proposal, the January 31st proposal, if the Commission were to approve that proposal?

A. (Savoie) If everyone would look at Exhibit 7. This is a bill impact for the entire winter period. Rows 36 through 60 is what the bill -- total bill is using the initially approved rate for residential of 0.8895 per therm. So, their total bill for the winter period, for an average residential heating customer using 650 therms, would be $975 roughly.

Rows 8 through 32 shows the actual rates billed through February, where we hit the cap, and then, for March and April, shows what the Company proposed for an increase at 13.22 cents. And, that total bill for the entire winter period increases to $1,005 roughly.

Rows 63 through 70 summarize the difference. The increase in the total winter bill is $130, or 14.89 percent. That would be the total bill impact for the entire winter period.

What I've added here on Exhibit 7, at the bottom, which don't have row numbers, is at a higher rate, at an increase of 18 cents per therm for March and April, what is the total bill impact, compared to the initially approved rate. And, that would be a total bill impact of about $141, or 16 percent.

Q. And, why did you run that additional calculation?

A. (Savoie) Staff asked to see what would the rate increase be if we were to try to make the projected under-collection equal to last year's under-collection, that was $5.1 million. So, to reduce the projected under-collection coming out of this winter period down to 5.1, we would need to raise rates for March and

April by -- well, 0.1796, so, roughly, 18 cents. And, the total bill impact would be a 16 percent increase over the initially approved rate.

Q. Is the Company agreeable to that amount of recovery?

A. (Savoie) Yes. The Company finds that would be a prudent level to raise rates.

Q. And, how much would the Company be recovering in dollars during March and April, if this latest proposal were approved?

A. (Savoie) About four and a half million dollars.

Q. And, am I correct then that the balance, the $5.1 million would be recovered during next year's winter cost of gas?

A. (Savoie) That's correct.

CHAIRMAN IGNATIUS: Before we go further, could I just ask one clarifying question, for the sake of the record and for my understanding. On Exhibit 7, the bottom two boxes use the phrase "Difference with an increase of", and then you have the "1322" in the second to the last box, and the bottom one says "Difference with an increase of 0.1796". Do you mean an increase to that amount, rather than increase of? You're not adding those amounts on top of the existing rate, correct?

WITNESS SAVOIE: That would be the increase in the total bill over the initially approved rate for an average residential customer.

CHAIRMAN IGNATIUS: But you're not adding that number to the rate. That's the resulting rate after you add --

WITNESS SAVOIE: That would be the total percentage bill impact and the total dollars that they would pay additional over a winter period.

WITNESS FRINK: If I may? That's being added to the current rate. So, the current rate is $1.11, would go up another 18 cents.

CHAIRMAN IGNATIUS: All right. So, it is in addition to the current rate. Thank you. I was misunderstanding that. All right. I didn't mean to interrupt. Go ahead. Thank you.

BY MS. KNOWLTON:

Q. Mr. Savoie, looking at Exhibit 7, in that bottom box, showing the proposal that the Staff and the Company have agreed to, this calculation is for residential customers, correct?

A. (Savoie) Yes.

Q. Has the Company performed any similar calculations for commercial and industrial customers?

A. (Savoie) I have. I don't believe I have that with me, though. But I think the spreadsheet I provided Staff has that data.

Q. Do you have any rough sense for what the increase would be for the C&I customers? Just on a percent basis, if possible?

A. (Savoie) Yes, I'd have to look into that. I don't think it would be drastically different, but I would need to check that.

Q. Mr. Savoie, do you believe that this approach that's reflected on the bottom of Exhibit 7 would be in the public interest for the Commission to approve?

A. (Savoie) Yes, I do.

Q. And, why is that?

A. (Savoie) I think it's a fair balance, between not increasing the rates by the entire projected under-collection, that would be just too much for your typical customer to bear, who expects some price certainty -- not "price certainty", but, you know, some stability in their gas bills, but it does also at least recover a sizable amount during the current period. So, it's matching the proper price signal with the right period, to the extent we can afford to, without having, you know, bill shock.

MS. KNOWLTON: Thank you. The Company has no further questions for its witnesses.

CHAIRMAN IGNATIUS: Thank you. Mr. Sheehan, do you have questions for Mr. Frink?

MR. SHEEHAN: I was going to ask some questions of the Staff witness -- I mean, the Company's witnesses, and then Mr. Frink at the end, if that's okay?

CHAIRMAN IGNATIUS: All right. And, is that all right with OCA?

MS. HOLLENBERG: Yes.

CHAIRMAN IGNATIUS: Then, we'll come back to you.

MS. HOLLENBERG: Sure.

MR. SHEEHAN: So, either Mr. DaFonte or Mr. Savoie, who feels best to answer the questions.

CROSS-EXAMINATION

BY MR. SHEEHAN:

Q. Liberty filed the petition on January 30 and requested the increase through March -- effective March 1. Have market prices changed much since your filing on January 30? And, if so, how does that impact the projected under recovery?

A. (DaFonte) Yes. Market prices, with respect to the NYMEX futures, have gone up, primarily for the month of

March, since the last filing, maybe about a dollar or so. But the impact of that is not significant on any under recovery. The basis projection is still in line with where we were at the end of January.

