STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 10, 2016 - 2:04 p.m.
Concord, New Hampshire

RE: **DE 16-277**
LIBERTY UTILITIES (GRANITE STATE ELECTRIC) CORP. d/b/a LIBERTY UTILITIES: Reliability Enhancement Plan and Vegetation Management Plan Report.

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Robert R. Scott
Commissioner Kathryn M. Bailey

Sandy Deno, Clerk

APPEARANCES: **Reptg. Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities:**
Michael J. Sheehan, Esq.

Reptg. PUC Staff:
Paul B. Dexter, Esq.

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

I N D E X

PAGE NO.

WITNESS PANEL: HEATHER M. TEBBETTS
CHRISTIAN P. BROUILLARD
JEFFREY CARNEY
STEVEN E. MULLEN

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Reliability Enhancement Plan and Vegetation Management Plan Report, including Report, Appendices, Direct Testimony of Messrs. Brouillard and Carney, Direct Testimony of Heather M. Tebbetts, including Schedules (03-15-16)	5
2	Liberty Utilities (Granite State Electric) d/b/a Liberty Utilities Technical Statement of Heather M. Tebbetts, Revised Schedules & Tariff Page (03-30-16)	5
3	Liberty Utilities (Granite State Electric) d/b/a Liberty Utilities revised filing (05-06-16)	5
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P R O C E E D I N G

CHAIRMAN HONIGBERG: Good afternoon. We're here in Docket DE 16-277, which is Liberty Utilities (Granite State Electric) Corp.'s Calendar Year 2015 Reliability Enhancement and Vegetation Management Plan results and reconciliation proceeding. And we're here pursuant to a Supplemental Order of Notice, because the original Order of Notice had to be reissued because of a failure to publish.

It does appear that a fair bit of work has been done in between. So, there's some new materials which were filed just a few days ago.

And I don't think there's anything else I want to stay before we take appearances.

MR. SHEEHAN: Good afternoon, Commissioners. Mike Sheehan, for Liberty Utilities. And the people with me with all be testifying. So, I will introduce them then. Thank you.

MR. DEXTER: Paul Dexter, appearing on behalf of the Commission Staff, and with me is Rich Chagnon.

CHAIRMAN HONIGBERG: All right. How are we going to proceed? Mr. Sheehan.

MR. SHEEHAN: Thank you. First, I'd like to formally apologize for the oversight that caused the need for the Supplemental Order of Notice and the delay in hearings.

First, I'd like to mark three exhibits for identification: Exhibit 1 being the original filing of March 15, 2016, with attachments; Exhibit 2 being the Technical Statement of March 30, 2016; and Exhibit 3 being the revised filing of May 6, with attachments. We'll have the witnesses walk through those and explain each of them.

(The documents, as described, were herewith marked as **Exhibit 1**, **Exhibit 2**, and **Exhibit 3**, respectively, for identification.)

CHAIRMAN HONIGBERG: All right. Well, why don't you have the witnesses take the stand, and we'll deal with any other administrative matters.

All right. Are there any other preliminary matters we need to deal with?

MR. SHEEHAN: I put on the desk -- the Bench a color copy of Page 17. It's not a new exhibit, it's simply a color copy of what's in the filing from Friday. The computer version is in color, so this is just to match.

CHAIRMAN HONIGBERG: Yes. I did note, when reviewing this, this graph in the filing I had, it was all black, white, and gray. And it was a little difficult to tell one gray from another.

All right.

MR. SHEEHAN: That's all I had for preliminary matters. Thank you.

CHAIRMAN HONIGBERG: Thank you. Could you swear the witnesses in please.

(Whereupon ***Heather M. Tebbetts***, ***Christian P. Brouillard***, ***Jeffrey Carney***, and ***Steven E. Mullen*** were duly sworn by the Court Reporter.)

HEATHER M. TEBBETTS, SWORN

CHRISTIAN P. BROUILLARD, SWORN

JEFFREY CARNEY, SWORN

STEVEN E. MULLEN, SWORN

DIRECT EXAMINATION

BY MR. SHEEHAN:

Q. Okay. We'll start with Mr. Brouillard and Mr. Carney. If you could each introduce yourself, your position with the Company, and what involvement you had with this filing. Mr. Carney.

