STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

DOCKET NO. DG 08-048

UNITIL CORPORATION

AND

NORTHERN UTILITIES, INC.

JOINT PETITION

for

APPROVAL OF STOCK ACQUISITION

DIRECT TESTIMONY OF

LAURENCE M. BROCK

March 31, 2008

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I. INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Laurence M. Brock. My business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A I am Controller and Chief Accounting Officer of Unitil Corporation, Inc. ("Unitil" or the "Company"). I am the Controller of Unitil's utility operating subsidiaries, including Unitil Energy Systems, Inc. ("UES") and Fitchburg Gas and Electric Company ("FG&E"). I am also Vice President and Controller of Unitil Service Corp. ("Service Corp."), which provides centralized management and administrative services to all of Unitil's affiliates, including UES and FG&E.

Q PLEASE DESCRIBE YOUR BUSINESS AND EDUCATIONAL BACKGROUND.

A I am a Certified Public Accountant in the State of New Hampshire. In 1981, I graduated from the University of New Hampshire with a Master's Degree in Business Administration. I completed my Public Accounting work experience requirement at Coopers & Lybrand, in Boston, MA. After leaving Coopers & Lybrand and prior to joining Unitil, I was employed in businesses engaged in diversified manufacturing activities. I have been employed with Unitil since June, 1995.

Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION ("NHPUC" OR "COMMISSION")?

A Yes. I have also testified before the Massachusetts Department of Public Utilities ("MDPU") on behalf of FG&E.

Q PLEASE SUMMARIZE YOUR RESPONSIBILITIES AT UNITIL.

A As Controller, I am responsible for Unitil's accounting and financial reporting functions. Those responsibilities include ensuring that Unitil and its subsidiary companies are in compliance with the financial reporting rules and regulations promulgated by: the Securities and Exchange Commission, the Federal Energy Regulatory Commission ("FERC"), the Internal Revenue Service, the NHPUC, and the MDPU. I am also responsible for Unitil's compliance with the standards of Generally Accepted Accounting Principles, as defined in the pronouncements of the Financial Accounting Standards Board.

Q PLEASE BRIEFLY DESCRIBE THE ORGANIZATION OF THE UNITIL COMPANIES.

A Unitil is a public utility holding company incorporated under the laws of the State of New Hampshire. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005

("EPA"). Unitil directly owns two local distribution utility companies: UES in New Hampshire and FG&E in Massachusetts. Unitil also directly owns Unitil Power Corp., a wholesale power utility that is winding down its operations as a result of industry restructuring; Unitil Realty, which owns the corporate office building in Hampton, New Hampshire; Service Corp., which provides centralized management and administrative services to other Unitil affiliates at cost; and Unitil Resources, Inc., which provides retail energy brokerage and other energy-related services on a competitive basis through its USource subsidiaries.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A The purpose of my testimony is to: (i) discuss the service company affiliate structure of Unitil and the associated shared services cost allocation process; (ii) to present and support the proposed new affiliate agreements to include Northern Utilities, Inc. ("Northern") and Granite State Gas Transmission, Inc. ("Granite") following Unitil's acquisition of Northern and Granite ("the Transaction"); (iii) provide an preliminary estimate of the operating synergies that are expected to result from the Transaction, and; (iv) summarize the Transaction accounting.

II. UNITIL SHARED SERVICES

A. <u>Unitil Service Corp.</u>

Q PLEASE SUMMARIZE THE SERVICES PROVIDED BY SERVICE CORP.

A Service Corp. provides centralized management and administrative services to each of Unitil's affiliates. Currently, these shared services fall into six functional areas: customer services; engineering and operations; regulatory, finance, and accounting; energy services; technology; and corporate and administration. Customer services include customer inquiry, billing, cash remittance, credit and collections and other day-to-day customer service functions. Engineering and Operations consists of distribution operations management and engineering, planning, design, and safety and protection. Regulatory, Finance and Accounting monitor and control compliance with government and regulatory agencies, cash management, budgeting, financial reporting and accounting. Energy Contracts is responsible for gas and electricity procurement, energy portfolio management and market analysis. Technology administers the Company networks, information systems and communications equipment. Corporate and Administration provides executive services, human resources and administrative support to all affiliates. A chart of the Service Corp. and the local Distribution Operating Center ("DOC") Departments and Functions is attached as SCHEDULE LMB-1, pp.1-2.