Q. What are the total projected gas costs for this winter and what is the projected under-collection as a percentage of those total costs?

A. (Savoie) Okay. Please refer to Bates Page 021 in Exhibit 6. Based on the last trigger that was prepared at the end of January, the estimated total adjusted gas costs were 82.49 million. It's about halfway down the page. The projected under-collection, after increasing the cost of gas rate in February to the cap, was 9.3 million. And, that's an 11.3 percent under-collection. With the Company's proposed increase in rates of 13 -- 0.1322 per therm, the under-collection would have decreased to about $6.2 million, which is about 7.6 percent of the total gas costs.

And, using Staff's proposed increase of 18 cents, the under-collection goes down to 5.1 million, and that's about 6.2 percent of total gas costs projected as of the last trigger.

Q. And, to put that into perspective, over the prior three winters, what has the over- or under-collection been and how does it compare for the total gas costs of those years? Give us some sense of how this year compares to prior years.

A. (Savoie) Okay. The Winter of 2012-2013 had an under-collection of about 5.1 million, and that was 9.1 percent of the total gas costs. And, the 2011-2012 winter period had an under-collection of 1.6 million, and that was a 3.7 percent of the total gas costs. And, the winter prior to that, the winter of 2010-2011, the under-collection was 3.7 million, were 5.9 percent of total gas costs. So, the prior three winters averaged about 6.2 percent of the under-collection as compared to total gas costs.

Which, coincidentally, if we do end up this winter period at 5.1 million, using the 18 cent increase that Staff suggests, we end up at right around that number, 6.1 percent under-collection of total gas costs, which brings it in line with our three-year historical average.

Q. Could you compare your annual transportation throughput with your firm sales throughput, in volume and as a percentage of the total throughput?

A. (DaFonte) Sure. For the 2013-14 winter, the Company had projected approximately 96 million therms of transportation load, which is inclusive of those customers that are capacity-exempt and those that are non-capacity-exempt. In addition, the Company had forecast about 64 million therms for total projected throughput for sales customers, for a total of 100 and -- I think I said that backwards. Let me back up. The 96 million therms was projected for sales customers, that would be both C&I and residential. The 64 million therms is for the transportation customers, both capacity-exempt and non-capacity-exempt, for a total of 160 million therms. The percentage breakdown is approximately 60 percent sales and 40 percent transportation.

Q. And, the same question I asked a minute ago. How does that -- do those volumes compare over the prior three years?

A. (DaFonte) Over the past three years, and this is looking simply at the breakdown between sales and transportation, for just C&I. I took out the residential, because those are all sales customers. But, in terms of taking a look at the migration, because that's really what we're discussing here, is whether customers are moving from sales service over to transportation. So, I just looked at the C&I customers. The 2010-2011 annual saw about 40 million in sales and approximately 53 million in transportation, which is about a 43 to 57 percent split, sales to transportation, again, excluding residential sales. 2011-2012 was about 37 million sales and 56 million transportation, which is a break out of about 40 percent sales to 60 percent transportation. And, then, the 2012-2013 annual period was approximately 37 million sales and about 61 million transportation. So, a breakout of about 38 percent to 62 percent, sales to transportation, respectively.

I would also add that, in terms of the migration rates themselves, for those three years we had about a 19 percent migration rate, from sales to transportation, in 2010-2011. It went down slightly to 18 percent for 2011-2012. And, for the final year, it went down considerably to 8 percent in 2012-2013.

Q. Meaning the migration rate slowed?

A. (DaFonte) It slowed, yes.

Q. Do you expect any future changes in the migration rate? Or, I should say, what changes do you expect in the future migration rate?

A. (DaFonte) Well, we expect there to still be some migration. But there's a possibility that we could see some reverse migration, due to the high prices that customers had to pay this winter. There are customers out there that are being served by marketers that don't have our capacity. Those are the capacity-exempt customers. And, I have heard, through some of my other colleagues at other utilities, that they have received inquiries from customers, that are currently transportation, that want to come back to the utility sales service. And, that's primarily because the utility has a more diversified portfolio of assets. So, even though we do pay that high price for market area supply, we also have other supplies, such as storage capacity from the Gulf Coast, capacity from the Canadian border, altogether it provides more diversity for pricing purposes. And, so, we have heard that there are customers looking to come back, particularly where some of them have been on a fixed price maybe for a couple years, and now a new price has to be calculated for them. Coming out of this type of market, that price will tend to be much higher. So, there is a possibility of us seeing that. So, it's hard to predict with any real confidence. But there is a likelihood that we'll see both migration to and

migration from transportation.
Q. And, bringing it back to the context of this case, if the migration continues at the present rate, how much of the projected under recovery do you think migrating customers would avoid paying, because they had migrated?
A. (Savoie) Yes. I didn't do a computation, because Chico and I --

(Court reporter interruption.)

BY THE WITNESS:
A. (Savoie) Chico and I discussed how to answer that question. And, there's such uncertainty as to what that migration would be, or if there would even be a reverse migration, that I didn't know what figure to even use in that scenario.