A. (Carney) My name is Jeff Carney. I work for Liberty Utilities. I am the Program Manager for Inspections and Vegetation Management. And I prepared all the Vegetation Management-related submittals.

Q. Mr. Brouillard.

A. (Brouillard) My name is Christian Brouillard.

Q. Mike's off.

A. (Brouillard) Excuse me. My name is Christian Brouillard. I am the Director of Engineering for Liberty Utilities Service Corporation. I prepared the REP/VMP Report, and also the joint testimony with Mr. Carney.

Q. And, Mr. Carney, you played a role in both the report and that testimony as well?

A.   (Carney) Correct.
Q.   Do you have the original filing and the revised filing in front of you?
A.   (Carney) Yes.
Q.   And the original filing is "Exhibit 1" and the revised filing "Exhibit 2". The revised filing includes another copy of your testimony with a couple of changes, is that correct?
A.   (Carney) Correct.
A.   (Mullen) Could I just -- for the record, I think you're referring to "Exhibit 3" for the revised filing.
Q.   I'm sorry, 1 and 3.
A.   (Carney) Correct.
Q.   The same with you, Mr. Brouillard?
A.   (Brouillard) That is correct.
Q.   And, for the testimony as corrected, are there any other changes to the testimony or the report, other than what's reflected in Exhibit 3?
A.   (Carney) No, there aren't.
A.   (Brouillard) No, there are not.
Q.   And, as for your testimony, both of you, if I were to ask you the same questions today as are

in that testimony, again, Exhibit 3, would your answers be the same?

A. (Carney) Yes.

A. (Brouillard) Yes.

Q. And, Mr. Brouillard, if you could just give me a three-sentence description of what's the purpose of the report that you prepared with Mr. Carney.

A. (Brouillard) The purpose of the report is to detail the results of the Veg. Management and Capital Reliability Enhancement Program, as well as present the results of our five-year and 2015 reliability statistics.

Q. Next, Ms. Tebbetts, I'll turn to you. Your name, your position with the Company, and what involvement you had with this filing please.

A. (Tebbetts) Yes. My name is Heather Tebbetts, and I work for Liberty Utilities Service Company. I'm an Analyst in our Rates and Regulatory Department. And I'm responsible for rate-related services for Granite State Electric.

Q. And do you have the exhibits in front of you as well?

A. (Tebbetts) Yes.
Q. First, to Exhibit 1, which was your testimony and attachments. Did you prepare that testimony?
A. (Tebbetts) Yes.
Q. And, other than some changes in the attachments, were there any changes to your testimony from what appears in Exhibit 1?
A. (Tebbetts) The only changes are further with the amended March 30th and May 6th filings.
Q. Okay. The Exhibit 2 is the March 30 filing. Why don't you describe what that is.
A. (Tebbetts) So, the March 30th filing is a technical statement with updated schedules that explain updates for retroactive tax law, and also updates for a formula error in one of the schedules.
Q. And explain Exhibit 3, does that -- strike that. What is the -- what's contained within Exhibit 3 that you had involvement with?
A. (Tebbetts) With Exhibit 3, we made revisions to the technical statement and we updated the schedules to reflect a few items. One of the items was the information from the FERC Form 1

that provides municipal property taxes. We also updated -- just want to make sure I get the information correct -- we also updated the capital -- the expenditures were correct, but we updated the revenue requirement. And we also updated the forecasted revenues to calculate the annual revenue requirement moving forward.

Q. As for your testimony, Ms. Tebbetts, and with the changes reflected from Exhibit 1 and Exhibit 3, are there any other changes to your testimony that you'd like to make this morning -- or, this afternoon?

A. (Tebbetts) No.

Q. And, if you were asked the same questions today that are in that written testimony, would your answers be the same as they have been amended?

A. (Tebbetts) Yes.

Q. Mr. Mullen, your name, occupation, and involvement with this filing.

A. (Mullen) My name is Steven E. Mullen. I'm the Manager of Rates and Regulatory for Liberty Utilities Service Corp. Related to this filing, I was involved in the review of various documents that you see here, as well as participated in preparing the technical statement that's Exhibit 3.

Q. And can you tell us what the purpose -- what goals did you have in mind when you prepared and filed what is now Exhibit 3?

