

## STATE OF NEW HAMPSHIRE

## PUBLIC UTILITIES COMMISSION

June 16, 2010 - 11:04 a.m.  
Concord, New Hampshire

REDACTED

FOR PUBLIC USE

RE: DE 10-028  
UNITIL ENERGY SYSTEMS, INC.:  
Default Service requirements for  
Large Customers (G1) for the  
three month period beginning  
August 1, 2010.

NHPUC NOV19'10 PM12:54

PRESENT: Commissioner Clifton C. Below, Presiding  
Commissioner Amy L. Ignatius

Sandy Deno, Clerk

APPEARANCES: Reptg. Unitil Energy Systems, Inc.:  
Gary M. Epler, Esq.

Reptg. PUC Staff:  
Suzanne G. Amidon, Esq.

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

ORIGINAL

## I N D E X

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**WITNESS PANEL:**            **ROBERT S. FURINO**  
                                 **LINDA S. McNAMARA**

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**WITNESS:    GEORGE R. McCLUSKEY**

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6	UES, Inc. Petition for Approval of Default Service Solicitation and Proposed Default Service Tariffs (06-11-10)	6
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1                                    P R O C E E D I N G

2                                    CMSR. BELOW:    Okay.    Good morning.    I'll  
3    open this hearing in DE 10-028, Unitil Energy Systems,  
4    Inc., Petition for Approval of Default Service  
5    Solicitation and Proposed Default Service Tariff.    I'll  
6    note that, consistent with Order Number 24,511, in Docket  
7    Number DE 05-064, that approved Unitil's solicitation  
8    process for procuring Default Service, on June 11th,  
9    Unitil filed a petition for approval of its Default  
10    Service solicitation and proposed Default Service tariff  
11    for the period beginning August 1, 2010 for its G1  
12    customers.    The original order of notice in this docket  
13    was issued on March 3rd, 2010 for this year's prior  
14    Default Service solicitation and tariff.    By way of  
15    secretarial letter dated the 14th of this month, the  
16    Commission scheduled this hearing to hear the testimony of  
17    the Company and Commission Staff.

18                                    So, we'll start by taking appearances.

19                                    MR. EPLER:    Yes.    Good morning,  
20    Commissioners.    Gary Epler, on behalf of Unitil Energy  
21    Systems, Inc.

22                                    CMSR. BELOW:    Good morning.

23                                    MS. AMIDON:    Good morning, Commissioner  
24    Below, Commissioner Ignatius.    I'm Suzanne Amidon, here

1       for Commission Staff. And, with me today is George  
2       McCluskey, an Analyst with the Electric Division.

3                   CMSR. BELOW: Good morning. Mr. Epler,  
4       would you like to call your witnesses?

5                   MR. EPLER: Yes. If I could, --

6                   CMSR. BELOW: Sure.

7                   MR. EPLER: -- just to point out to the  
8       Commission, there are three items I'd like premarked. And  
9       we'll go through each one. The first is the red binder,  
10      which I believe in this docket we're up to Exhibit 6, so  
11      if that could be marked as "Exhibit 6". That consists of  
12      the copy of the petition, the testimony and the schedules  
13      of the witnesses, and the proposed tariffs. The second is  
14      the confidential material that I would propose be marked  
15      as "Exhibit Number 7". And, the third is some revised  
16      material that we'll explain that also came in on Friday  
17      that I'd propose be marked as "Exhibit 8".

18                   CMSR. BELOW: That's dated June 11th,  
19      but received on June 14th at the Commission.

20                   MR. EPLER: Okay. What had happened is,  
21      as -- literally, as their filing was going out the door,  
22      we realized there was a mistake in one of the schedules  
23      that then worked through several other schedules and  
24      testimony of Witness McNamara. So, even though we knew it

[WITNESS PANEL: Furino~McNamara]

1 had a mistake, we went ahead and made the filing.

2 Contacted the OCA and the Staff to let them know that the  
3 mistake was there, and then proceeded to make the  
4 corrections, and that is what is in Exhibit 8.

5 CMSR. BELOW: Okay. So, we'll mark  
6 those for identification as indicated.

7 (The documents, as described, were  
8 herewith marked as **Exhibit 6**, **Exhibit 7**,  
9 and **Exhibit 8**, respectively, for  
10 identification.)

11 MR. EPLER: Okay. And, ready to  
12 proceed.

13 (Whereupon **Robert S. Furino** and **Linda S.**  
14 **McNamara** were duly sworn and cautioned  
15 by the Court Reporter.)

16 **ROBERT S. FURINO, SWORN**

17 **LINDA S. McNAMARA, SWORN**

18 **DIRECT EXAMINATION**

19 BY MR. EPLER:

20 Q. Could the witnesses please identify yourself and your  
21 title and position with the Company.

22 A. (Furino) Yes. Robert S. Furino. I'm Director of  
23 Energy Contracts for the Unitil Companies. My primary  
24 responsibilities for UES relate to energy procurement.

[WITNESS PANEL: Furino~McNamara]

1 A. (McNamara) My name is Linda McNamara. The business  
2 address is 6 Liberty Lane West, in Hampton, New  
3 Hampshire. And, I am a Senior Regulatory Analyst.

4 Q. And, Mr. Furino, I'll turn to you first. Could you  
5 turn to the material that's been premarked as Exhibits  
6 6 and 7. And, if you turn to the tabs in there that  
7 are "Exhibit RSF-1", and the schedules that follow  
8 that, and then the confidential material, Tab A, were  
9 those prepared by you or under your direction?