BY MR. SHEEHAN:
Q. Okay. But the concept is true that, if a customer leaves today, and there's going to be an under-collection that's going to be billed later, they avoid paying that?
A. (Savoie) That's true. And, if we have some reverse migration, they will pick up some of the gap.
Q. Correct.
A. (Savoie) So, at this point, we can't tell which way it

will go.

A. (DaFonte) And, there's one thing I would also add is that the customers that you could see migrating back to sales service would be customers that are capacity-exempt. Those are the larger customers. So, they would bring more volume back. So, it's hard to determine on a customer count basis versus a, you know, versus a customer -- you know, a customer class basis, let's say.

Q. Has there been much, if any, customer response to the display ad on the proposed rate increase?

A. (Savoie) I checked internally with several key people, and they reported no increase in any sales inquiries in the recent -- in the past few weeks.

Q. Any other customer response you heard of?

A. (Savoie) None.

Q. Has there been much publicity in the local media regarding increasing natural gas prices? And, can you give us any examples?

A. (DaFonte) There hasn't been a lot, surprisingly. We saw just recently, in the New Hampshire Union Leader, an article, this was published on Tuesday, talking about the high gas prices, but specifically focusing on the initiative by the six New England governors to look at bringing in additional pipeline capacity and new infrastructure, to reduce energy costs, both electric and gas, on a forward-looking basis. But that was the primary focus of it.

Nationally, there's been certainly articles published. EIA came up with some studies regarding the pricing and the cause of the price increases. And, certainly, some of the national media has covered the natural gas price increase as well.

Q. Do you, as a company, have any sense of whether customers will be surprised by further increases in their monthly gas rates?

A. (Savoie) I can't see how anyone could be surprised with all the attention on what propane prices, for example, are doing, and I guess maybe heating oil to some extent has been up, but I'm not positive about that. But --

A. (DaFonte) Yes. I would also add on that that some customers, and maybe a lot of customers, don't really focus on the rate itself, they look at the total bill. And, they see a number. And, you know, even if the rate hadn't changed, the fact that they're using a lot more gas this winter would have caused their bill to be higher. So, I think you might see a surprise along those lines, when they're comparing this year's bill to last year's bill, or even to a prior month. But, like I said, I don't think that customers generally look at the rate itself, and generally focus on the total bill.

Q. The Company initially was considering in its Petition a request to seek recovery of a portion of the winter under recovery over the summer period. Can you tell us how the winter and summer loads compare? For example, what the heating load is in the winter versus the summer?

A. (Savoie) Okay. I've just jotted down, for a residential non-heating customer versus a residential heating customer, a lot of figures here. So, for an R-1 customer, a non-heating residential customer, during the winter his baseload is 39 percent, and there is some heating load, 61 percent. In the summer, though, the baseload is 79 percent, with the heating load of 21 percent. Compare the Rate R-3, a residential heating customer, they use only 15 percent for baseload in the winter, that's compared to the 39 percent for the Rate R-1. And, a Rate R-3 uses a baseload of 64 percent in the summer, that compares again to the figure I mentioned earlier of 79 percent for the non-heating customer.

Q. This question goes to the customer impacts. In the

initial filing, Liberty provided an annual bill comparison for the prior winter, Schedule 8. Can you please compare the November 1, 2013 through April 30, 2014 gas costs in the initial filing with the gas costs based on the actual and the projected March and April rates? I think you did summarize that briefly.
A. (Savoie) Yes. That was the Exhibit 7 that we spoke about.
Q. Okay. And, to summarize, what you initially projected when you did the filing last fall was a total customer bill of about $875, is that right?
A. (Savoie) Yes. That sounds right.
Q. Line 60 of Exhibit 7?
A. (Savoie) That's correct. $875 was the total bill impact -- total bill during the winter period, using the initially approved rate.
Q. From last fall?
A. (Savoie) Yes.
Q. And, then, the rate that you projected with having done the step increases as far as you could go, and with your proposed 13 cent increase for the last two months would be a $1,005 total bill?
A. (Savoie) That's correct.
Q. And, if the Commission were to approve the agreed upon

18 percent -- 18 cent increase, instead of 13, you get to -- there isn't a total, but it would be $1,015 roughly?

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

Q. What you did provide us with is the change of $130 based on the 13 cents and it was $140 based on the 18 cents?

A. (Savoie) Right.

Q. Okay.

A. (Savoie) That difference is what that 1,005 would go up by for the total winter period.

Q. Okay. So, if the 18 cent is approved, Line 32, the total bill impact for the winter would be about $1,015?

A. (Savoie) Yes.

Q. Based on current natural gas future prices, does the Company expect to see an increase in next winter's cost of gas rate compared to this winter?