B. <u>Service Agreement</u>

Q PLEASE DESCRIBE THE AGREEMENT BETWEEN SERVICE CORP. AND THE OTHER UNITIL AFFILIATES.

A Service Corp. provides centralized management and administrative services to each of the affiliates of Unitil under the terms of a Service Agreement between the parties. Service Corp. is the provider and each of the affiliates is a client of Service Corp. in this structure. A chart of the post-acquisition Service Corp. client company structure is attached as SCHEDULE LMB-2. The Service Agreement describes the services to be provided by Service Corp. to the client companies and describes how the accounting and billing for those services will be performed by Service Corp. in accordance with the guidelines originally established under the Public Utility Holding Company Act of 1935 ("PUHCA '35 ACT") and now governed by FERC pursuant to the provisions of the EPA. The final rules implementing the EPA, issued by the FERC and effective February 8, 2006, preserve the "at cost" standard for traditional centralized service companies providing corporate administrative functions. Therefore, Service Corp. maintains a time and billing accounting software system and provides a detailed monthly invoice to each of its client companies.

Q DOES UNITIL PROPOSE TO EXECUTE A SERVICE AGREEMENT BETWEEN SERVICE CORP. AND NORTHERN AS PART OF THE TRANSACTION?

A Yes. A copy of the proposed Service Agreement between Service Corp. and Northern is attached as Exhibit 6 to the Joint Petition. As discussed in the Joint Petition, Unitil is acquiring Northern's affiliated natural gas transmission company, Granite, coincident with the acquisition of Northern. Service Corp. will be entering into a separate service agreement with Granite.

Under the Service Agreement, Service Corp. will provide the same centralized management and administrative services to Northern, on the same financial terms, as Service Corp. provides to its existing client companies in the Unitil System under the current services agreements. In accordance with the requirement of RSA 366:3 to file affiliate contracts within ten (10) days of execution, Unitil is providing a proposed Service Agreement for Northern to allow an opportunity for review pursuant to RSA 366:5. A final executed copy of the Service Agreement will be filed promptly once the Transaction closes.

C. Cost Allocations

Q HOW DOES UNITIL PROPOSE TO ENSURE A FAIR AND REASONABLE ALLOCATION OF COSTS AMONG NORTHERN AND GRANITE AND THE EXISTING CLIENT COMPANIES AFTER THE TRANSACTION?

A Service Corp.'s time and billing accounting software system provides a detailed monthly reporting of the costs of all services provided to each client company including labor costs, overhead costs and direct charges. Each month, all Service Corp. employees submit a time card, which indicates the number of hours to be charged to each client company and those hours are recorded on the timecards by the employees according to their job functions and the Job Order Numbers ("JON") of the specific tasks that they performed. Service Corp. overhead costs are charged in direct correlation to direct labor hours. In cases where charges are allocated, an allocation factor (such as revenues, assets or number of customers) is used. Where appropriate, a combination of allocation factors is employed to best reflect a causal relationship to the type of expense being charged.

D. <u>Tax-Sharing Agreement</u>

Q DOES UNITIL PROPOSE TO INCLUDE NORTHERN IN THE TAX SHARING AGREEMENT BETWEEN UNITIL AND ITS AFFILIATES AS PART OF THIS TRANSACTION?

A Yes. A copy of the Unitil's Tax Sharing Agreement is attached as Exhibit 7 to the Joint Petition. There is no need to update the agreement as a result of the Transaction because the agreement provides that all entities acquired by any of the Unitil affiliates will be automatically included in the agreement. Essentially, the Tax Sharing Agreement provides that Northern, and Granite, will pay their share of Unitil's consolidated income taxes as if they were "stand-alone" entities preparing their own tax returns and will pay those taxes to Unitil, the consolidated tax return filer, on the same financial terms as Unitil's existing affiliate companies.

III. QUANTIFICATION OF TRANSACTION BENEFITS

A. <u>Preliminary Estimate of Synergy Benefits</u>

Q DOES THE COMPANY EXPECT THAT THE PROPOSED TRANSACTION WILL PRODUCE SYNERGY SAVINGS?