10 A. (Furino) Yes. Exhibit RSF-1 and Schedules RSF-1  
11 through RSF-4, as well as Exhibit 7, the confidential  
12 material, were prepared by me or under my direction.

13 Q. Okay. And, turning to what's been premarked as  
14 "Exhibit 8", was the Revised Schedule RSF-4, I believe,  
15 was that prepared by you?

16 A. (Furino) Yes, it was.

17 Q. Okay. Thank you. And, Ms. McNamara, similar with you,  
18 if you could turn to what's been premarked as "Exhibit  
19 6" and "7". And, was the material that's "Exhibit  
20 LSM-1" and the "Schedules LSM-1" through "LSM-4", and  
21 the last page of the confidential material, "LSM-2 Page  
22 2 of 2", was that prepared by you or under your  
23 direction?

24 A. (McNamara) Yes.

1 Q. And, could you turn to Exhibit -- what's been premarked  
2 as "Exhibit Number 8", and refer to the revised tariff  
3 sheets and testimony and exhibits and the schedules in  
4 that exhibit, were those prepared by you or under your  
5 direction?

6 A. (McNamara) Yes.

7 Q. Okay. And, do you have any changes or corrections to  
8 this material at this time?

9 A. (McNamara) No.

10 Q. Mr. Furino, do you have any changes or corrections?

11 A. (Furino) No, I do not.

12 Q. Okay. Now, could you, I guess, Ms. McNamara, perhaps  
13 could you just briefly explain the -- or Mr. Furino, if  
14 it's more appropriate, briefly explain the reason for  
15 the revised materials that are in Exhibit Number 8?

16 A. (Furino) Yes. Certainly. Schedule RSF-4 lays out the  
17 Company's estimates of its RPS compliance costs. These  
18 estimates are based on assumed market prices for each  
19 of the types of Renewable Energy Certificates that need  
20 to be purchased, as well as the volumes of sales that  
21 are expected to be incurred during the -- to occur  
22 during the low period.

23 The volumes that we listed initially,  
24 that I listed initially on Schedule RSF-4, were



[WITNESS PANEL: Furino~McNamara]

1 actually wholesale purchases volumes, which are higher  
2 than the retail sales volumes. And, as it turns out,  
3 the RECs are actually considered appropriate at the  
4 retail meter. So, the correction is to replace only  
5 the volume values that are listed as G1 retail sales  
6 for the three months of August, September, and  
7 October 2010, initially had been provided as purchases  
8 wholesale values, they are now actually replaced as  
9 retail sales values that reflect customer metered  
10 volumes. And, the net impact of that is between two  
11 and three thousand dollars. But, nonetheless, the "RPS  
12 Cost" column, in Schedule RPS -- in Schedule RSF-4,  
13 does flow into the rate models in Ms. McNamara's  
14 testimony.

15 Q. And, because that flowed into those rate models, it  
16 required Ms. McNamara having to replace your testimony,  
17 is that correct?

18 A. (McNamara) Yes.

19 Q. And, similarly, and to show how they flowed through,  
20 you replaced your schedules as well?

21 A. (McNamara) Correct.

22 MR. EPLER: With that, that's all I  
23 have, Commissioners. Witnesses are available for  
24 cross-examination.

[WITNESS PANEL: Furino~McNamara]

1 CMSR. BELOW: Okay. Ms. Amidon.

2 MS. AMIDON: Thank you.

3 **CROSS-EXAMINATION**

4 BY MS. AMIDON:

5 Q. Mr. Furino, would you please look at what's marked as  
6 "Exhibit 8", Schedule RSF-4 Revised, and tell me where  
7 the difference is between this document and the one  
8 that was in -- that is in Exhibit 6.

9 A. (Furino) Yes. So, if we compare the two schedules side  
10 by side, there are three blocks of data shown on the  
11 schedule. The first piece did not change, this is the  
12 "RPS Obligation" block, did not change; the "Price  
13 Assumptions" did not change, that's the second block.  
14 What changed was the -- in the third block, where it  
15 says "G1 Customer Costs", the first column there, "G1  
16 Retail Sales (Megawatt-Hours)", the final block is what  
17 changed. So, for instance, for the month of  
18 August 2010, the volume was reduced from "11,801" to  
19 "11,283".

20 Q. Mr. Furino, I just, before the hearing, I went back and  
21 recaptured what was sent over e-mail regarding this  
22 exhibit, and my exhibit, which says "Schedule RSF-4  
23 Revised", says the exact same thing as what's in the  
24 filing. So, Staff was at a loss and kind of confused

[WITNESS PANEL: Furino~McNamara]

1 as to what was changed. I can show it to you, if you  
2 want to see it. I can show your --

3 A. (Furino) I apologize. I am actually looking at my  
4 copy, which was printed at the same time and  
5 distributed internally, which shows them different.  
6 And, --

7 MS. AMIDON: I don't know what the  
8 Commission has, but --

9 MR. EPLER: This is the filing.

10 MS. AMIDON: But I'm showing this, as  
11 you can see, Attorney Epler, it says "Revised". And, I  
12 printed this off the e-mail that you sent, because I  
13 didn't get a hard copy yet, and this is what I have. And,  
14 my "G1 Retail Sales" column is the same as that originally  
15 filed. So, the Staff was kind of confused about this  
16 change. So, perhaps we can solve this by having Mr. Epler  
17 share with us the actual Revised. And, I don't know what  
18 the Commission received in that regard.