A. (Savoie) Yes, it does. I used the model that we filed for the Winter of 2013-2014, and substituted the NYMEX prices for that winter period with the projected NYMEX prices of next winter, to just get a feel for the NYMEX alone, what is that doing to the rate. That would have been a 4.9 percent increase from just that. That, of course, doesn't factor in any changes in the

differential, which is really impossible at this point to project what those would be.
Q. Is the Company expecting an increase in delivery rates on July 1 of this year related to its Cast Iron/Bare Steel Main Replacement Program?
A. (Savoie) Yes, it does. The Company continues with its Cast Iron/Bare Steel Replacement Program, and will be filing for increased rates effective July 1.
Q. Is there any sense of what that increase will be?
A. (Savoie) I think it's modest. Pure back-of-the-envelope, one to two percent, something like that.
Q. Is the Company expecting to file a general rate case prior to November 1 of 2014?
A. (Savoie) Yes. The Company anticipates filing a rate case during 2014.
Q. And, will it be seeking temporary rates at that time?
A. (Savoie) I believe we will. But when and how much hasn't been determined.
Q. I think this last question has been answered. Rather than increasing the March/April rate by 40 cents per therm to eliminate the entire under recovery, I think as you testified to, the Company proposed 13 cents. And, the question is, what increase would you need to

impose now to reduce the under-collection to an amount comparable to last winter? And, that's the 18 cents that we've agreed to in this proceeding, is that correct?

A. (Savoie) That's correct. Based on the projections in the last trigger, to achieve a 5.1 **[**6.1**?]** percent under-collection, we would need to raise the rates in March and April by 18 cents.

MR. SHEEHAN: Those are the cross questions I have. I do have some for Mr. Frink. I don't know how you want to do them.

CHAIRMAN IGNATIUS: Why don't you go ahead.

MR. SHEEHAN: Okay.

DIRECT EXAMINATION

BY MR. SHEEHAN:

Q. Mr. Frink, would you state your name please and your title.

A. (Frink) My name is Stephen P. Frink. My title is the Assistant Director of the Gas and Water Division.

Q. And, you did not present testimony in this case, written testimony for this, correct?

A. (Frink) Correct.

Q. And, you've heard the testimony of the Company witnesses explaining an agreement that you -- Staff has reached with the Company, is that correct?

A. (Frink) That's correct.

Q. And, have they stated it roughly accurately, that it will be a roughly 18 cent increase and no recovery of that under recovery over the summer?

A. (Frink) Correct.

Q. Are there any other basic terms of the agreement as you understand it to be?

A. (Frink) There are no other terms.

Q. Can you tell us why Staff supports that basic agreement?

A. (Frink) Well, Staff believes it's critically important to have -- to send the proper price signals that reflect current rates. It's consistent with the media message, when I opened up yesterday's Union Leader, the headline was "The Natural Gas Prices Go Up, Up, Up". We, actually, years ago instituted monthly adjustments to try and reduce and eliminate large over/under recoveries, because it tends to distort prices, and, again, it wouldn't always reflect what was happening in the media. You might have escalating prices that are in the news, but the gas rates, which were set for a six-month period with no monthly adjustments, would stay flat. Then, maybe the prices would tank in the summer, and yet you were carrying forward a large under-collection, and those prices would be much higher, with people hearing about lower gas costs. And, so, there was a disconnect in what people were seeing and expecting and what was actually happening.

We went to transportation service. And, at that point, marketers were competing with the utility's prices. And, without it doing monthly adjustments and carrying forward large over/under recoveries, it distorted the market. So, third party suppliers would be competing with a rate that wasn't really reflective of what the utility was actually paying for gas costs.

Another concern with -- another important point of getting proper price signals is, when you have large under recoveries or over recoveries, there's also the issue of interest, which accumulates or has to be either collected from customers or returned to customers, not all of which have the same borrowing rates. The utility's borrowing rate is a short-term rate, what's provided for in the cost of gas mechanism is a prime rate. A customer's rate may be a credit card rate. So, there's always concern with imposing a interest rate.

There's also the issue of FPO customers. The FPO rate, those customers aren't seeing a rate increase. If rates go up or down, they have a fixed rate. Well, in essence, any cost increases or cost decreases during that period, the FPO customer really shouldn't be responsible for. Well, when you defer costs or over-collect, then those customers are actually getting the benefit of dropping prices or being penalized for the increasing prices. So, again, you want to limit over and under recoveries and send the proper price signals. So, that's, as far as proper price signals go, that was some of the concerns with making sure that current rates reflect the current market.

I touched upon, if you have large deferred over and under recoveries, the interest, the borrowing rates on that vary for the various people, the utility, customers, marketers. There's also the stranded costs that can come from that. For instance, we've talked about "transportation migration". If the large under -- say, in this instance, there's a large under-collection that has to be carried forward, it increases the utility's gas rate next winter, that could increase migration as commercial/industrial customers weigh that option. And, if they migrate, then those -- that under-collection, which their usage during this winter contributed to, would be a stranded cost, which would be borne by the remaining customers. And, I used transportation customers as an example, there are also the normal customers terminating service, new customers coming on. Again, you want them to pay the costs that they're causing. And, you lose some of that when you carry over large over/under recoveries.

Now, this proposal limits the under recovery. Again, it's large, but it's something less than it would be otherwise. And, the reason Staff thought it was appropriate to tie it to the under recovery that was reflected in this winter's rate is, again, it is a large recovery -- under recovery, but, if you have the same under recovery year to year, it really doesn't impact, you're still recovering those actual costs in that period. So, this year's rates were overstated by that $5 million that were added in next year's rates. So, assuming the year before there had been no under recovery, now you've taken 5 million of those gas costs and flipped them into the following winter, which is this year, well, these rates were actually overstated. So, you would have seen a big increase in gas costs, even if everything else had remained the same.