A Yes. The Company believes there is an opportunity to achieve synergies, or cost savings, as a result of the Transaction and has developed a preliminary estimate of these savings. The Company believes the opportunity to achieve synergy savings exists due to the efficiencies in the provision of centralized management and administrative shared services to Northern by Service Corp. The Company performed a financial analysis, based on Unitil's current budget assumptions and historical financial information available from Northern, to determine the economic benefit of the synergy savings from providing centralized services in the post-acquisition Service Corp. client company structure.

Q WHAT AREAS OF POTENTIAL SYNERGY SAVINGS HAVE BEEN IDENTIFIED BY UNITIL?

A The largest area of potential synergy savings that has been identified is the lower labor and overhead costs associated with the provision of centralized utility management and administrative services, or shared services, to Northern and Granite by Service Corp. after completion of the Transaction and the full integration of Northern and Granite into Unitil. There may also be some additional potential synergy savings related to the cost-effective purchasing of insurance and employee and retiree benefit plan administration services. Unitil will continue to assess the potential for additional savings opportunities during the transition period as Northern and Granite are fully integrated into Unitil. For example, there may be opportunities to achieve synergies related to choosing "best practices" between Unitil, Northern and Granite and there may be other opportunities to achieve synergies related to the upgrade and replacement of older or redundant information systems during the integration of the companies which would have required replacement in the near future.

Q PLEASE DESCRIBE THE KEY ECONOMIC ASSUMPTIONS IN THE FINANCIAL ANALYSIS PERFORMED TO CALCULATE HOW POTENTIAL SYNERGY SAVINGS COULD BE REALIZED AS A RESULT OF THE TRANSACTION.

A The Company's estimate of the potential synergy savings to Northern and Granite is based on: a) a successful regulatory approval process; b) the completion of the Company's plan to finance the Transaction; and c) a successful post-acquisition integration of the companies. The estimate takes into account the post-acquisition affiliate structure of Unitil and the achievement of economies from post-acquisition cost sharing among a larger group of Service Corp. client companies, but excludes the calculations of the costs to achieve the proposed Transaction. The timing of achieving these synergies is dependent upon the timing of regulatory approvals for the Transaction and the timing of the successful completion of Transaction financing and business integration processes. As discussed in the testimony of Unitil witness Mr. Collin, the benefits to customers of the actual synergy savings achieved by the Transaction will be included in the first rate case after the acquisition and integration is completed.

B. Method of Estimating the Potential Synergy Savings

Q HOW WERE THE PRELIMINARY ESTIMATES OF SYNERGY SAVINGS RELATED TO SHARED SERVICES CALCULATED?

A A copy of the Synergies Analysis is attached as SCHEDULE LMB-3. The major steps used to derive a preliminary estimate of the synergy savings, excluding consideration of the costs to achieve, were as follows:

- Each Service Corp. manager with budget responsibility estimated the additional staff needed to replace the centralized services currently provided to Northern and Granite by NiSource or Bay State. The incremental personnel costs required by Service Corp. to supplement its current employee workforce with an additional 42 new positions were then calculated. This resulted in an estimate of incremental labor costs of approximately $2.7 million [ref. p.3 of SCHEDULE LMB-3, Line 12].
- The incremental labor overheads and overheads related to equipment and resource costs needed to support the new personnel and functions at Service Corp. were identified. This resulted in estimated incremental overheads of an additional $1.9 million [ref. p.2 of SCHEDULE LMB-3, Line 20].
- The resulting total incremental Service Corp. cost estimate of $4.6 million ($2.7 labor + $1.9 overheads) at Service Corp. was then added to Service Corp.'s 2008 budget projection of $23.4 million to create a new post-

acquisition 2008 Service Corp. budget projection total of $28.0 million [ref. p.2 of SCHEDULE LMB-3, Line 30].

- The revised 2008 Service Corp. budget of $28.0 million was then reallocated to all of the post-acquisition client companies based on the current cost allocation formulas of revenues, assets and number of customers of each utility client company of Service Corp., updated for the inclusion of Northern and Granite. [ref. p.2 of SCHEDULE LMB-3, Lines 38 - 40].
- Based on the 2008 budget reallocation, the cost for post-acquisition centralized management and administrative services to Northern and Granite was then estimated to be $6.9 million on an annual basis [ref. p.1 of SCHEDULE LMB-3, Line 4]. This compares favorably to the approximately $8.7 million [ref. p.1 of SCHEDULE LMB-3, Line 1] in actual shared services costs incurred by Northern and Granite in 2006 and 2007, and results in a total of $1.8 million of potential savings in shared services costs for Northern and Granite [ref. p.1 of SCHEDULE LMB-3, Line 5].

