STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 26, 2015 - 9:03 a.m.
Concord, New Hampshire

RE: **DG 14-180**
LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. d/b/a LIBERTY UTILITIES: Notice of Intent to File Rate Schedules.
(Hearing regarding Stipulation and Settlement Agreement on Permanent Rates)

PRESENT: Commissioner Martin P. Honigberg, Presiding
Commissioner Robert R. Scott

Sandy Deno, Clerk

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

Reptg. Residential Ratepayers:
Wayne Jortner, Esq.
James Brennan, Finance Director
Office of Consumer Advocate

Reptg. PUC Staff:
Michael J. Sheehan, Esq.
Alexander F. Speidel, Esq.
Stephen P. Frink, Asst. Dir./Gas & Water Div.
Amanda O. Noonan, Dir./Consumer Affairs Div.

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

I N D E X

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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 HONIGBERG: We are here this morning in DG 14-180, which is Liberty's distribution rate case, Liberty Utilities (EnergyNorth Natural Gas) Corp. doing business as Liberty Utilities, to be precise. We have two and a half inches of paper here, and we're here to consider this Settlement [indicating].

We did approve temporary rates back I think effective December 1, the rates that conclude this proceeding are reconcilable back to November 1, I think. You're going to tell us what the Settlement's about, which we've read, but it doesn't bear much relationship to the two and a half inches of paper. So, I hope everyone is prepared to explain that.

Before we go any other further, let's take appearances.

MR. KNOWLTON: Good morning, Commissioners. My name is Sarah Knowlton. I'm here today for Liberty Utilities (EnergyNorth Natural Gas) Corp. And, with me today from the Company is the Company's witness, Steven Mullen; at counsel's table -- at counsel's table, Stephen Hall; and sitting in the back from the Company's Finance Group is Michelle Carrozzella, Sue Ellen Billeci, and Bob Campbell.

MR. JORTNER: Good morning. Wayne Jortner, for the Office of Consumer Advocate. And, with me today is Jim Brennan.

MR. SHEEHAN: Good morning. Mike Sheehan, for Staff of the Commission. At counsel's table with me is Steve Frink, Assistant Director of the Gas and Water Division; Amanda Noonan, Director of the Consumer Affairs; Alex Speidel, co-counsel; in the back is Al-Azad Iqbal and a member of the Audit Staff are watching, who did all the hard work behind the scenes.

CHAIRMAN HONIGBERG: So, how are we going to proceed this morning?

MR. KNOWLTON: The Company would propose to mark for identification as "Exhibit 5" the Stipulation and Settlement Agreement regarding Permanent Rates, filed on May 19th, 2015, the smaller document that you held up earlier. And, we would propose to present a panel of witnesses, which would include Mr. Mullen, Mr. Frink, Ms. Noonan, and Mr. Brennan.

(The document, as described, was herewith marked as **Exhibit 5** for identification.)

CHAIRMAN HONIGBERG: Are there any other outstanding motions? Is there any confidential treatment motions or anything out there that need to be dealt with? I didn't think there were. I just want to make sure.

MR. KNOWLTON: I don't believe so.

CHAIRMAN HONIGBERG: All right. Why don't we go ahead then.

MR. KNOWLTON: The Company calls Mr. Mullen.

MR. SHEEHAN: Staff calls Ms. Noonan and Mr. Frink.

MR. JORTNER: OCA calls Mr. Brennan.

(Whereupon ***Steven E. Mullen***, ***Stephen P. Frink***, ***Amanda O. Noonan***, and ***James Brennan*** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Off the record.

(Brief off-the-record discussion ensued.)

CHAIRMAN HONIGBERG: All right. Go ahead.

STEVEN E. MULLEN, SWORN

STEPHEN P. FRINK, SWORN

AMANDA O. NOONAN, SWORN

JAMES BRENNAN, SWORN

DIRECT EXAMINATION

BY MR. KNOWLTON:

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

A. (Mullen) My name is Steven Mullen.

Q. By whom are you employed?

A. (Mullen) I'm employed by Liberty Utilities Services Corp.

Q. What capacity are you employed in?

A. (Mullen) I am the Manager of Rates and Regulatory.

Q. In that position, what are your job responsibilities?

A. (Mullen) I'm responsible for rates and regulatory affairs for Liberty Utilities (EnergyNorth Natural Gas) Corp. and the Liberty Utilities (Granite State Electric) Corp.

Q. Would you describe the involvement that you had in this rate case that's before the Commission?

A. (Mullen) I filed prefiled testimony in our August 1st filing on both temporary rates and permanent rates. I was involved in the audit process and the discovery process, as well as the negotiations for both temporary rates and for this permanent rate settlement.

Q. I would ask, Mr. Mullen, do you have a copy of what's been marked as "Exhibit 5" before you?

A. (Mullen) Yes, I do.

Q. Would you please provide an overview for the Commission of this proposed Settlement.
A. (Mullen) Certainly. I won't spend too much time on Section I, which is the "Introduction". Much of that was summarized by Chairman Honigberg. However, I will say that, you know, when we filed this case on August 1st of last year, we proposed a $13.4 million increase in permanent rates, and a $2.6 million step adjustment, as well as an $8.4 million temporary rate increase. The temporary rates were settled at $7.4 million last year. And, during the course of this proceeding, and through the discovery process, we -- the Company responded to a number of rounds of discovery. And, through that discovery, the Company said that it would update its revenue requirements calculations, as is customary in especially a big rate case like this, to recognize things that came up during the discovery process, during the audit process, as well as to note any significant changes.