19 CMSR. BELOW: We have a revised one that  
20 corresponds to Mr. Furino, what he just described, --

21 MS. AMIDON: Okay. Good.

22 CMSR. BELOW: -- with the different  
23 numbers.

24 MS. AMIDON: Okay.

[WITNESS PANEL: Furino~McNamara]

1 MR. EPLER: You can have this copy. I  
2 apologize. And, I will check on what was emailed, perhaps  
3 I PDF'd the wrong document.

4 MS. AMIDON: That's okay. I mean, like  
5 I said, it was confusion, nothing more. All right. That  
6 answers one question. Thank you.

7 WITNESS FURINO: Sorry.

8 MS. AMIDON: No. I mean, things happen,  
9 this is a short turnaround on this docket.

10 BY MS. AMIDON:

11 Q. Pursuant to the agreement regarding RPS compliance, I  
12 want to ask a question about that. Pursuant to that  
13 agreement, which was approved by the Commission I think  
14 in the docket in 2009, the Company was going to go out  
15 twice a year and issue an RFP for Renewable Energy  
16 Certificates, or RECs. Have you gone out yet this year  
17 in 2010?

18 A. (Furino) We have not. As I described in my testimony,  
19 the Company has not yet made any 2010 RECs purchases.  
20 However, the Company intends to comply with its 2010  
21 RPS requirements pursuant to the approved REC  
22 procurement process by issuing two RFPs for the 2010  
23 period. The first of which we would issue in the fall,  
24 in October. And, the second one I believe we have

1 scheduled for March 2011.

2 Q. Okay. I'm looking at your testimony on -- it's Page 8  
3 of 9, and the Bates stamp is "0010".

4 A. (Furino) Uh-huh.

5 Q. The last sentence -- well, the last question, which  
6 says "Please describe UES's estimates of RPS compliance  
7 costs", discusses how you changed the REC value for the  
8 various classes. And, the last sentence says "These  
9 values were derived from broker sheets published by  
10 renewable energy brokers and from the bidding activity  
11 under UES' most recent REC RFP, which was concluded in  
12 March 2010, with reference to changes in percentage  
13 obligations from 2009 to 2010 for each Class as well as  
14 expected alternative compliance payments." Could you  
15 tell me, what did the Company bid or solicit in that  
16 March 2010 RFP?

17 A. (Furino) Yes. In the March 2010 RFP, and I believe in  
18 the prior proceeding or in a prior proceeding during  
19 this docket we reviewed those with the Commission. But  
20 we -- the Company purchased its remaining RPS  
21 requirements for 2009 compliance. And, so, in  
22 establishing estimated prices for the coming period,  
23 this forward period for 2010, we looked at the current  
24 market prices that we got from current broker sheets,

[WITNESS PANEL: Furino~McNamara]

1 as well as being able to see sort of the trend in  
2 pricing since we conducted our last solicitation, which  
3 was in March.

4 Q. Well, so, what did you -- did you acquire any RECs in  
5 March in 2010?

6 A. (Furino) In March, we purchased 2009 certificates,  
7 okay, for 2009 compliance. And, this is where the  
8 clause sort of with reference to changes and percentage  
9 obligations from one year to the next comes in. For  
10 instance, I think we look at the -- if you look at the  
11 Schedule RSF-4, you can see that the Class I obligation  
12 for New Hampshire literally doubles, from a half a  
13 percent to 1 percent.

14 Q. Uh-huh.

15 A. (Furino) But we also take that into consideration in  
16 the larger pool of available certificates in generation  
17 that qualifies for Class I would also include  
18 generation that qualifies for the Massachusetts Class  
19 I. And, the Massachusetts Class I requirement is  
20 increasing from 2009 to 2010, and, subject to check, I  
21 want to say from five percent to five and a half  
22 percent, on that order of magnitude. So, taken  
23 together, these very similarly defined resources, the  
24 requirement on a common basis is increasing around

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[WITNESS PANEL: Furino~McNamara]

1 15 percent, which what seems consistent with new  
2 generation that's being brought on line. So, the 2009  
3 pricing, while the requirement for 2009 to 2010 for the  
4 New Hampshire Class I is doubling, the 2009 pricing for  
5 that type of REC is not a poor indicator of the 2010  
6 price we should expect.

7 Q. So, if we do look at the -- at your RSF-4, that  
8 schedule, in the second block of information, for the  
9 months of August, September, and October, you have a  
10 lower price assumption than for the months from May  
11 through July, all 2010. Could you explain for me how  
12 you develop these lower costs, if you didn't actually  
13 purchase or issue an RFP for 2010 RECs?

14 A. (Furino) Yes. So that, over time, we're reviewing  
15 where prices are, you know, for 2009, or, you know, a  
16 current period that we're actually purchasing, and  
17 where the market looks for future ones. And, when I  
18 say "broker sheets", we're looking at broker sheets, we  
19 also call brokers to get their feedback. And, you see  
20 very clearly the trend for the Class I, which is really  
21 the new renewable generation technologies, renewable  
22 generation technologies. And, you can see how those  
23 have declined and look to be dropping.

24 Q. Yes. Okay. All right. Thank you. In the last

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[WITNESS PANEL: Furino~McNamara]

1 hearing in this docket, there was a discussion related  
2 to the allocation of uncollected amounts. And, in that  
3 March order, the Commission directed the Company to  
4 address the method of allocating the uncollected  
5 between G1 and Non-G1 classes. And, the Commission  
6 said that this was "to be addressed in Unitil's next  
7 Default Service filing, so that it could determine  
8 whether the allocation method is inappropriate or  
9 unreasonable." Is there any testimony in this filing  
10 addressing the allocation of uncollected amounts  
11 between G1 and Non-G1?