Q HOW WERE OTHER POTENTIAL SYNERGY SAVINGS ESTIMATED?

A The estimates of savings for insurance and employee and retiree benefit plan administration costs are estimated to be approximately $0.5 million on an annual basis for Northern and Granite, based on a preliminary review of their current benefit and insurance policies in comparison to duplicate or comparable plans offered by Unitil. [ref. p.1 of SCHEDULE LMB-3, Line 6]

Q DO THE POTENTIAL SYNERGY SAVINGS REFLECT THE COSTS TO ACHIEVE THE ACQUISITION?

A No. The potential synergy savings are those estimated synergy amounts before consideration of the costs to achieve the proposed Transaction.

Q WHAT IS UNITIL'S TOTAL ESTIMATED COST TO COMPLETE THE TRANSACTION AND ACHIEVE THE ESTIMATED SYNERGY SAVINGS?

A The total costs to achieve the Transaction, and associated estimated synergy savings, ("Costs to Achieve") are estimated to be $14.2 million. The Costs to Achieve include: 1) the acquisition transaction costs ("Transaction Costs"); 2) the cost to finance the Transaction ("Financing Costs"); 3) the business integration costs associated with combining the companies ("Integration Costs"); and 4) the transition services costs ("Transition Costs").

Q PLEASE DESCRIBE THE TRANSACTION COST COMPONENT OF THE COSTS TO ACHIEVE.

A The Transaction Costs component of the Costs to Achieve is estimated to be approximately $3.6 million and comprises the investment banking, advisory and legal fees, including regulatory costs, required to bring about the Transaction.

Q PLEASE DESCRIBE THE FINANCING COST COMPONENT OF THE COSTS TO ACHIEVE.

A The Financing Cost component of the Costs to Achieve is estimated to be approximately $4.6 million and represents the estimate of banking and professional fees to be incurred by Unitil, Northern and Granite to issue equity and bonds, respectively, to finance the Transaction. The Financing fee estimates are $4.0 million attributable to the equity financing and $0.6 million attributable to the bond financing.

Q PLEASE DESCRIBE THE INTEGRATION COST COMPONENT OF THE COSTS TO ACHIEVE.

A The Integration Cost component of the Costs to Achieve are estimated to be approximately $3.0 million and represent the estimate of costs to effectively merge all of the business processes of Northern and Granite into Unitil as a result of the Transaction. The goal of the integration is that Northern and Granite will become fully integrated utility operating subsidiaries of Unitil, with centralized administrative and management services provided by Service Corp. I will discuss the Transition Plan and the Business Integration Plan later on in my testimony.

Q PLEASE DESCRIBE THE TRANSITION COST COMPONENT OF THE COSTS TO ACHIEVE.

A The Transition Cost component of the Costs to Achieve is estimated to be approximately $3.0 million and represents the estimate of the amounts to be paid to NiSource pursuant to the terms of the Transition Services Agreement ("TSA") referenced as Exhibit C to the Stock Purchase Agreement ("SPA"). Essentially, the TSA will provide for the continuation of administrative and management services for Northern and Granite after the close of the Transaction, pending full integration of Northern and Granite into Unitil.

C. <u>The Timing and Allocation of Synergy Savings</u>

Q PLEASE DESCRIBE THE ESTIMATE OF POTENTIAL ANNUAL SYNERGY SAVINGS TO BE ALLOCATED TO NORTHERN AND GRANITE.

A Before considering any Costs to Achieve the proposed Transaction, it is expected that the synergy benefits to Northern and Granite would be comprised of $1.8 million in estimated savings in centralized service fees plus the preliminary estimate of $0.5 million savings in other operations and maintenance ("O & M") costs related to benefit plan administration costs for a total estimate of $2.3 million in annual O & M cost savings for Northern.

Q WHY IS IT APPROPRIATE TO CONSIDER THE SYNERGY SAVINGS OPPORTUNITIES SEPARATELY FROM THE COSTS TO ACHIEVE THE PROPOSED TRANSACTION?