During that process, we provided to Staff and OCA some updated calculations, which brought the permanent increase to 15.1 million, and the step adjustment to $3.1 million.

We had a number of meetings related to

settlement, and that -- with the Staff and the OCA, and that resulted in the document that's here.

As I go to Section II, the "Terms of the Agreement", for permanent rates, we've agreed on an increase to distribution revenues of $10.5 million a year effective July 1 of 2015. That is a liquidated number, in terms of there is a lot of issues in this case, and as it says, we couldn't reach an agreement on things like an overall rate of return or, you know, there's other things involving operation and maintenance expenses. But what we were able to come to an agreement was that $10.5 million was a reasonable increase to annual distribution revenues going forward on July 1.

In addition, we agreed to a step adjustment that would be coincident with the implementation of permanent rates on July 1 of $1.9 million. The difference being, the 1.9 million is not reconcilable for temporary rates purposes, whereas the ten and a half million dollars is.

And, as part of this Agreement, as I look at the last paragraph on Page 3, which goes to Page 4, this references the acquisition proceeding, where Liberty acquired EnergyNorth from National Grid.

And, the parties are in agreement that this Settlement is in accordance with the terms of that Settlement Agreement, in terms of things related to transition and transaction costs that were spelled out in that Agreement.

Q. Mr. Mullen, did the Company need to make any investments in its IT systems to complete the transition from National Grid?

A. (Mullen) Yes. And, those investments were discussed in the testimony of the Company's witness Mr. Lowson.

Q. Mr. Lowson's testimony mentions the provision from the Settlement Agreement in DG 11-040 with regard to a cap of $8.1 million on the amount of IT capital investments that would be eligible for rate recovery. Are you familiar with that provision from DG 11-040?

A. (Mullen) Yes.

Q. And, was that cap a subject of discussion in this proceeding?

A. (Mullen) Yes, it was. Through the course of discovery and negotiations, it was clear that there was a difference of opinion about the specific investments that were subject to the cap. As part of this liquidated Settlement Agreement, we were able to settle on a revenue requirement that took into account those differing views about the cap, as well as a range of other issues, including return on equity, operation and maintenance expenses, rate design, and decoupling, to mention some of them.

Q. Have all of the IT systems that are associated with the transition been installed and placed in service?

A. (Mullen) Yes. They were all in service as December 31st of 2014. So, there will be no additions to revenue requirements in future rate proceedings associated with the installation of transition-related IT capital investments beyond the level included in this liquidated Settlement Agreement.

Q. And, just to clarify, when you say "in future rate proceedings", you mean with regard to EnergyNorth Natural Gas, correct?

A. (Mullen) Correct.

Q. Will the Company's quarterly reporting reflect the terms of the Settlement Agreement?

A. (Mullen) Yes. The Company will include any appropriate notations and/or adjustments to reflect the terms of this Agreement.

Q. Do you want to walk the Commission through other provisions of the Settlement Agreement, and at some point including the impact on rates on customers?

A. (Mullen) Sure. Back on Page 4, in Section B, as discussed, the ten and a half million and the 1.9 equal a total annual revenue increase of $12.4 million. Related to that, typically, there is a -- or, annually, there is an adjustment related to certain facilities of the Company for LNG and propane that provide some distribution aspects. And, typically, part of those, the costs for those facilities, are included in distribution rates and part of them are recovered through the cost of gas rate.

As part of this Settlement, we've agreed that there's going to be no increase to the amounts that were determined in the last rate case related to those facilities.

The distribution rates were allocated to customer classes as shown in Attachment 1. If you turn to Attachment 1, which is Bates Pages 013 and 014, which a lot of times we refer to as a "bingo sheet", this shows the increase in distribution revenues to be collected from each class, as compared to the temporary rates that are currently in effect. So, as you will see, as compared to, if you look on Line 11, as compared to temporary rates, this represents -- there's a $3.1 million increase, if you look to the next -- the next to the last column on the right, that represents about just under a 5 percent increase to distribution revenues, as compared to temporary rates.

If you turn the page, this includes the step adjustment. So, if you look on Line 12, you'll see the "$1.9 million" increase, above the ten and a half million dollar permanent increase, which, together with the temporary -- with the permanent rates, equals an 8 percent increase to distribution revenues above temporary rates.

COMMISSIONER SCOTT: Mr. Mullen?

WITNESS MULLEN: Yes.

COMMISSIONER SCOTT: Just to clarify. So, on Bates 013, the title of that I assume is incorrect, it says "Report of Proposed Rate Change - Permanent plus Step Increase". I assume that's not correct?

WITNESS MULLEN: Correct. It was a heading that carried to both pages. That one should just say "Permanent" on that page.

COMMISSIONER SCOTT: Thank you.

BY MR. KNOWLTON:

Q. Mr. Mullen, you indicated that Parties were not able to agree on an overall rate of return, with the exception of the Cast Iron/Bare Steel Program. Would you describe what the Settlement provides with regard to the CIBS rate of return?

A. (Mullen) Sure. On Page 4 of the Settlement, in Paragraph D, we've agreed that, for purposes of calculating the Cast Iron/Bare Steel revenue requirements, they -- we would use a return on equity of 9.25 percent and a 50/50 capital structure, debt-to-equity.

Moving on, in terms of Section E, that explains how the recoupment of the difference between permanent and temporary rates will be recovered. And, it will be done over an 18-month period, through the provision in our tariff called the "LDAC", which is, and I should do a correction here on Page 5, on the first line, where it says "Local Delivery Adjustment Charge", that should say "Local Distribution Adjustment Charge". The same correction shows further on Page 5, in Section F, in the fourth line, where it says "Delivery" after "Local", it should say "Distribution".