12 A. (McNamara) No, there's no direct testimony on that. I  
13 think I misunderstood the direction on that, in that  
14 there was a record response filed in the -- part of the  
15 last proceeding, and I understood that to address the  
16 issue.

17 Q. Well, the order said that "the Company was to address  
18 it in its next Default Service filing." In the prior  
19 proceeding, we learned that the Company was allocating  
20 the uncollected amounts based on kilowatt-hour sales.  
21 Did the Company use the same method in this filing?

22 A. (McNamara) Yes, that is the method the Company  
23 utilizes.

24 Q. Why --



[WITNESS PANEL: Furino~McNamara]

1 A. (McNamara) I believe based from the -- that is the  
2 method that is described in the Company's Default  
3 Service tariff. And, I believe that has been -- or,  
4 I'm sure that has been in place since the Company's  
5 last rate case, where it was -- that method was  
6 determined to be the method to be used.

7 Q. Well, other than the fact that that's what the tariff  
8 language requires, do you think it's a reasonable and  
9 appropriate method to allocate? Leave aside the  
10 tariff, just put that aside. Because I think that the  
11 inquiry that the Commission was making, and I did not  
12 represent Staff at the last hearing, but I thought the  
13 Commission was asking the Company to evaluate whether  
14 that was appropriate, and whether there were  
15 alternatives, I think maybe suggested by Staff, in the  
16 allocation of those costs that would be more reasonable  
17 and more just and fair to the ratepayers.

18 MR. EPLER: If I could object to the  
19 question. I mean, I don't think that the record reflects  
20 that. I think there was a request for the Company to  
21 explain it's allocation methodology, and that was done  
22 through the response to the record request. And, there  
23 was no follow-up or response or question by Staff. So, it  
24 was our understanding that, based on our provision of the

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1 response to the record request, that the matter had been  
2 addressed adequately.

3 MS. AMIDON: Well, and I wasn't there at  
4 the last hearing, but I did read the order, to try to  
5 understand what the Commission was doing, and I worked  
6 with Mr. McCluskey on that. And, it did say that "at the  
7 next Default Service filing, the Company should address  
8 this issue, and so that the Commission could determine  
9 that." I'm not saying this is a fatal flaw in the filing.  
10 I guess I want to advance the discussion and determine  
11 whether the Company has thought about whether there's a  
12 better or a more appropriate way to address the allocation  
13 of the uncollected, maybe based on the write-off histories  
14 for the two classes, rather than just on the kilowatt-hour  
15 sales.

16 So, I'm not trying to create an  
17 objectionable question. I'm just trying to pursue the  
18 issue as I saw it in the Commission order.

19 CMSR. BELOW: The reference to a "record  
20 request", that was a Staff request of the Company, do you  
21 know the date of that request or --

22 MS. AMIDON: It was marked as "Exhibit  
23 Number 4", and then the date on this, looks like the  
24 hearing -- it could be the hearing date, March 19th, 2010?

[WITNESS PANEL: Furino~McNamara]

1 WITNESS McNAMARA: The hearing was  
2 actually March 17th, and we filed -- the response was  
3 filed on the 19th.

4 MS. AMIDON: Okay. Thank you.

5 CMSR. BELOW: Okay. It was filed after  
6 the --

7 MS. AMIDON: It was filed after the  
8 hearing. But, Commissioner Below, I was referring to the  
9 order, where there was ordering language.

10 CMSR. BELOW: Right. We have that in  
11 front of us. We see that.

12 WITNESS McNAMARA: And, I'm sorry, but I  
13 think I sort of misunderstood your question, in that you  
14 were looking for direction in the testimony. It was  
15 addressed actually in the filing. I did review, based on  
16 the Company's practice of allocating write-offs using  
17 kilowatt-hour sales for the month. And, we did review not  
18 only projections, but also actual data. And, the figures  
19 that are used in this filing are slightly lower than what  
20 were used percentage-wise in the last filing. I do not  
21 have the transcript in front of me, but last time I recall  
22 the issue being that, as a class, because the Non-GIs were  
23 also filed in the last proceeding, the G1 Class write-offs  
24 were increasing at a higher percentage than the Non-G1

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1 Class. And, that was 100 percent due to the fact that the  
2 budget at the time did not fully reflect the increase in  
3 migration that the G1 Class was seeing. I believe Exhibit  
4 RSF-4 -- or, I'm sorry, Schedule RSF-4 shows migration.  
5 And, the G1 Class migration picked up substantially in  
6 August of 2009, August/September 2009 time frame. And,  
7 so, I reviewed those figures. And, like I said,  
8 incorporating budget forecast sales and actual data,  
9 reviewed the percentage allocations, and those numbers  
10 were lowered slightly to the G1 class.

11 MS. AMIDON: I think I'm going to let  
12 Mr. McCluskey ask a question, if you will, because he was  
13 in the last hearing, and may be able to more squarely  
14 address the issue.

15 CMSR. BELOW: Okay. And, I just,  
16 looking at the docket sheet, I think that that record  
17 request, it wasn't entered into the docket. Perhaps -- I  
18 take it that was asked by Staff. Was it asked at the  
19 hearing?

20 MS. AMIDON: Yes, it was.

21 CMSR. BELOW: So, probably, and is it  
22 entered as an exhibit? You have it as an exhibit, the  
23 Clerk does. Probably should show up on the docket sheet  
24 as well, because I don't think we have a copy of that.