A Considering the achievement of synergy savings separately from the Costs to Achieve the proposed Transaction is essentially a matter of timing of the economic costs and benefits identified for each component. Currently, Unitil does not own Northern and Granite. The expenditure of much of the Costs to Achieve are front-end loaded and will be spent early in the acquisition process. The synergy savings, on the other hand, are achievable mainly during and after the first full year following full integration of the businesses. If the proposed Transaction were to close in late 2008, and the integration completed in 2009, then the first full year of cost synergy savings could be realized in 2010. However, most of the Costs to Achieve would have been expended in 2008.

Q PLEASE DISCUSS THE ANTICIPATED TIMING RELATED TO THE ACHIEVEMENT OF THE TRANSACTION SYNERGIES AND HOW NORTHERN'S CUSTOMERS WILL BENEFIT.

A The timing of achieving the synergies is dependent upon the timing of the closing of the Transaction and the successful completion of business integration processes. It is expected that a portion of the synergies will begin to be realized soon after the Transaction has received regulatory approval and the financial closing takes place. Ultimately the full level of estimated synergies are expected to be achieved following the completion of the Business Integration Plan (“BIP”), discussed below, which provides for the integration of Northern into Unitil. As discussed in the prefiled testimonies of Company witness Mr. Collin, absent the Transaction, because Northern is not earning its authorized return, Northern anticipated that it would need to increase delivery rates to recover the higher costs of providing service to its customer in both New Hampshire and Maine. As a direct result of the Transaction, Unitil has committed to defer increases in delivery rates for Northern for at least a year following the closing of the Transaction, and to use the synergy savings to stabilize rates thereafter. At the time of next rate case, the synergy savings will be fully reflected in the cost of service and passed on the Northern’s customers. The benefits of the Transaction synergies will therefore begin to flow to customers immediately after closing since, as a result of the Transaction, Northern’s customers would see no increase in their utility bills, with the net synergy savings expected to offset inflationary operating cost increases and delay the need for the rate case.

IV. THE TRANSITION PLAN

Q PLEASE BROADLY DESCRIBE THE TRANSITION PLAN.

A There are two components of the Transition Plan. First is TSA, which will provide for the smooth transition of Northern and Granite to Unitil by ensuring there is no interruption in the quality of service to customers until Northern and Granite are fully integrated into Unitil. A copy of the term sheet for the TSA is referenced as Exhibit C to the SPA and is attached as Exhibit 1 to the Joint Petition. Second is the Business Integration Plan, which will be coordinated between Unitil and NiSource to bring together all of Northern's operations, administration and management within the existing business processes of Unitil. A summary of the BIP is attached as SCHEDULE LMB-4, pp. 1-10.

Q PLEASE DESCRIBE THE TERMS OF THE TSA.

A The TSA will be designed for NiSource to provide, at its fully loaded cost, transitional services to continue the operation and maintenance of Northern and Granite until the successful transition to Unitil of all business functions previously performed by NiSource or Bay State. The business functional services include: Utility Operations, Construction, Information Systems, Corporate Governance, Corporate Accounting, Regulatory, Treasury, Accounts Payable & Purchasing, Taxes, Payroll, Benefits and Human Resources, and Revenues and Receivables. The TSA term is transitional in nature and is meant to end as promptly as practicable following the closing.

Q PLEASE DESCRIBE THE BIP.

A The BIP is a vital component of achieving the potential synergy savings and is specifically focused on developing a best practices approach for the combined companies. To that end, the BIP goes beyond the TSA and coordinates broad participation across Unitil, NiSource and Bay State from executives, managers and staff who are charged with integrating all the utility operating functions of Northern into Unitil. The focus of the BIP on utility processes and functions is a proven approach which allows for the discovery of additional savings opportunities in the process.

Q PLEASE DESCRIBE THE ORGANIZATIONAL DESIGN OF THE BIP.

A The organizational design of the BIP follows the organizational structure of the post-acquisition combined companies. It is an advantage to the BIP that both Northern and Unitil currently operate as utilities with local Distribution Operations Centers ("DOC") which receive centralized administrative and management services from a service company. The BIP cross-functional integration teams are organized in this structure, with dedicated teams to accomplish the integration of DOC operations and additional teams dedicated to the integration of functions and processes at Service Corp. The BIP itself will have three phases: Integration Planning, Implementation Planning, and Implementation.

Q SPECIFICALLY, WHO WILL EXECUTE THE BIP?