The recoupment between permanent and temporary rates is calculated on Page 15, which is Attachment 2. And, it shows the difference between an annual increase of ten and a half million and the temporary rates that were approved, divided by the normalized test year therms, which gives then a recoupment per therm. And, then, that is multiplied by the actual therms delivered during the period that temporary rates are reconcilable to, starting November 1st. And, of course, May and June are estimated at this time. So, that rate will be a uniform rate applied to all classes.

The same goes for rate case expenses, which is in Section F. And, the rate case expenses are shown in Attachment 3, which is on Page 016. And, in the 11-040 acquisition proceeding, there was actually a cap of $600,000. And, you can see here where the total is just under 400,000, and I think there might be a couple of odds and ends that aren't here. I think one thing that's not in here is the cost of a Staff expert. But that will be -- that will all be updated, and those rate case expenses will be provided for audit.

Q. Mr. Mullen, with regard to the rate case expense, looking at the expense that was incurred by the Company for outside experts, did the Company put out those services for competitive bid prior to engaging any experts?

A. (Mullen) Yes, it did.

COMMISSIONER SCOTT: Mr. Mullen, can you

clarify? The expert you're talking about is for the independent audit, is that correct?

WITNESS MULLEN: No. The Staff hired a consultant to -- for return on equity and cost of capital services.

COMMISSIONER SCOTT: Thank you.

CONTINUED BY THE WITNESS:

A. (Mullen) Section G, on Page 6, discusses "Rate Design", and refers to "Attachment 5". Now, Attachment 5 has lots of numbers associated with it. But I can try and summarize things a little bit in terms of rate design. The permanent increase is -- it's really a moderate change to rate design, and it moves slightly in the direction of marginal cost by class. That's for the permanent rates. The temporary rates were -- excuse me, the step adjustment was provided as an across-the-board increase to all rates and charges by class, a uniform increase.

Next, Sections H and I are a couple of -- a couple of items that really talk about the amortization of regulatory assets and how to treat those going forward. Section H, again, goes back to the 11-040 acquisition proceeding. In that proceeding, the Company was allowed to set up a regulatory asset for the present value of pension and Other Post Employment Benefits that existed at the time. That amount sits on our books right now as a regulatory asset. But we will hold off from amortizing that and recording the expense related to it until the date of effective rates in the next proceeding.

BY MR. KNOWLTON:

Q. And, when will that be?

A. (Mullen) The next proceeding will be based on a 2016 test year, so it would probably be filed around the second quarter -- the second quarter of 2017.

Section I goes back to a prior proceeding, DG 06-107. And, this was the National Grid/Keyspan merger. Related to that, there was some costs to achieve that merger. And, there was a provision in that Settlement that costs to achieve could be amortized over a ten-year period, subject to limitations on how much savings were actually demonstrated as a result of that proceeding.

As described in Paragraph I, the annual amortization on the Company's books is roughly $409,000. In EnergyNorth's prior rate case, DG 10-017, there was a demonstration of savings achieved from that merger, which limited the annual recovery to $181,000 and change. That will be continued forward until those costs are fully amortized.

Turning to Page 7, our "Soft-Off Policy", this has to do with Occupant Accounts. And, there is an Attachment 6 that goes through some detail on this. The Staff had mentioned to the Company maybe a couple of years or so ago that we should look at revising our policy related to Occupant Accounts. There was a feeling that the Occupant Accounts were basically getting a little out of hand.

So, what we've done, and we've modeled this in large ways based on what Unitil currently has for its Northern system, but we've made some changes in terms of the number of days before there would actually be a shut-off. We've made some days -- excuse me, some changes as to the eligibility. This used to apply to all customers. Now, you're only eligible if you're a residential customer with an outside meter, and you're not removing any gas appliance. The main thing is to try and get this all under control.

Related to that, if you turn back to -- turn back to Page 7, there was a management incentive that was part of a Settlement Agreement in Dockets DG 07-129 and DG 09-050 related to the Occupant Accounts.

And, this was a way to try and get the Occupant Accounts under control. And, with the provision -- with the implementation of our new soft-off policy, the Parties have agreed that that provision in the cost of gas filing will no longer be needed. And, in the last cost of gas proceeding, I believe there was testimony from the Company that the number has gone down.

Tariff changes --

Q. Actually, Mr. Mullen, I'd like to ask you a few questions on the soft-off, if I may.

A. (Mullen) Sure.

Q. When you testify that the adoption of this policy is intended to bring the situation more under control, would you describe in more detail what was occurring and what the nature of the concern was?

A. (Mullen) Well, there was -- part of the thing was there was no -- there weren't a lot of shut-offs happening. So, what was happening is somebody moves out of an apartment or business, and the -- it could be vacant or there could be somebody in actually using some gas. So -- and we were not doing any shut-offs between November 1st and March 31. And, as this also applied to all customers, there was -- there was an increase in what you'd call, you know, something that got added to unaccounted for gas, as well as there was an increase to accounts receivable, because there was -- in some cases, there was nobody paying on the account.

So, in terms of trying to get these back under control, we now have a policy where it won't go any longer than 30 days, and shut-offs could also occur year-round, and not be limited to April 1st to October 31st.

Q. Will there be a benefit to customers from the adoption of this new policy?

A. (Mullen) Yes. Because the unaccounted for gas associated with Occupant Accounts was included as part of the cost of gas calculation, and that will now be reduced.