A. (Mullen) One of the primary reasons for filing that was due to the delay in the hearing schedule. We had originally proposed rates effective May 1. And, with the postponement of the hearing, it became necessary to change that effective date to June 1. While we were doing that, we then had additional updated information from the FERC Form 1, as Ms. Tebbetts previously testified. So, we took the opportunity to update that information as well.

Q. And were there any changes related to a meeting with Staff?

A. (Mullen) Yes. I believe it was April 13th, we had a meeting with Staff to go through the filings that had been made to that point. Staff pointed out some things, like there were some references on some of the spreadsheets that needed to be updated. And there were a couple other questions that we took into account when we were preparing -- when preparing this update. So, you know, we appreciated having that meeting and having -- and Staff's review, and we took those into account.

Q. Mr. Mullen, in Ms. Heather's **[**Tebbett's**?]** testimony, she refers, and this is Exhibit 1, at Bates 41, she talks about the accrual issue that has occurred with this filing over the past couple years. Could you explain what the issue is and what the Company is proposing to do going forward?

A. (Mullen) Sure. Related to accruals -- well, actually, let me step back. From its inception, this plan has always been done on a cash basis. Which basically means that, whatever you spend, you physically spend in a year, that's what gets recorded as an expense. What happens sometimes, at the end of a year, is we may not have received all the invoices from a contractor, whether it be for trimming work or some other type of expense work. If those invoices are received and paid the following year, they get included in the following year's totals. So, what we'd like to do is, going forward, we would like to include accruals on an annual basis, which will give a better matching of the expenses for a particular year with the activity for the year.

As relates to 2015, the year that's being reconciled here, at the beginning of the year there was, I think, approximately $273,000 of work for 2014 that was paid in 2015, and that was included in the 2015 totals. Likewise, at the end of 2015, it's my understanding that there's roughly about the same amount of invoices that were paid in 2016 that relate to 2015 work.

If you include the accruals, what would happen each year, after it's implemented, at the beginning of the year you would reverse the prior year's accrual, and you would have an accrual at the end of the year, which would give you a better match for the year.

However, we didn't want to go ahead and just make that change for this year without first having the discussion. Because the first year you do it, you don't have a reversal at the end of the -- at the beginning of the year, but you would have an accrual at the end of the year. So, rather than just go ahead and do it, we figured we'd have the discussion first.

Q. And part of the request today is to ask for approval to make that change, understanding there's going to -- for 2016, there will be a little bit of a mismatch, as you say, between the actual expenditures and the work?

A. (Mullen) Well, for 2016, it would have some 2015 invoices included in the total. And, then, what happens at the end of the year all depends on where we stand with getting invoices from contractors. If everything comes in before the end of the year and we pay it before the end of the year, there won't be an accrual. But we won't know that until we get to the end of the year.

Q. And this issue does not address when the work was done. All the work is done in the calendar year. It addresses when the accounting of the payments for the work is made. Is that correct?

A. (Mullen) That's correct.

MR. SHEEHAN: Those are all the questions I have. Thank you. They're available for cross-examination.

CHAIRMAN HONIGBERG: Mr. Dexter.

MR. DEXTER: Thank you.

CROSS-EXAMINATION

BY MR. DEXTER:

Q. While we're on the issue of the accrual, so, if I understand what you're saying, the impact on the 2015 reconciliation, had you done the accrual basis, would really be no impact, because the figure at the beginning of the year and the figure at the end of the year are roughly the same you said. Is that correct? There would be no impact?

A. (Mullen) They're roughly the same, yes. That's correct.

Q. And one other preliminary matter. On the basis of the updated filing, the rates are now proposed for effect June 1st, I believe you said, is that right?

A. (Mullen) That's correct.

Q. And are you proposing that these rates stay into effect for eleven months or twelve months?
A. (Mullen) Depends what part of the rate you're talking about. The capital part of the rate, the change to the rates for revenue requirements for capital work is a permanent change. The change in the rates for the O&M portion of the work, that would be an eleven-month -- we'd propose it for the eleven-month period to get us back on the same May 1st schedule.
Q. Thank you. So, I wanted to talk about the reliability statistics that are in -- they were in the report, Page 7 through 9. And could one of the witnesses give a summary as to the reliability statistics and how 2015 compared with past years?
A. (Brouillard) Yes. I will do that. I'm sorry, what page are you on? I wasn't sure if you were on the Calendar Year 2015 Reliability Results graph or the -- I have Bates Page 14?
Q. Yes. I think it's addressed starting on Bates Page 13 in Exhibit 3. It says "Reliability Results Calendar Year 2015"?