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[WITNESS PANEL: Furino~McNamara]

1 Are there perhaps copies, a copy that could be available  
2 to the Bench?

3 MS. AMIDON: I only brought one copy. I  
4 can provide you my copy, and you have one from the Clerk,  
5 so --

6 (Atty. Amidon handing document to Cmsr.  
7 Below.)

8 CMSR. BELOW: Thank you. Okay. So, did  
9 you have a question to proceed with then, Mr. McCluskey?

10 MR. McCLUSKEY: Yes. I would just like  
11 to ask a couple of questions to develop this issue for the  
12 record.

13 CMSR. BELOW: Okay.

14 BY MR. McCLUSKEY:

15 Q. Ms. McNamara, with regard to the Default Service  
16 related write-offs, it's my understanding that the  
17 Company allocates the total company gross write-off to  
18 the G1 and Non-G1 classes based on relative sales of  
19 those classes, is that correct?

20 A. (McNamara) Yes.

21 Q. Would you agree that, if there was a significant  
22 difference between actual write-offs for those two  
23 classes, that that method would not reflect -- would  
24 not necessarily reflect that difference in write-offs?

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1 A. (McNamara) True.

2 MR. McCLUSKEY: Thank you. I've got no  
3 further questions.

4 CMSR. BELOW: Okay. And, Ms. Ignatius.

5 CMSR. IGNATIUS: Well, before we leave  
6 this topic, Mr. McCluskey, are you planning on testifying  
7 as part of the proceeding today?

8 MR. McCLUSKEY: I could. I wasn't  
9 planning on it, but I could address this particular issue.  
10 I haven't written any testimony, but I could just explain  
11 Staff's concern with regard to the method used by the  
12 Company.

13 CMSR. IGNATIUS: I think it would be  
14 helpful, and have a chance for the Company to respond as  
15 well. As I look at the order, it stated that "Absent  
16 knowledge of the allocation method used, it's difficult  
17 for us to comment on the reasonableness of the allocated  
18 costs." And, so, it really is asking for further  
19 information on which the Commission can make a  
20 determination. And, it seems as though we don't quite  
21 have all of that, certainly not laid out yet in the  
22 record. It may be that it's all there, and we haven't  
23 seen this. So, by looking at that response, and maybe  
24 further comment from Staff's point of view and questioning

[WITNESS PANEL: Furino~McNamara]

1 from the Company, if there's issues, it might help flesh  
2 that out.

3 MR. McCLUSKEY: Sure.

4 MS. AMIDON: And, I just have a few more  
5 questions for these witnesses, and then I can make Mr.  
6 McCluskey available.

7 CMSR. BELOW: Okay.

8 BY MS. AMIDON:

9 Q. I notice that you have the winning supplier as Cargill  
10 Power Markets, LLC. And, do you know how Cargill  
11 became aware of this RFP? Did they contact you? Did  
12 you contact them? Or, did they just receive it in the  
13 normal course?

14 A. (Furino) Cargill has been on our list for many years.  
15 We typically, in the past, \_\_\_\_\_  
16 \_\_\_\_\_  
17 \_\_\_\_\_  
18 advised of our procurements. Obviously, we have them  
19 and \_\_\_\_\_ for  
20 Unitil Energy Systems. In fact, \_\_\_\_\_  
21 \_\_\_\_\_ as well. So, it's \_\_\_\_\_. Really, it's  
22 our, you know, part of our marketing or outreach effort  
23 is to kind of call through our list. And, particularly  
24 as companies begin to explore their opportunities,

{DE 10-028} [REDACTED - FOR PUBLIC USE] {06-16-10}

[WITNESS PANEL: Furino~McNamara]

1 experience changes in the organization, and begin to  
2 look at opportunities to serve wholesale default loads  
3 in New England, we're a fairly small company, so we  
4 will try to encourage bidders to give it a shot, and,  
5 you know, \_\_\_\_\_, in some  
6 respects, for them to get the experience.

7 Q. And, I understand that Attorney Epler may ask for the  
8 following question and answer to be confidential, and  
9 there's no one else in the room, and I certainly would  
10 understand that. But I wanted to know, Mr. Furino, if  
11 you had understood \_\_\_\_\_

12 \_\_\_\_\_  
13 offered the Company in response to this bid?

14 A. (Furino) I have no analysis \_\_\_\_\_  
15 \_\_\_\_\_. I don't know that \_\_\_\_\_  
16 \_\_\_\_\_.

17 Q. Uh-huh.

18 A. (Furino) One really doesn't know.

19 Q. Right.

20 A. (Furino) What I do believe is that they have the  
21 wherewithal to deliver the requirements under the  
22 contract. And, with the contracts, actually, it's a  
23 new power supply agreement. We actually have very

24 \_\_\_\_\_



1 \_\_\_\_\_  
2 \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_. So, that  
5 provides us a lot of security in the terms of the  
6 transaction itself.

7 Q. Well, it's good for customers, that's for sure.

8 A. (Furino) It is very good for customers.

9 MS. AMIDON: Okay. I have no further  
10 questions. Oh, Mr. McCluskey, do you have a question?

11 MR. McCLUSKEY: Yes, just to follow up  
12 on Cargill.

13 BY MR. McCLUSKEY:

14 Q. Did you say that, while you were aware of Cargill as a  
15 potential supplier, \_\_\_\_\_

16 \_\_\_\_\_  
17 \_\_\_\_\_? Is that how it happened?

18 A. (Furino) With every solicitation, we're calling through  
19 our contact list. And, so, you know, I wasn't the  
20 direct person making the contact.