Next year, there's a 5 million under-collection under this year's rates, you won't see a change in the rates, if everything else remains the same. So, that's where we thought that getting it down, even though it was a large under collection, to what it was last winter made sense.

Now, another reason we proposed a -- Staff would rather see an 18 cent increase in the gas rate is that the idea with this limited increase, not enough to fully recover the under-collection, is that it's going to have a large rate impact, which is correct. But we don't know what the rate's going to be next year. We do know that there's going to be an increase in delivery rates, actually, two increases, one for the CIBS adjustment, the Cast Iron/Bare Steel, and one due to a general rate case and temporary rates. So, even if gas don't go up, and right now, based on the NYMEX futures, it looks like they will be, then, you know, there could be a significant increase in next year's rates. So, we feel it's more appropriate to bump up the rate over the last two months a little more, and hopefully alleviate some of the increase that -- increases in the total bill that customers will be seeing next year.

Now, with a limited deferral of this under recovery, again, there is a large rate impact, when you're looking at two months, that's a limited number of volumes. And, so, if you carry it over to next year, you get six months, with your heaviest usage months. So, the impact over a six-month period and higher volumes obviously should have less of an impact. So, again, this makes sense. And, we can -- the actual rates themselves are going to go up considerably. And, again, these are lower usage months. So, the bills shouldn't be as big as prior months, even with that increase, but it is a significant increase.

And, just to mention Staff's position regarding not allowing recovery of the under recovery in the summer period. It is a different load that is on line in the summer. The commercial/industrial customers, with a lot of process load and flat load, they're on twelve months a year using basically the same volumes. And, whereas heating customers, which, obviously, the vast majority of heat load is in the winter period, those customers, that is a big part of the problem, some of those costs would be shifted more to the flat load, the commercial/industrial, the non-heat customers. So, that's why we have a winter and a summer cost of gas. There are definitely different costs associated with the two periods, different customer loads. And, so, typically, we try very hard not to cross those boundaries.

And, also, under Staff's proposal, the under-collection has been reduced somewhat. So, to fully recover it in the winter period shouldn't be as bad as originally proposed, and, as already stated, that 5 million -- that $5 million under-collection was also something that was in this winter's cost of gas, and we didn't seek to address that in the summer. Consistent with that, we'll just leave that in the winter would be Staff's proposal.

And, so, just to summarize Staff's position, we believe that there should be an 18 cent increase in the current cost of gas rate, and that the 5 million under recovery should be reflected in next winter's cost of gas rates.

Q. One clarification, Mr. Frink. We said "18 cents", and Exhibit 7 is actually "0.1796". Which number do you

actually propose the Company implement as of March 1?
A. (Frink) The 18 cents. It's really an immaterial difference.
Q. Okay.
A. (Frink) And, for the analysis, Mr. Savoie used the 17.96 rate. But you could expect there won't really be a change between 18 and the 17.9 --
Q. Okay. So, the --
A. (Frink) -- 17.96 cents.
Q. So, the request is an 18 cent increase?
A. (Frink) That's correct.
MR. SHEEHAN: I have no further questions for --

BY THE WITNESS:

A. (Savoie) I just wanted to clarify, that's 18 cents for all three cost of gas rates. There's a residential rate, but there's also a Commercial/Industrial High Winter Use and Low Winter Use. And, just to clarify that all rates would go up 18 cents.

BY MR. SHEEHAN:

Q. And, that's correct, Mr. Frink?
A. (Frink) That is correct.
MR. SHEEHAN: I have no further questions.

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

MS. HOLLENBERG: Yes. Thank you. Good afternoon.

CROSS-EXAMINATION

BY MS. HOLLENBERG:

Q. Quick question, just to clarify. The cost of -- winter cost of gas typically includes not only an increase to reflect the cost of supplying the gas or the gas costs, but it also typically includes adjustments to the LDAC charge. And, that LDAC charge includes typically environmental remediation costs and energy efficiency costs and low income assistance costs, those types of costs. Just to clarify, there's no change in the LDAC being proposed in this part of the proceeding?

A. (Savoie) Correct.

A. (Frink) Right. I did notice, on Exhibit 7, it mentions "Cost of Gas" and "LDAC". And, you're absolutely correct. And, just scratch out the "LDAC", there's no change.

Q. Okay. Thank you. And, Mr. Savoie, you mentioned, in response to some questions about heating load and baseload, you gave some percentages for heating load and baseload, and something puzzled me. Which was that you mentioned the "R-1" customer class, which is residential non-heating customers, having heating load in both the summer and the winter. Why is that?

A. (Savoie) I need to go back to the tariff page and see what the qualifications are, because I can't remember if there's some maybe limited heating load.

Q. Okay.

A. (Savoie) But the calculations I was using for baseload was just looking at usage for each of the 12 months, looking at what's used in July and August and saying that's baseload. And, when you look at the R-1 customers during months other than July, they are using more. So, I don't know if there is some limited heating, a hot water heater, yes, maybe a hot water heater uses more in the winter. So, that I can't tell you specifically. But that's a good observation.