Q. If you would continue with the next section of the Settlement please.

A. (Mullen) Section K, on "Tariff Changes", these are mainly housekeeping items for the Standby Service, 280 Day Sales Service, 280 Day Transportation Service, and Interruptible Transition **[**Transportation**?]** Service. Those rates were established quite a while ago. And, there have been nobody -- no customers using those rates for a long period of time, for several years. So, we're eliminating those rates.

And, the Environmental Surcharge - Relief Holder and Gas Restructuring Expense Calculation, both were part of the LDAC. And, those have since -- those were short period or limited period collections, and those are now completed and have been for a while. So, we're going to remove those, again, as a housekeeping measure in the tariff.

And, finally, -- well, not "finally", on Section L, the "Audit", we have agreed that there would be an independent consultant selected by the Commission, following a competitive bid process, to look at two areas of the Company, related to Customer Service and Finance. Those are detailed in Attachment 7. The Company understands that, you know, the Company is still relatively new, and it's still growing, and its processes are still developing. So, you know, we acknowledge that there are areas that could use some improvement. And, we are just as anxious to get those areas looked at, find out what's working well, what areas could be improved.

The Attachment 7 goes through a scope for both of those areas. And, I will say right now, related to the Company's interest in looking at these areas, we have an internal audit going on right now in the Customer Service area, that basically goes through the Customer Service scope that's on here, which should be helpful as a building block for this independent audit. And, again, if we can highlight the areas that are working well and some areas that can be improved, everybody is the better for it.

And, now finally, the bill impacts are shown in Attachment 8, which begins on Page 027. And, if you turn to Page 028, which is for an R-3 customer, a heating customer, residential heating. What this schedule shows is the total bill impact for a customer using 773 therms on an annual basis. And, if you look at Line 63, the total bill over an annual period, for an R-3 customer, would increase by $91.08, which is a percentage change of 7.75 percent. This increase is compared to temporary rates that are currently in effect. This shows the permanent, plus the step increase. It also shows the changes to the LDAC provision, related to temporary rate recoupment, rate case expenses, and there's a third item, as part of the rate design, we have a low income provision that also is part of the LDAC. So, as you design rates, and you have a low income discount, which is the R-4 rate, that gets allocated to the various customer classes. So, that is also included in the LDAC change.

And, if you turn to Page 034, we have included an additional schedule for various customer classes. If you look on Line 3, it says "Annual Bill Comparisons - Permanent (including Step & CIBS)" -- Cast Iron/Bare Steel -- "versus Temporary Base Rates for an R-3 customer". This schedule is to show that, based on the revised filing in the Cast Iron/Bare Steel proceeding that was, I believe, filed last beak, what the total impact to customers would be on July 1, as that is also a July 1 rate change, as compared to rates that are currently in effect. So, if you then go down to Line 63, the total bill impact would be $93.02, including the CIBS change, and the percentage change 7.92 percent.

Q. Mr. Mullen, how many therms is that based on?

A. (Mullen) That was based on 773 therms on an annual basis.

MR. KNOWLTON: Thank you. The Company has no further questions for Mr. Mullen at this time.

CHAIRMAN HONIGBERG: Mr. Jortner.

MR. JORTNER: Thank you.

BY MR. JORTNER:

Q. Mr. Brennan, could you state your full name for the

record please.
A. (Brennan) My name is James Brennan.
Q. And by whom are you employed?
A. (Brennan) The Office of Consumer Advocate.
Q. And, what are your responsibilities at the Office of Consumer Advocate?
A. (Brennan) As Finance Director, one of my primary responsibilities is that of a utility analyst.
Q. And, could you very briefly describe your involvement in this case since Liberty filed for its request for permanent rate increases?
A. (Brennan) The OCA has been actively involved in this docket from the review of the original filing. We performed our analysis, issued discovery. We made our internal adjustments to the revenue requirement. And, moving through the discovery phase and settlement discussions, we presented our analytical findings. We proposed adjustments from our perspective. And, in reviewing the counterproposals and, in settlement, the $10.5 million rate increase and $1.9 million step adjustment, on liquidated basis, we feel this is a just and reasonable settlement and rate from the perspective of a residential ratepayer.
Q. Thank you. And, did you listen to the testimony of Mr.

Mullen given just previous to yours?
A. (Brennan) Yes, I did.
Q. And, do you concur with the testimony of Mr. Mullen, with respect to the description of the Settlement?
A. (Brennan) Yes, I do.
Q. And, are there any other matters that you wish to bring to the attention of the Commission this morning?
A. (Brennan) Not at this time.

MR. JORTNER: Thank you. That's all for Mr. Brennan.

CHAIRMAN HONIGBERG: Off the record real quick.

(Brief off-the-record discussion ensued.)

CHAIRMAN HONIGBERG: Back on the record. Mr. Sheehan.

MR. SHEEHAN: Thank you.