21 Q. Uh-huh.

22 A. (Furino) So, I can't say whether, during the past few  
23 solicitations, \_\_\_\_\_  
24 \_\_\_\_\_. But that's some of the anecdotal feedback

[WITNESS PANEL: Furino~McNamara]

1 I've gotten with respect to \_\_\_\_\_.

2 (Interruption by the court reporter.)

3 **CONTINUED BY THE WITNESS:**

4 A. (Furino) \_\_\_\_\_. It's an abbreviation for formally  
5 \_\_\_\_\_. So, they have become more and  
6 more interested in our solicitations over time, as I  
7 understand it.

8 MR. McCLUSKEY: Okay. Thank you.

9 BY CMSR. BELOW:

10 Q. Do you know if the fact that \_\_\_\_\_  
11 \_\_\_\_\_,  
12 is that a matter of public information? I'm looking at  
13 it in the confidential Exhibit 7, and don't know if  
14 that's public.

15 A. (Furino) I'm not aware of the terms of their management  
16 agreement arrangement.

17 Q. So, you don't know if that's public information?

18 A. (Furino) I don't know.

19 CMSR. BELOW: Any redirect, Mr. Epler?

20 MR. EPLER: No. Thank you.

21 CMSR. BELOW: Okay. Okay, then the  
22 witnesses are excused.

23 MS. AMIDON: I'll ask Mr. McCluskey to  
24 take the stand.

{DE 10-028} [REDACTED - FOR PUBLIC USE] {06-16-10}

[WITNESS PANEL: Furino~McNamara]

1 CMSR. BELOW: Oh. I'm sorry. Could I  
2 recall the witnesses? I did have another question that I  
3 just remembered.

4 BY CMSR. BELOW:

5 Q. Under the "RPS Cost", in the revision that's in  
6 Exhibit 8, you've only revised the projected retail  
7 sales for the period going forward, August through  
8 October of this year. So, presumably, the estimate for  
9 prior periods, including January through July of this  
10 year, are based on the wholesale purchases to supply  
11 these customers versus the retail sales. And, you  
12 didn't revise that. So, is it your intent just to take  
13 care of that in the reconciliation process, to the  
14 extent those actual sales were more or less than the  
15 projection in your forecast?

16 A. (Furino) First of all, the prior period, we actually  
17 did, three months ago, make this transition from  
18 purchases data to retail sales data, for purposes of  
19 calculating RPS compliance costs. And, the values that  
20 are shown for the period of May, June, and July, those  
21 actually are retail sales and were correctly stated  
22 initially --

23 Q. Okay.

24 A. (Furino) -- with the filing. And, prior to that, we

{DE 10-028} [REDACTED - FOR PUBLIC USE] {06-16-10}

[WITNESS PANEL: Furino~McNamara]

1        hadn't, you know, we hadn't -- we had been basing rates  
2        on purchases data, not retail sales data. But, in any  
3        case, had already set those rates, collected for those  
4        rates, and it would fall into a reconciliation.

5    Q.    Okay. So, this time you just inadvertently reverted  
6        back to the old incorrect method?

7    A.    (Furino) Correct.

8                                CMSR. BELOW:    Okay, now you're excused.  
9    Okay.    Ms. Amidon.

10                              MS. AMIDON:    Thank you.    I'll have him  
11    sworn in.

12                              CMSR. BELOW:    Okay.

13                              (Whereupon **George R. McCluskey** was duly  
14        sworn and cautioned by the Court  
15        Reporter.)

16                              **GEORGE R. McCLUSKEY, SWORN**

17                              **DIRECT EXAMINATION**

18    BY MS. AMIDON:

19    Q.    Good morning.    Would you please state your name and  
20        employment for the record.

21    A.    My name is George McCluskey.    I'm an Analyst in the  
22        Electric Division of the New Hampshire Commission.

23    Q.    And, have you testified before the Commission before?

24    A.    Yes, I have.

{DE 10-028} [REDACTED - FOR PUBLIC USE] {06-16-10}

[WITNESS: McCluskey]

1 Q. Thank you. Earlier in this hearing there was a  
2 discussion about whether the Company's method as stated  
3 in its tariff for allocating uncollected amounts was  
4 appropriate. And, there was some discussion about  
5 whether there should be another method or another  
6 method should be considered and incorporated in the  
7 tariff to allocate those amounts. And, I understand  
8 from the record that you, Mr. McCluskey, raised this  
9 issue at the prior hearing. Would you care to please  
10 address your concerns for the Commission and discuss  
11 alternatives that you think may be more appropriate  
12 than the current method?

13 A. Yes. Just for background, going to the prior Default  
14 Service proceeding, which addressed both G1 and Non-G1  
15 Default Service rates, two of the schedules in that  
16 filing showed how the Default Service costs for each  
17 class were developed. And, the schedules show that a  
18 component of those costs are uncollected costs, Default  
19 Service related uncollected costs. And, in just  
20 checking the numbers, we found that the percentage of  
21 uncollectible costs to total Default Service costs for  
22 the G1, the larger customers, I don't have it in front  
23 of me, but I believe it was a higher percentage than  
24 for the Non-G1, which immediately raised a concern in

[WITNESS: McCluskey]

1 my mind, because I knew that the write-off percentage  
2 for small customers is generally much higher than for  
3 large customers. The large customers are generally  
4 very good payers, whereas some small customers are not  
5 so. So, the write-off percentages, in terms of  
6 revenues for each class, you would generally expect to  
7 be higher for the small customers and lower for the  
8 large customers. So, this, these two schedules that I  
9 was referring to in the Default Service filing were  
10 indicating, if not the opposite, indicating percentages  
11 that didn't seem to bear out my experience for  
12 utilities generally.