A. (Brouillard) Yes. Thank you. During 2015, we, in summary, we had a very good reliability year. The weather was -- the weather was quite favorable. I believe, for eleven out of the twelve months, we met our reliability targets. Actually, we had the best year since Granite State Electric began keeping reliability records some twenty years ago. We do, as is depicted in the -- in one of the subsequent graphs, we do track against the five-year reliability average, in order to temper out some of the variable effects of weather and other events that -- other one-off events that may occur during the year. And, as is noted, our SAIDI came in at around 60 -- yes, 61 minutes, and our SAIFI came in at just about 0.6. You know, again, you know, a very good -- very good year for us.

In general, it was a favorable year in New England, and even nationwide, with respect to the weather. I would hope that we'd continue to enjoy the same level of success. But, historically, you know, that would probably tell us otherwise.

Q. So, even with the exclusions that are referenced in your testimony, the weather still plays an impact, is that your testimony?

A. (Brouillard) Yes, it does.

Q. And would you attribute any of the "good year", as you put it, to this very program that we're here talking about today?

A. (Brouillard) I absolutely would. The installation, in particular, the installation of spacer cable and tree wire, which is a tree-resistant conductor in both cases, versus bare wire installation, what we're doing is, we're replacing bare wire, three-phase, with spacer cable or tree wire, again, a tree-resistant conductor. That undoubtably has reduced our outage rate, you know, due to trees over time. We have seen the positive effect of this installation, both during what I'll say "blue sky" outage days, where there could be, you know, limbs -- you know, limbs falling due to the stresses of growth or due to the effect of past storms. And we've also seen the positive effect of these installations during storms, areas that have traditionally experienced main line outages during wind events during the summer and other severe storm events, but we've seen pretty go outage-free during those particular weather conditions. So, that's been a big plus.

As has the installation of single phase reclosers on our system to prevent feeder lockouts from happening. Rather than an entire circuit tripping out, we're only losing, you know, that portion of a circuit downstream from a pole-top single phase recloser.

Further, the installation of single phase reclosers gives us the potential, rather than tripping all three phases of a distribution main line to clear a downstream fault, there's a high potential that we'll only trip one or two of those phases, preserving the remaining customers on the phase that stays alive downstream of that protective device.

Q. And these three items that you described, are those part of the O&M expenses in this filing or are they part of the capital expenses -- capital expenditures?

A. (Brouillard) Those are part of the capital expenditures in the filing.

Q. Do you foresee a time where these capital expenditures can be handled in base rates rather than step adjustments?

A. (Brouillard) I foresee -- I'll answer that question in two parts. I do foresee a time where we'll look to shift from bare conductor replacement with spacer cable and tree wire to other mechanisms to continuously improve reliability. We're not at that point yet. Our overall goal is to essentially outage-proof each distribution circuit from the substation out to the first interrupting device on the main line. "Outage-proof" being replacing the bare conductor with spacer cable or tree wire. I don't anticipate that would be completed for about another five years. And, again, at that time we would look to, you know, shift the focus to other areas to continuously improve reliability.

The second part of my answer is the Company has found that the Reliability Enhancement Program has been very helpful to not only provide us with a focused initiatives to improve reliability, but it has also provided us with a forum that we can -- we can discuss those improvements with Staff ahead of the investment year, you know, give us some of our insight, and also solicit Staff input into the program, both in terms of a forward forecast and a backward-looking results perspective. So, we have found it very helpful, from that particular viewpoint, to have this program in place.

Q. Thanks. I want to turn to some different topics now. And I just want to start with an overview of the expenses and the items that are going to be passed through to rates.

So, I wanted to start by establishing that we're talking about basically $2 million of operating expenses and $1.3 million of capital costs in this filing, is that correct?

A. (Brouillard) Can you reference what table you're looking at please?

Q. Sure. Well, for the $2 million in operating expenses, I would reference HMT-1, Page 2 of 12.

A. (Mullen) If I could just jump -- if I could just jump in here? Is your question about the -- when you say the "2 million", the total that was spent or the total that we're seeking recovery for?