BY MR. SHEEHAN:
Q. Mr. Frink, your name please.
A. (Frink) Stephen Frink.
Q. And, your employer?
A. (Frink) The Public Utilities Commission.
Q. And, what are your duties here at the PUC?
A. (Frink) I'm the Assistant Finance -- the Assistant

Director of the Gas and Water Division.
Q. And, can you give us an overview of what your involvement with this docket has been?
A. (Frink) I've been primarily responsible for determining what's fair and reasonable rates from Staff's perspective.
Q. Ms. Noonan, your name?
A. (Noonan) Amanda Noonan.
Q. And, your title?
A. (Noonan) Director of the Consumer Affairs Division.
Q. And, can you give us an overview of what involvement you had with this rate case?
A. (Noonan) Sure. I've been involved in this rate case from the perspective of addressing issues that have been affecting service provided to customers since the conversion in September 2013, and how to improve the customer experience for Liberty's gas customers.
Q. Mr. Frink, I have a few questions for you, and then I'll turn to Ms. Noonan. Could you give us an overview, from your perspective, of how this Settlement came about?
A. (Frink) Yes. On February 6th, 2015, the Audit Staff issued its Final Audit Report, which is 140 pages and had 34 audit issues. And, because of the numerous

issues, and we decided that we'd postpone the procedural schedule -- well, we requested that the schedule be suspended, and it was granted, to allow us additional time to examine those issues. There were numerous meetings between the Parties, both singly and jointly, and other issues besides what were in the audit were discussed. And, ultimately, the Parties reached a comprehensive settlement. So, it was an evolving process that the audit report gave rise to. And, that's how we wound up with this Settlement.

Q. What was the primary concern arising from the audit?

A. (Frink) The Audit Staff was unable to tie some of the amounts that were in the filing with the Company's general ledger. And, subsequently, the Company was able to provide support that proved that the underlying numbers in the filing were correct, materially correct. And, they also have changed their accounting processes going forward, to ensure that the general ledger balances on their -- their books actually agree and can be audited with what's being filed with the Commission. So, it wasn't a matter that the numbers were necessarily incorrect, but it was the Audit Team couldn't tie it to the Company's books directly. So, that has been fixed going forward.

Q. Were there other concerns about the test year costs?

A. (Frink) Well, during the test year, National Grid was still providing services under the Transition Service Agreement from the acquisition docket. And, as part of that Agreement, there were -- those transition costs weren't to be reflected in future rates, and that was part of the Settlement, that the Company wouldn't recover on those costs, and there was a cap on the IT spending. And, there was also a concern -- so, some of those costs were in there, and there were concerns that maybe all of those costs weren't identified or weren't reflected. And, so, that was a concern.

Then, there's also the concern that, because National Grid was still providing services, and there was still -- the test year was still during the transition, that EnergyNorth's costs from the test year, in the proformed period, may not be reflective of what their costs are going forward. So, that's -- those were issues on top of the audit that we were looking at.

Q. In addition to costs, were there other concerns regarding the EnergyNorth operations that Staff had?

A. (Frink) At about the same time that we received the Final Audit Report, we also received a copy of the

Company's Customer Satisfaction Survey. Again, going back to the acquisition merger and Settlement Agreement, the acquisition docket Settlement Agreement, they perform a periodic Customer Satisfaction Survey. And, there was a significant drop in customer satisfaction. Which, given the calls that the Consumer Affairs Division here at the Commission had been receiving, wasn't surprising. And, so, that was a concern that we wanted addressed, and was the subject of many discussions and dealt with in this Settlement.

Q. How does the Settlement address both the financial reporting and customer service concerns you just outlined?

A. (Frink) The Settlement, for the short term, provides a reasonable return. It's limited enough that EnergyNorth is expected to file a rate case in 2017, based on a 2016 test year. The Settlement also provides for an outside audit of the accounting and customer service areas, which will help in addressing these concerns. And, also, putting it off -- well, having another rate case in 2017, based on a 2016 test year, will also mean that the test year should be free of any transition costs and more accurately project future operating costs, as it will be strictly Liberty costs that will be incurred during that 12-month period.

Q. Do the terms of this Settlement comply with the conditions set forth in DG 11-040, the acquisition Settlement Agreement?

A. (Frink) They do. In that acquisition proceeding, I actually testified that, because Liberty had never operated a natural gas utility, there were concerns that the transition costs and the IT capital spending to effect the merger could negatively impact future rates. And, part of that Settlement put in protections to insure against that, and this Settlement reflects the recovery limitations detailed in the acquisition Settlement. So, the Settlement -- the transition did not go as smoothly as one would have hoped. But, as per the terms of the Settlement in the acquisition agreement -- acquisition docket, customers weren't harmed as a result of that.

Q. In addition to addressing the financial reporting and customer service concerns, does the Settlement provide other benefits from Staff's perspective?

A. (Frink) It does. And, as I've already mentioned, 2016 should be a clean test year, meaning it will be Liberty-only costs. That gives the Company time --

well, it gives the auditor, that independent auditor, a chance to do his audit on the final reporting and customer customers issues, and for Liberty to undertake improvements or efficiencies that may be realized through that process and be implemented. So, that's an important part of this.

The revenue requirement in the CIBS proceeding will be less, the 2015 and 2016 CIBS capital spending will now earn a return based on a 9.25 return on equity, versus a 9.67 return on equity. So, that's a fairly significant decrease that should benefit customers.

And, I would also say that, since a new rate filing is expected in 2017, that that -- that there should be little or no disincentive to Liberty continuing to expand or implement energy efficiency programs, because we're not implementing a decoupling mechanism here, but they will be getting a rate increase based on 2016 sales. And, so, by -- in essence, they're missing one year of a decoupling program. So, there should be very little impact on -- there should be no impact on the programs that are being offered. And, as you know, there are also -- that program is under review, and now there's an open docket on Staff's recommendations, that will give that a chance to work itself through.

But, in the meantime, we're confident that the energy efficiency programs will not be impacted by not adopting a decoupling at this time. And, I expect there will be a decoupling proposal in the next rate case, which will take into account what comes out of the open docket on that here at the Commission. So, that addressed our concerns on that issue.