13 So, at the hearing we asked Ms. McNamara  
14 what method was used in order to develop the allocated  
15 uncollectible costs. And, I'm not sure whether she  
16 told us at the proceeding, but, certainly, in the  
17 discovery response that came after the proceeding, it  
18 states clearly that, for the gross write-offs, the  
19 Company allocates the total company gross write-off  
20 Default Service rates based on the relative sales for  
21 the class. So, if you just assumed that G1 customers  
22 hypothetically have 50 percent of the total load and  
23 Non-G1 have 50 percent, then you would split the  
24 uncollectible 50/50. And, which would indicate that

[WITNESS: McCluskey]

1 the G1 customers were getting a higher percentage of  
2 the write-off than their actual write-offs would  
3 indicate. This is the nub of the concern as far as  
4 Staff is concerned. We think the Default Service rates  
5 should reflect actual costs. And, if there is a  
6 difference between the actual write-off percentages for  
7 the two classes, we think the Company's methodology for  
8 allocating that gross write-off should reflect those  
9 actual experiences.

10 So, Staff would -- Staff's position is  
11 that the Company should actually use its experience in  
12 write-offs for the two classes as the basis of its  
13 allocation method, rather than some proxy method based  
14 on sales.

15 And, that's a summary of my position on  
16 this issue.

17 MS. AMIDON: He's available for cross.

18 CMSR. BELOW: Okay.

19 MR. EPLER: One moment please.

20 CMSR. BELOW: Sure.

21 (Atty. Epler conferring with Ms.

22 McNamara and Mr. Furino.)

23 **CROSS-EXAMINATION**

24 BY MR. EPLER:

[WITNESS: McCluskey]

1 Q. Mr. McCluskey, are you aware of the derivation of the  
2 methodology that the Company uses to allocate the  
3 write-offs? In other words, I should have said the  
4 "genesis" of that method. Are you aware that it was  
5 developed as a result of the last rate case?

6 A. I'm not aware of it. My only knowledge as to the  
7 method that's used is the response that we received to  
8 the discovery request in the last proceeding. And, the  
9 second paragraph states "This allocation is based on  
10 each classes' monthly default service kilowatt-hour  
11 sales to total", and it goes on to say "is consistent  
12 with UES's Default Service tariff." That's the sum  
13 total of my knowledge on the method actually used.

14 Q. So, you're not aware of whether or not this was an item  
15 that was discussed in the last rate case between the  
16 Company and Staff and the Office of Consumer Advocate?

17 A. I'm not aware of that, no.

18 Q. Okay. And, so, you don't know whether or not this was  
19 -- that this particular methodology is a result of a  
20 settlement between the Company and the OCA and Staff?

21 A. Well, if it was for the last rate case, that would be a  
22 distribution-related issue. We're talking about  
23 Default Service here. So, I'm not sure why that would  
24 apply to Default Service.



[WITNESS: McCluskey]

1 (Atty. Epler conferring with Ms.  
2 McNamara and Mr. Furino.)

3 MR. EPLER: We have no further  
4 questions.

5 CMSR. BELOW: Okay. Commissioner  
6 Ignatius.

7 BY CMSR. IGNATIUS:

8 Q. Mr. McCluskey, do you know if National Grid has a  
9 policy on allocation of uncollectibles for its Default  
10 Service?

11 A. I don't. I'm not sure whether Grid actually allocates  
12 the costs or they're based on actually recorded  
13 write-offs by class. That's something that we intend  
14 to explore with National Grid.

15 Q. And, in ratemaking generally, not specific to Default  
16 Service, are uncollectibles usually allocated on the  
17 basis of the particular class's experience of  
18 uncollectibles or is it on some sort of -- does it  
19 reflect each class's actual uncollectible level?

20 A. The general basis of ratemaking is those that incur the  
21 costs should pay them. That doesn't always happen.  
22 Sometimes there are proxies used to determine how to  
23 split costs. But you typically find that, if there is  
24 a -- if costs are recorded by class, then you would

[WITNESS: McCluskey]

1 utilize those actual recorded costs as the basis of  
2 ratemaking. If you have a cost that's a joint cost  
3 that has to be allocated, so, clearly, you would have  
4 to have a method to do that. But, in this case,  
5 clearly, the Company knows which customers, by class,  
6 are not paying their bills, and which write-offs have  
7 to be assigned to a particular class. So, if that data  
8 is available, generally, I would say that that data  
9 should be used as the basis of ratemaking.

10 Q. Do you have information on the actual magnitude of the  
11 amounts in question, and the difference between the  
12 allocated method and the direct class-based method?

13 A. The percentages vary significantly between companies.  
14 On a total write-off basis, we have some companies  
15 below 1 percent. We've got other companies in the 3 to  
16 4 percent range. But, within the last year or so, I've  
17 been looking at the issue of uncollected costs. And,  
18 based on that work that I did a year or so ago, almost  
19 all of the utilities show good collection practices  
20 with regard to large customers. And, with regard to  
21 small customers, the variation is significant.

22 Q. But you don't have anything today that shows the impact  
23 on G1 doing it in the two different approaches, the way  
24 Unitil has proposed it and the way you think it should

[WITNESS: McCluskey]

1 be done on a class basis?

2 A. I don't. And, I would say that the impact will be  
3 small. This is a small component of the total Default  
4 Service costs. So, Staff's proposal is not based on  
5 the fact that there will be a significant change in the  
6 rate. The change is going to be small. It's based on  
7 the fact that, you know, we're reviewing these on a  
8 regular basis, and I think it's important to, wherever  
9 you see the rates not reflecting costs, to recommend  
10 changes to that.