Q. So, not necessarily that a residential non-heating customer is improperly classified and is actually using heating, it could be -- there could be appropriately within the R-1 category customers who are non-heating also using more?

A. (Savoie) I believe that's true. And, I think, if I remember right, the tariff page says Rate R-3 is when you use natural gas as your primary heat. So, maybe you have situations where they have -- they're using oil, but they also have some natural gas they use for limited heating. That I would have to check to be absolutely sure, but that could be some of it.

Q. Okay. Thank you. Mr. DaFonte, I wondered if you could, to the extent possible, provide us with an update on the Company's efforts to participate in discussions about expanding capacity in the New England region?

A. (DaFonte) Sure. The Company has been in discussions with both Spectra, which is -- Spectra Energy, which is proposing to construct a new project called "Atlantic Bridge", designed to bring additional capacity into New England. And, the Company has also been in negotiations with Tennessee Gas Pipeline, which is proposing a project called the "Northeast Expansion Project", which is designed to bring additional capacity into New England via a new pipeline. The Spectra project is taking the existing pipe that they have on their Algonquin system and replacing it with higher or larger diameter pipe and higher pressure, as well as a higher compression. And, the Company is looking at both the economics, the reliability, and will evaluate those and make a filing with the

Commission, once it decides which project it would contract for. But it is seriously considering contracting with either one of those projects, to bring additional capacity into the region, and going back to a more liquid point. Instead of buying gas in the market area, it would be able to go back further to a more liquid point, hopefully, as far as back as the Marcellus production area. But, again, we'll look at the details behind those projects to see what type of pricing that we could get for that, that new supply.

Q. Thank you. Just a couple of questions to see if I can ask you on the record to explain the changes in the hedging policies and I think that the Company is thinking about going forward. So, historically, at least up until 2008-2009, that time period, the volatility that was experienced for natural gas utilities was related to the supply cost, is that correct?

A. (DaFonte) Correct. It was more related to the NYMEX futures pricing, which is essentially the benchmark for all natural gas trading. And, that's pegged to the Henry Hub point in Louisiana.

Q. And, the shift that we've seen since has been increased risk related to capacity, especially in the New England

area, is that correct?
A. (DaFonte) Yes. The capacity into New England has essentially remained the same, yet the demand has increased significantly, particularly with respect to gas-fired generation in the region. So, yes. The capacity has now started to become the driver -- or, the lack of capacity has started to become the driver for price increases.
Q. And, that's the basis differential or the basis that we're talking about that's added on above the NYMEX cost to deliver the gas to the New England region, is that correct?
A. (DaFonte) That's correct. Yes, that's right.
Q. Okay. And, we did, in the winter cost of gas hearing this past fall, we talked about changing the hedging policy to reduce some of the hedging that you were doing for the supply costs, correct?
A. (DaFonte) Yes. And, when we talk about "supply costs", we're really talking about the NYMEX futures or the Henry Hub, --
Q. Uh-huh.
A. (DaFonte) -- the national price, if you will. And, the issue that's really developed over the last, well, since 2008, is that, because of the development of

Marcellus Shale supply and Utica Shale supplies, that has muted the volatility of the national price. And, so, while the Company has hedged that price, it's been in a falling market. So, the prices have actually gone down, based on the Company's positions in the hedging.

So, while the focus has been on price stability, we have not seen the volatility in the national price over the course of those, you know, five to six years. And, so, we felt like that is no longer necessary in terms of hedging, because the volatility just isn't there. And, on a relative basis, even this winter, where we've seen the futures prices for February, for example, went up about $1.50. That $1.50 almost seems immaterial, when you're talking about the market area prices, which were above $100 on many occasions. So, when you look at it that way, the focus of the Company has turned to "how do we try to mitigate the volatility in the market area price, as opposed to the volatility in the national price?" So, that's really the focus of any new hedging proposal that we make, it ought to be designed to try and create some price stability with regard to the market area price, at least for those purchases that we consider to be baseload requirements for our customers.

Q. And, it's the Company's intention in the near future, I think 60 days or so, to make a filing regarding possible changes to hedging to mitigate the supply area risks, is that correct?
A. (DaFonte) That's correct.
Q. Okay. And, is it also correct that -- you just mentioned that you would propose a method of hedging baseload. Are there supplies or is there a load, a portion of your load that is really not economic to hedge? Could you talk a little bit about that.
A. (DaFonte) Sure. You know, the way that we serve our load is based on the dispatch of the least cost supplies first. And, as the weather gets colder, our demand goes up, our heat-sensitive load adds significant demand to that. The problem that you have is it's unpredictable. So, once you get into a winter month, let's say January, the coldest month typically out of the year, you have an idea as to what your -- not only your baseload requirements are for your non-heating portion of your load, but you also have a pretty good idea as to what the range of requirements would be for your incremental load. And, what we try to do is we don't purchase at the top of that range and we don't purchase at the bottom of that range. We

purchase essentially on a normal basis. So, what we would expect based on normal weather. And, that's about as much as we can lock into, because you're always going to have weather that is much warmer than that and much colder than that. So, we prepare ourselves to be able to manage that swing in either case, because we are limited in terms of the flexibility that we have on the natural gas pipelines. They don't give you unlimited flexibility.