Q. Finally, Mr. Frink, you heard Mr. Mullen give a brief overview of the Settlement itself. Did anything that he mention strike you as inconsistent with your understanding of the basic terms of the Settlement Agreement?

A. (Frink) No. He accurately portrayed the Settlement Agreement.

Q. Ms. Noonan, you're last. So, a lot of territory has been covered. Is there anything further you would like to add from your perspective as a consumer affairs person?

A. (Noonan) Sure. I just wanted to reemphasize some of the comments that have been made already about the audit of the financial reporting/accounting and the customer service areas that will be conducted by an independent third party.

Customer-impacting issues continue to arise. You know, Liberty recognizes those, and acknowledges that improvements can be made. And, this independent look at those areas, and identifying areas for improvement, perhaps, you know, a root cause analysis in some cases of why things continue to happen. A fresh look, someone with experience in doing these types of audits, will be very valuable to Liberty and to its customers.

The Attachment 7 to the Settlement is a list of suggested areas for review. And, you know, as the consultant gets into his or her work, if they identify other related areas, the scope is not limited just to that list, if there are other related areas they identify during the course of their work.

As Mr. Mullen mentioned, Liberty is in the process of having its own internal Audit Division do what's called a "meter-to-cash" audit, which basically looks at their whole process, from the meter reader going out to read the meter, providing those meter readings into the system, those conversions into billing, all the way through to the receipt of the payment from the customer and the application to their account. That's a very valuable exercise for Liberty. And, the consultant will look at that as part of their review. They may certainly have more questions and want to dig deeper, but that will help them to -- as they put together their area of focus, and, hopefully, provide some benefits to customers as a result.

And, I'd mention, as we're here in the context of the EnergyNorth rate case, these systems are not just for EnergyNorth, they're also for Granite State. So, there is overlapping benefit for those customers as well, who have also experienced the same issues as EnergyNorth customers.

MR. SHEEHAN: Thank you. Staff has no further questions.

CHAIRMAN HONIGBERG: Commissioner Scott.

COMMISSIONER SCOTT: Thank you. Good morning.

BY COMMISSIONER SCOTT:

Q. I think I'll start with the independent audit. And, whoever is appropriate, I guess, will, unless I identify you specifically. Is this -- I understand there's a transition going on, obviously, between National Grid and Liberty, which hopefully is mostly done at this point. The audit itself, has this -- have we done this before, required an independent audit like this?

A. (Noonan) We have required audits of companies in the past. This is not -- well, for instance, sometime in the last 1990's, the Commission had a independent consultant do a management audit of what was then PSNH. In the early 2000's, there was a similar, although more limited, audit done of Verizon by an independent consultant. And, while this is not a comprehensive management audit, it's styled loosely on that, and more targeted and focused to the areas that we know to be of concern.

Q. And, Ms. Noonan, you mentioned this could have benefits to the electric utility also?

A. (Noonan) Yes.

Q. Will the electric utility procedures be looked at as part of this or are you just implying that there could be ancillary benefits that come out of this look?

A. (Noonan) As an example, the procedures for reading the meter, uploading the data, processing the bills, mailing those out, are identical for Granite State and EnergyNorth. And, so, when you look at one, you look at both.

Q. And, how does the audit get paid for?
A. (Noonan) There is general agreement that, when the Company comes in for its next rate case, that would be an item for discussion at that time.
Q. And, going back to the "there could be benefits for the electric side", is EnergyNorth paying for it or is there going to be some sharing?
A. (Noonan) Sure. That certainly would be something to consider, because there are shared benefits between both sets of customers.
Q. Okay. On, this is probably for Mr. Mullen, when we look at, I think, Bates 027, when we look at the differences between the permanent with the step increase and the temporary rates, that's helpful information. But I also like to be able to compare similar times prior to any of the change. So, do we have data in the record compared to last year at the same time, if you will?
A. (Mullen) If you turn to Page -- let me turn to the right page here -- to Page 019, which is part of Attachment 5. And, if you look down on Line 105, I know there's a lot of numbers and lines on this Attachment.
Q. I see it.

A. (Mullen) Over in the "Company total" column, that includes the -- on line -- actually, Line 104 shows the $12.4 million increase, that is a combination of the permanent increase and the step increase. And, on Line 105, that shows a 22.46 percent increase in distribution revenues, as compared to revenues prior to the case. Again, that's distribution, and that's not total company, which Attachment 8 that we were looking at has -- excuse me, not the total bill. But that will give you an idea of the increase there.

To put that in a little bit more perspective, the temporary rate increase was, I believe, 13.3 percent increase across the board to all rates and classes. And, when we looked at Attachment 1 -- get to the right page -- we look at Page 014, which is Page 2 of Attachment 1, on Line 11, the 8 percent there, which includes the permanent and the step increase, would be additive to the temporary. So, you're roughly at about the same point.

Q. So, you think we'd be able to -- what I'd like to be able to do is, in the order of notice -- not in the "order of notice", on the order, assuming we approve, to be able to compare, for an average customer again, do we have enough data for that or do we need to have a record request for that?

A. (Mullen) Well, if you wanted to do an increase for average customers in various classes, similar to what's in Attachment 8, we could certainly provide additional schedules that compare the various classes and the various components to pre-case numbers.

Q. I'd like that.

A. (Mullen) Okay.

CHAIRMAN HONIGBERG: Do you understand the request, Attorney Knowlton?