11 CMSR. IGNATIUS: Thank you.

12 BY CMSR. BELOW:

13 Q. And, Mr. McCluskey, have you had occasion to follow up  
14 on the Company's statement in Exhibit 4, its response  
15 to the hearing record request, that "its billing system  
16 does not allow for recoveries to be tracked by class,  
17 or by "distribution" or "default service"?"

18 A. When I saw that, they are referring to recovery. So,  
19 what they're referring to is it could be customers that  
20 have been disconnected because of failure to pay, and  
21 then, subsequently, they will receive some portion,  
22 maybe 100 percent of it, but generally not, some  
23 portion of the debt that they -- has been assigned to  
24 the customer. And, that's what they're referring to,

[WITNESS: McCluskey]

1 in terms of, I believe, recoveries. So, it's just --  
2 so, they can track the gross write-offs by class, but  
3 not the recoveries, based on this response.

4 Q. So, are you allocating that just the gross write-offs  
5 be allocated by class or would you consider the net  
6 write-offs after net of recoveries to be the proper  
7 allocation? And, in that context, isn't ultimately  
8 it's the net write-off that is charged off to customers  
9 ultimately?

10 A. It should be the net that we are using. The difference  
11 in the net write-offs between the two classes should be  
12 the basis of the allocation. However, the recoveries  
13 are generally much, much smaller than the gross amount.  
14 So, if we only had good data with regard to gross  
15 write-offs, I think that would be an improvement over  
16 the use of sales.

17 Q. Is it your understanding that a change in this  
18 allocation of gross or net write-offs may require a  
19 tariff change or revision?

20 A. Yes. I think, if the Commission were to require the  
21 Company to change its method, since it's apparently  
22 referenced in the tariff, the Company would have to  
23 make that change, as it relates to Default Service.  
24 We're not making any recommendation with regard to

[WITNESS: McCluskey]

1 distribution rates.

2 Q. Okay. And, is this something, in either case, I mean  
3 either with regard to whether the tariff has to be  
4 revised or not, would it be your understanding that  
5 this could be done in the reconciliation process and  
6 doesn't necessarily have to be resolved at this point  
7 in time?

8 A. Sure. We don't -- we're not suggesting that the  
9 Company should change its filed rate. If the  
10 Commission says "change your method", then they would  
11 take that into account through the reconciliation  
12 process. Next time they make their filing, we would  
13 hope that they would use the revised method as the  
14 basis of developing the estimated rate.

15 CMSR. BELOW: Okay. Any redirect,  
16 Ms. Amidon?

17 MS. AMIDON: No thank you.

18 CMSR. BELOW: Okay. If that's all, then  
19 we'll excuse the witness. And, if there are no  
20 objections, we'll mark the -- we'll strike the  
21 identification of exhibits and enter them as full  
22 exhibits.

23 MS. AMIDON: May I make a procedural  
24 inquiry?

1 CMSR. BELOW: Yes.

2 MS. AMIDON: I notice that the Chairman  
3 is absent. Will you be asking the court reporter to  
4 produce an expedited transcript? I'm only asking so that  
5 he knows whether or not --

6 CMSR. BELOW: We're not planning on it.  
7 Unless a party objects, we would intend to just have the  
8 two Commissioners make the decision.

9 MS. AMIDON: Thank you.

10 CMSR. BELOW: If that's okay?

11 (No verbal response)

12 CMSR. BELOW: Okay. Are there any other  
13 procedural matters before we go to closing statements?

14 (No verbal response)

15 CMSR. BELOW: Okay. Ms. Amidon.

16 MS. AMIDON: Thank you. Staff reviewed  
17 the filing. And, we believe that the Company was  
18 consistent with the Commission's order in the docket which  
19 resolved how the Company would procure Default Service, in  
20 both its solicitation and evaluation and its selection of  
21 Cargill as the power supply offerer. We also believe that  
22 the resulting rates are market-based. And, we believe  
23 that the Commission should approve the petition. You have  
24 noted Staff's position with respect to the uncollected

1 amounts, and we understand you will take that issue under  
2 advisement at this point. Thank you.

3 CMSR. BELOW: Mr. Epler.

4 MR. EPLER: Yes, Commissioners. We have  
5 no -- we request the relief that's indicated in our  
6 petition, and I have nothing to add with respect to that.

7 With respect to this issue as to the  
8 allocation of the write-offs, we don't object to changing  
9 the methodology going forward. The only point I would  
10 make on that is just to note that the Company did respond  
11 to the record request, we provided the information on  
12 March 19th. And, we certainly understand that the time  
13 frame for dealing with the issues in these filings is very  
14 short, and we appreciate the cooperation of the Staff and  
15 at other times the OCA and the Commission in accommodating  
16 that. But, certainly, where we respond in a prior filing,  
17 there's a three month interval, if there was an issue, it  
18 would be helpful if we can be contacted in the interim,  
19 and we would do our best to accommodate what are  
20 legitimate issues. And, we're certainly more than willing  
21 to do that and to make ourselves available to accomplish  
22 that. Thank you.

23 CMSR. BELOW: And, I would just note for  
24 the record that the date of our last order was also March

1 19th, so I believe that the response and the order  
2 crossed. So, we weren't aware of the response at the time  
3 of our last order.

4 But, in any case, if there are no other  
5 issues, I'll close the hearing, and the Commission will  
6 take the matter under advisement. Thank you.

7 (Whereupon the hearing ended at 12:00  
8 p.m.)  
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