So, we, for example, we couldn't buy 100 units of natural gas, if our need is only for 50, and expect that we can leave that other 50 on the pipeline. Because everybody else is trying to do the same thing, and the pipelines just can't absorb that amount of gas, and that's problematic. You know, the converse to that is when it gets cold. We have a need for 100 units, but we only purchase 50. We can't expect to borrow that additional 50 from the pipelines, because everybody else is going to be doing the same thing. So, the pipelines limit you to how much flexibility you have, to either borrow or put back on the pipe an amount of gas, and on any given day.

So, essentially, as I said, we plan for the normal, and then we have options to call on additional supplies when it gets colder. And, the unfortunate aspect of that is that, when we need that gas, everybody else needs it, too. It's cold, and everybody is trying to get the same molecules. And, that includes the gas-fired generators, who will bid up the price, because they're selling into a spot market. So, for them, it makes sense to buy in a spot market and not make long-term commitments.

So, for that portion of our requirements, which we consider to be those peaking requirements, we wouldn't be able to hedge that, because it's unpredictable. And, you can only hedge volumes that you know that you're going to use. And, so, for those spot purchases, we cannot hedge those. So, we'll still have some volatility in that price, but, certainly, it will be muted relative to what's happened this winter, because we'll hopefully have hedged that, the majority of our requirements through locking in a basis differential.

Q. And, would you agree that, if you had -- if you did practice or engage in a practice of hedging for the peaking requirements, that you'd pay a lot more than you would, where you'd see a lot higher increase probably today than we're seeing now, because you would be locked in for every day during that time period, as opposed to just the call options that you use when you need it, is that correct?

A. (DaFonte) That's correct. It's a fine line, because you're trying to predict what your usage is going to be twelve months in advance or even more than that. And, the weather changes on a day-to-day basis. Never mind the fact that it's going to change every single winter in total, but, on a day-to-day basis, it's going to determine whether you use more gas or use less gas. And, if we make a commitment to using too much gas or purchasing too much gas, we've made a commitment that we consider what's called "take or pay". So, you have to take that supply or you're going to have to pay for it. And, what that does, if you buy too much, then you have to cut back on something else. And, the cutting back would be the -- the only flexible supply that we have is our storage, and our storage is our cheapest supply at the moment. And, so -- and, it typically would be, because we fill storage in the summer, when prices are typically cheaper, and then we take it out in the winter. So, in a sense, you would be paying more, even though you're hedging it, you're hedging more expensive gas. So, you're locking in a very expensive supply at the expense of a much cheaper supply in the storage volumes. So, you have to be careful that you don't overcommit to a purchase. And, that's why we, you know, we maintain the ability to contract on an "as needed" basis for these incremental supplies.

I would also add that we do have on-system LNG and propane, and we do use those supplies as well for our peaking needs. But, again, they're limited. And, we don't have a lot of storage, particularly for LNG, very limited in the storage. And, propane, propane prices are pretty high right now, too, so, there's no bargain there.

Q. A quick question for either of the Company's witnesses. We talked in the original winter cost of gas hearing about eliminating or the Company filing a proposal to eliminate commercial and industrial customers from the Fixed Price Offer Program. Is it your intention to make a filing in conjunction with the hedging proposal to do that?

A. (DaFonte) Yes. We would include that as part of our hedging plan proposal, as I said, probably in the next 60 days or so. And, I think, as we talked about at the winter cost of gas hearing last fall, the rationale behind that is that the C&I customers have a choice, where they can contract with a third party supplier to provide them with a fixed price service, if they wanted. And, whereas residential customers don't have that choice. So, we feel like the Fixed Price Option should really only be offered to the residential customers, who don't have a choice, instead of whether they lock in or whether they lock in a price with a third party supplier.

MS. HOLLENBERG: Thank you. If I could have just one moment? Thanks.

CHAIRMAN IGNATIUS: Take your time.

(Atty. Hollenberg conferring with Mr. Eckberg.)

MS. HOLLENBERG: Thank you. No further questions.

CHAIRMAN IGNATIUS: All right. Commissioner Honigberg, any questions?

CMSR. HONIGBERG: Yes.

BY CMSR. HONIGBERG:

Q. Actually, the last question I was going to ask about. Are you considering any other changes to the Fixed Price Program, how it's calculated or how it works for residential customers?

A. (DaFonte) We'll have some discussions. I think the only other thing that we may consider is the premium that's paid. Right now, I think it's a two cent premium. And, given the volatility in the marketplace, it probably should be a higher premium on that Fixed Price offering. So, that's something we'll consider as well. I'm not sure if that is appropriate to change that within the context of a hedging/FPO filing or whether we can do that in the cost of gas filing for next winter.

CMSR. HONIGBERG: I wasn't limiting it to what you're planning on doing right away, but what else you're thinking about for next time around. As I was making notes, questions had actually picked up virtually everything I was going to ask about. I actually don't think I had anything else.

CHAIRMAN IGNATIUS: All right. I have just a couple final questions.