MR. KNOWLTON: Yes.

CHAIRMAN HONIGBERG: So that would -- we're going to reserve the next number, that would be "Exhibit 6" for that.

(Exhibit 6 reserved)

WITNESS MULLEN: Just one clarification on that.

CHAIRMAN HONIGBERG: Mr. Mullen.

WITNESS MULLEN: We did Attachment 8 in two ways. One did not include the Cast Iron/Bare Steel and one did. And, again, that just -- that's based on the filing we did last week, and assuming what happens with that one. How would you like to see this new attachment?

COMMISSIONER SCOTT: Can you do it both

ways?

WITNESS MULLEN: Sure can.

COMMISSIONER SCOTT: Thank you.

CHAIRMAN HONIGBERG: It's just an input on a spreadsheet, right?

WITNESS MULLEN: That's right.

CHAIRMAN HONIGBERG: No problem.

WITNESS MULLEN: And, I'll have someone do it for me.

COMMISSIONER SCOTT: Thank you.

BY COMMISSIONER SCOTT:

Q. Probably still with Mr. Mullen. The Soft-Off policy, I just want to confirm. The initiation in all cases is only if a customer initiates it with the Company, correct? So, this is not unilateral with the Company, correct?

A. (Mullen) Correct.

Q. Thank you. And, again, I think for Mr. Mullen. The Cast Iron/Bare Steel Replacement Program, is there, maybe you could help my memory, is there a target date in sight, where you would have all your troublesome pipes all replaced?

A. (Mullen) That will be discussed in more detail in that proceeding. But it's roughly, from now, it's about a ten-year remaining life.

Q. Okay. Thank you. And, it sounds like it's unlikely, but, obviously, in the tariff you mentioned you'd be no longer taking additional customers for Outdoor Gas Lighting. If somebody were to want to do that, they would just, depending on whatever class they fit in, they would just be assigned that? They would fit in that way, is that correct?

A. (Mullen) Yes. I mean, right now, we have one customer in that class. And, as you can see from looking at, say, Page 013, the annual revenues from that class are insignificant. But -- I don't know of too many customers that are looking to put in gas lights. But, I suppose, if they would, that would just be on their normal metered service.

COMMISSIONER SCOTT: Okay. Well, maybe we'll see a resurgence of -- probably not. Okay. I think that's all I have, Mr. Chairman.

CHAIRMAN HONIGBERG: Thank you. Most of my questions have been answered.

BY CHAIRMAN HONIGBERG:

Q. Mr. Mullen, I have, what I fear, is probably a not very educated question about Attachment 1. Both pages repeat a column. Looking from the right on both, the second from the right and the fourth from the right have the same heading and the same information. Why?

A. (Mullen) Let me make sure I'm looking at the -- which column headings are you looking at? I want to make sure I get to the right spot.

Q. Just looking at Page 1. The heading that says "Proposed Permanent Change in Distribution Revenue". The first number in that column is "58,654". And, then, two columns over to the right it is identical, same heading, the same information, except there are totals at the bottom. And, then, the exact same thing I believe happens on the second page of the schedule. So, I'm wondering what that -- what those two things are showing and doing and why those numbers are being repeated?

A. (Mullen) Well, I guess it's really -- it really is duplicative. And, we could have eliminated one of the columns. Just a matter of the way that the schedule is set up. The second to the -- from the right also goes down and does a, you know, a reconciliation based on rate design, to show the difference when you actually plug it through the rate design formulas. That's a proof, a revenue proof, to show that the rate -- the designed rates will give you the revenue that you're looking for. But that's essentially the difference.

Q. Good. I feel better now. Understanding that you're going to put it out to bid, do we have a sense of how much the external audit might cost? A ballpark figure anyway?

A. (Noonan) We do not have anything, other than a complete and total guess. So, I'd say "no". You know, we could be totally off the mark as to what it might cost.

Q. It's not going to be less than $20,000, right?

A. (Noonan) No. I think that's a safe assumption.

Q. And, it's probably not going to be $500,000?

A. (Noonan) It's hard to say. That's kind of the upper ballpark I've had in my mind.

Q. So, it's not going to be a million dollars?

A. (Noonan) I would certainly hope not. That part of the reason, and being very specific in that attachment to the Settlement, was an effort to limit the cost, and just focus on those areas that were of concern.

Q. Let me find a floor. Twenty (20), obviously, wasn't an appropriate floor. Is 100 an appropriate floor?

A. (Noonan) I would really just be guessing. Certainly, that's, as I said, a consideration for the Parties as to what the total costs would be, and something we'll look at carefully. But I would really just be

guessing.
Q. Okay. Mr. Mullen, you wanted to add something?
A. (Mullen) Yes. We're hoping that the work of our internal Audit Department will help mitigate the costs and the amount of time that an independent auditor would have to spend, especially in the Customer Service area. As what they're doing now largely resembles what the scope is in Attachment 7 for the Customer Service areas. So, to the extent they can take the results of that report, which I believe are expected to be completed sometime around maybe September, that should be helpful in mitigating the costs.
Q. Is any of that scope similar to the scope that the Commission's auditors worked through with the Company?
A. (Mullen) The Commission's auditors was more of a financial type of audit, and looking at the filing and proving out the numbers in there and that sort of thing. So, this is a little bit different, in terms of the actual meter reading processes, the bill production and all that.
Q. Let me be a little bit more specific. I understand that it's a very different focus, financial versus more of a performance-type audit. But is there overlap?
A. (Mullen) There's overlap in terms of the -- especially

when we get to the financial area, there's some overlap.