A The BIP is led by a joint Senior Management steering committee of Unitil and NiSource. Those key executives are charged with setting the overall direction for the planning and integration efforts and ultimately making decisions on how the post-acquisition business will be managed and operated. Reporting to Senior Management are the BIP Team Leaders who have day-to-day responsibility for managing the BIP initiatives. Reporting to the Team Leaders are managers and supervisors who are the leaders of the functional integration teams. Those functional and cross-functional teams will execute the integration of the companies at the specific process level.

V. TRANSACTION ACCOUNTING

Q PLEASE DESCRIBE THE RELEVANT ASPECTS OF THE ACCOUNTING ASSOCIATED WITH THE TERMS OF THE TRANSACTION.

A Per the SPA, Unitil has agreed to purchase all of the capital stock of (i) Northern from Bay State and (ii) Granite from NiSource. The aggregate purchase price for the shares of Northern and Granite is $160 million plus a net working capital adjustment at time of closing. In addition, under the terms of the SPA, Northern will be transferred to Unitil debt-free. While the Transaction has been structured as the sale of the stock of Northern and Granite for cash, Unitil and NiSource have agreed to make a Section 338(h)(10) election under the Internal Revenue

Code with respect to the tax treatment of the Transaction. The primary consequence of this election is that Unitil will receive the benefit of a "stepped up" depreciable tax basis in the assets of Northern as if the Transaction has been structured as an asset sale.

Q IS THERE AN ACQUISITION PREMIUM ASSOCIATED WITH THE TRANSACTION?

A No, there is no acquisition premium associated with the Transaction. The purchase price of $160 million represents the fair value of the net assets and liabilities of Northern and Granite as determined by Unitil. The calculation of the $160 million includes the recognition of the Transaction as a stock purchase, treated as an asset sale for tax purposes, and includes an evaluation of the Transaction and financing costs and an assessment of the post-acquisition fair value to Unitil of the assets and liabilities of Northern and Granite. Further, the acquisition premium adjustments previously recorded on Northern's and Granite's accounting records, resulting from the accounting for a prior change in control Transaction, will be eliminated when Northern and Granite are transferred to Unitil. Therefore, Unitil will not seek to recover from ratepayers any acquisition premium associated with the Transaction.

Q PLEASE SUMMARIZE HOW THE PROPOSED PURCHASE PRICE TO BE PAID FOR NORTHERN AND GRANITE IS ALLOCATED SO THAT THERE IS NO ACQUISITION PREMIUM ASSOCIATED WITH THE TRANSACTION.

A Under the terms of the SPA, Northern will be transferred to Unitil debt-free. A summary of the estimated Purchase Price Allocation is attached as SCHEDULE LMB-5. The Purchase Price Allocation is estimated based on the balance sheet amounts at December 31, 2007, as provided in the seller's disclosure schedules provided by NiSource as part of the SPA. The actual purchase price allocation will be completed subsequent to closing the Transaction. Based on the figures at December 31, 2007, the purchase price would be $160.0 million plus $37.3 million for the working capital adjustment; a total purchase price of $197.3 million [ref. SCHEDULE LMB-5, Lines 1-3]. The purchase price is allocated to the assets and liabilities of the companies purchased before considering Transaction Costs, Financing Costs and the other Costs to Achieve. The total net assets to be acquired have a book value of $218.7 million [ref. SCHEDULE LMB-5, Lines 4-10] and include: Utility Plant of $186.0 million, Current Assets of $53.4 million, Other Long Term Assets (excluding Seller's intangible assets) of $21.0 million; reduced by liabilities for Accounts Payable of $11.1 million, Other Current Liabilities of $6.2 million and Non-current Liabilities (excluding Deferred Taxes) of $24.4 million. As a result, and as shown on Schedule LMB-5, Line 11, there is a negative estimated Plant Acquisition Adjustment amount of

($21.4) million and therefore no acquisition premium is associated with the proposed Transaction.

Q WHAT IS THE FAIR VALUE OF UTILITY PLANT IN RATE BASE ASSOCIATED WITH THE TRANSACTION?

A Following the close of the Transaction, an independent appraisal will be completed that establishes the fair value of all of Northern's and Granite's assets and liabilities. Since there is no acquisition premium associated with the proposed Transaction to step up the basis of fixed assets, Northern will continue to value its rate base on the original depreciated cost of the assets devoted to utility customers. This aspect of the Transaction should contribute to continued rate stability and serve to maintain distribution rates to customers.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.