BY CHAIRMAN IGNATIUS:

Q. Mr. DaFonte, you testified about the reduction in the available LNG in recent years, with Canaport no longer providing LNG to this region. With the run-up in prices that you've seen, is there any increased interest in bringing LNG into the Northeast?

A. (DaFonte) I think there will be. And, I think this winter what we did see is that the Canaport facility did bring in I think one load of -- one ship of LNG, which is about 3.5 Bcf. They did so, really, to take advantage of the pricing in the marketplace. They're not committed beyond that one ship to bring in additional volumes. So, I think it's going to be on an "as needed" basis, in a sense. And, they will take a look at where prices are. And, if prices start to increase, then they will probably bring in that ship, divert it from its, you know, destination of probably Europe or Asia.

But I think the other question is, if the futures prices for not just the NYMEX, but more the basis, if they can find a market where they could lock in an all-in price that exceeds their other markets, then they would probably bring in supplies. But it would only be to serve a particular market that committed to that supply. So, they're not going to bring it in and hope that the prices here in New England are going to be greater than they are over in Europe or in Asia. So, it's really on a, you know, on a customer-by-customer basis, and on a, you know, maybe a month-to-month basis, depending on where prices are.

Q. And, this is for any of you who feels best able to answer it. If somehow in the next two months we saw a significant drop in the market prices for natural gas, would this rate also drop down?

A. (Savoie) The intent is, we don't think that, given the large under-collection still remaining, we whittled it down quite a bit from where it was to 5.1 million, but I can't see where we turn that around completely. So, I don't think that's a feasible option to consider at this time.

Q. We received an e-mail from a customer in Laconia. He's a commercial customer with a 16,000 square foot building, and was saying it was -- that this proposal was a tremendous financial burden, with the increases on top of increases in the last couple of months. Do you work with any of your customers on steering them towards energy efficiency options or other ways that they might be able to control their costs, even as your rates have to go up?

A. (Savoie) Well, we have a very robust Energy Efficiency Department, who is very active in both residential and commercial/industrial. So, if they haven't spoken already, they should, and there may be some options that, you know, he can entertain to reduce his bill.

CHAIRMAN IGNATIUS: Why don't, after the hearing, I'll ask Mr. Sheehan to share that e-mail with you, so that you have the name of the customer. He may not want it being put on the public record here, but he has contact information, and make sure that he is aware of any programs that might be available to him, either now or, if you're fully subscribe, the next time that funds are available. Thank you.

MS. KNOWLTON: I'm just looking at the Commission's website. And, I see that it's the comments of Mr. Foster, that they were posted?

CHAIRMAN IGNATIUS: That's correct. I had no other questions. Then, is there any redirect?

MS. KNOWLTON: I have none.

CHAIRMAN IGNATIUS: Mr. Sheehan?

MR. SHEEHAN: I have nothing further.

CHAIRMAN IGNATIUS: All right. Then, you're excused. Thank you. But, maybe just for the sake of wrapping up, why don't you stay where you are.

Is there anything else to take up before we tie up loose ends?

(No verbal response)

CHAIRMAN IGNATIUS: All right. Then, is there any objection to striking the identification and making Exhibits 6 and 7 full exhibits?

MR. SHEEHAN: No, ma'am.

CHAIRMAN IGNATIUS: Seeing none, we'll do so. We will have just an opportunity then for some oral closing statements. And, begin first with the OCA. Ms. Hollenberg.

MS. HOLLENBERG: Thank you very much. We appreciate the efforts of the Staff and the Company. We had a very productive meeting today, and it was very helpful. I do, on behalf of the OCA, we support the proposal to increase the customers' rates by 18 cents.

CHAIRMAN IGNATIUS: All right. Thank you. Mr. Sheehan.

MR. SHEEHAN: Thank you. As we've heard, New England gas prices have surged. And, although the Company has made the monthly adjustments to recover its costs in a timely fashion, the cap on the cumulative increases limited the Company's ability to fully respond, and now only two months are left in the winter to recover this winter's costs without deferring some to next winter. So, although the 18 cent increase per therm is substantial, it still leaves a significant under-collection that will be deferred to next winter. Staff believes that the 18 cent increase and deferring approximately 5 million of this winter's gas costs to next winter fairly balances the customer bill impact with the need to reflect the current pricing. And, therefore, Staff recommends that the Commission approve the 18 cent increase effective March 1, with the understanding that the deferral will be collected next winter and not over the summer. Thank you.

CHAIRMAN IGNATIUS: Thank you. Ms. Knowlton.

MS. KNOWLTON: Thank you. The Company very much appreciates the Commission scheduling this hearing on such an expedited basis to consider the Company's proposal, and also appreciates the time of the Staff and the OCA to work through the details of this. The testimony that's been provided today supports the proposed increase of 18 cents per therm in the Company's cost of gas rates for March and April of this year. The increase is in the public interest. And, as a result, the Company requests that it be approved to take effect March 1st.

CHAIRMAN IGNATIUS: Thank you. There being nothing else, then we will take this under advisement and adjourn the hearing.

(Whereupon the hearing was adjourned at 2:32 p.m.)