CHAIRMAN HONIGBERG: I don't think I have any other questions. Commissioner Scott.

COMMISSIONER SCOTT: Sorry for the second, the second bite here at the apple.

BY COMMISSIONER SCOTT:

Q. The audit, just can you tell me what the timing of that is? When you think you'd go out and when you think it would be completed?

A. (Noonan) Since, as part of this Settlement, the Parties worked to identify a basis for the scope, I would hope that the RFP would go together fairly quickly. And, would be issued by the Commission mid June. I think that gives us two to three weeks to put it into the appropriate format for State RFPs, and have it reviewed and signed off on and go out to bid. And, then, we would probably follow the typical turnaround, a couple weeks for responses to come in, perhaps insert a period in there for bidders' questions to come in before their bids are due. So, I would hope by the end of June/early July, we would have those responses in.

Q. Do you have an idea what the timeframe you'd be requiring for this? Would they get six months to complete? Or is that going to be --

A. (Noonan) Yes. I think, as part of the RFP, we would be asking the bidders what they believe the timeframe would be, and then reviewing that as part of the bid review, to see what's reasonable.

Q. Okay. Thank you. And, back to our earlier back-and-forth on the gas and electric benefit.

A. (Noonan) Uh-huh.

Q. Would the RFP, whoever wins the RFP, would they have access to look at the electric side also? Or, is this just an EnergyNorth RFP for them?

A. (Noonan) Well, the processes used are the same. If they were to look at specific accounts, for an example, I suspect that they would look primarily at gas accounts, because it is part of the Settlement in this gas proceeding. But the processes are the same. And, any suggestions for improvements and efficiencies would affect both sets of customers.

COMMISSIONER SCOTT: Okay. Thank you.

CHAIRMAN HONIGBERG: Given that everybody has a witness up there, I'm going to give everybody an opportunity to redirect their own witness, if they want to.

So, Ms. Knowlton, do you have any

further questions for Mr. Mullen?

MR. KNOWLTON: I have nothing further.

CHAIRMAN HONIGBERG: Mr. Jortner, do you have anything further?

MR. JORTNER: One potential clarifying question.

REDIRECT EXAMINATION

BY MR. JORTNER:

Q. Commissioner Scott asked for a representation of the rate impact, given -- comparing rates to before the original filing, as opposed to comparing them to after temporary rates were in effect. So, Mr. Brennan, did you do an analysis that would produce an answer to that question?

A. (Brennan) Our analysis was limited to looking to I believe it is Attachment 5, which Mr. Mullen reviewed, showing the 22.4 percent increase in distribution rates, from test year revenue to -- through the Settlement amount.

Q. And, that would apply to all classes as a whole, on average?

A. (Brennan) That's correct.

MR. JORTNER: Thank you. That's all.

CHAIRMAN HONIGBERG: Mr. Sheehan?

MR. SHEEHAN: Have nothing further. Thank you.

CHAIRMAN HONIGBERG: All right. Is there anything else we need to do with these witnesses?

(No verbal response)

CHAIRMAN HONIGBERG: I assume the answer is "no". So, we'll strike the ID on Exhibit 5, correct? No objections to that?

MR. SHEEHAN: No, sir.

CHAIRMAN HONIGBERG: And, then, we'll wait to see Exhibit 6 when it comes in.

Anything else we need to do before we sum up?

(No verbal response)

CHAIRMAN HONIGBERG: I see none. Mr. Jortner.

MR. JORTNER: Thank you. The OCA is pleased to be able to support the Settlement presented today. We think it's a fair resolution of all of the issues presented in the Company's original filing, and other issues that were brought to the Parties' attention by Staff and the OCA. It took a while, but we got to a position -- we got to a point where sort of a "black box" number seemed reasonable to all the Parties, even though each Party may have had a different reason for believing those were the reasonable numbers. So, it's sort of a "black box" settlement, but we are pretty comfortable that it falls within the range of reasonableness of just and reasonable rates from the perspective of residential ratepayers. And, therefore, we're pleased to support the Settlement.

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: Mr. Jortner said it well. This was a long and, not difficult, but a hard-fought process. And, as always here at the Commission, it was done with respect. But there were push-and-pull, both sides, all sides, and a lot of work went behind these numbers. Although, because it's a "black box", we were not into a lot of details here in this hearing. But there's many hundreds of hours of work behind this number.

And, as Mr. Jortner correctly said, we may gotten to the number in different ways, but we all get to that number and we all support it as a just and reasonable resolution of this case. Thank you.

CHAIRMAN HONIGBERG: Ms. Knowlton.

MR. KNOWLTON: Thank you. The Company requests that the Commission approve the Settlement Agreement as proposed, which would mean that rates would take effect on July 1st, 2015. The rates are just and reasonable and necessary in order for the Company to continue to provide safe and reliable service to its customers.

The Settlement brings about some important changes, including a new policy on soft-offs -- soft-off, the elimination of some rate classes that are out-of-date, and also an audit, which will look at some of the areas of the Company that require some improvement. The Settlement also brings to conclusion some important issues from DG 11-040.

Finally, and most importantly, the Settlement is a testament to the Commission's process. In addition, it is also a testament to the people involved, who showed nothing short of professionalism and dedication to reach resolution of a very difficult case. Thank you.

CHAIRMAN HONIGBERG: If there's nothing further, we will await the additional exhibit, and take the matter under advisement. Thank you very much.

(Whereupon the hearing was adjourned at 10:09 a.m.)