Q.   Well, what does the 1.99 million represent?

A.   (Mullen) That's the total that was spent prior to receiving any credits from FairPoint. But, for purposes of recovery, once you receive -- once you take that into account, the credits from FairPoint, for work that was done on their behalf, then you also have to subtract from that the amount that's in base rates, which is the "1.36 million" that is shown on that same page, on Line 4.

Q.   Okay. So, that's exactly what I wanted to point out. So, starting with HMT-1, Page 2 of 12, we're starting with $1.99 million in expenditures, we've established that. And is it correct that you've got 1.36 -- 1,360,000 of this built into base rates?

A.   (Mullen) Yes. And that's been the way since the inception of the program.

Q.   Right. And, so, the next line on this schedule is "Reimbursement from FairPoint". Is the

"$288,000" figure an accurate representation of what's been reimbursed?

A. (Mullen) That is the amount that was invoiced to FairPoint. I think that there's also, in testimony we had a discussion about this, with some mediation discussions that were going on with FairPoint, and either one of the other witnesses or Mr. Sheehan can give an update as to the status of that. But the 288,000 is the exact amount of the invoices that were given to FairPoint during the year.

Q. Okay. And, then, Line 6 on this page -- I'm sorry, Line 7 on this page then is the amount that you're seeking recovery for in this year's clause, is that correct? That's "$346,184"?

A. (Tebbetts) Yes. That's partially correct. I want to just note that, on Page -- Bates Page 52, Page 52, Page 1 of 4 -- I apologize, Page 2 of 4, Bates Page 53, there's also an interest calculation --

Q. Yes. No, I was going to get to that. I was just curious about the overall O&M expense we're looking at in this case, $346,000?

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

Q. And, then, I wanted you to turn to HMT-2, Page 2 of 4, which is Bates 53.
A. (Tebbetts) Okay.
Q. And I wanted you, if you would, to confirm that that "$346,000" number is at the top of that page?
A. (Tebbetts) Yes, on Line 1.
Q. Okay. And, then, you go through some calculations that involve interest and reconciliation, is that roughly correct?
A. (Tebbetts) Yes.
Q. Okay. And, then, to develop the adjustment factor, you divide the -- what's now $345,000 by forecasted sales to come up with an adjustment factor, is that right?
A. (Tebbetts) Yes. That's correct.
Q. Okay. And, then, if we were to go to HMT **[**HMT-2**?]**, Page 4 of 4.

CHAIRMAN HONIGBERG: Mr. Dexter, it's really helpful if you give us Bates page numbers.

MR. DEXTER: Oh, sorry.

CHAIRMAN HONIGBERG: I know that one's just two pages away. But, if you get in that habit, --

MR. DEXTER: Absolutely.

CHAIRMAN HONIGBERG: -- we'll be able to keep up with you.

BY MR. DEXTER:

Q. This one's Bates 55. And the factor that we just talked about appears in column (f), is that correct?

A. (Tebbetts) Yes.

Q. And that gets applied to all the various rates that you've got listed there on this page, is that right?

A. (Tebbetts) Yes.

Q. Okay. So, that's kind of how the O&M portion of this finds its way onto customer's bills?

A. (Tebbetts) Yes.

Q. Good. Okay. And I wanted to do the same thing with the capital costs. So, I'm going to go back to HMT-1, Page 3 of 12. And that's Bates 41.

A. (Tebbetts) I have "Bates 40".

Q. Oh, sorry.

A. (Mullen) You said "Page 3 of 12"? In my book, that's Page Bates 42.

A. (Tebbetts) Oh.
Q. It is HMT-1, Page 3 of 12. And, my apologies, it's Bates 42. It's the one that deals with the revenue requirement for the capital costs.
A. (Tebbetts) Yes, I'm there.
Q. So, again, we started the discussion by saying that there's roughly $1.3 million of capital costs at issue in this case or proposed for recovery in this case. And I just want to point out that that number appears on Line 1, under the last column on the right, "Actual Calendar Year 2015". Is that the same number we're talking about?
A. (Tebbetts) Yes.
Q. Okay. And, if you were to take this same schedule and jump down to Line 44, you go through a rate base calculation that factors in this $1.3 million, is that correct?
A. (Tebbetts) Yes.
Q. And, the rate base calculation is simply last year's plant -- I'm sorry, the plant in service calculation on Line 45 is simply last year's plant, plus the $1.3 million, equals this year's plant of 7.8 million, roughly, is that

correct?
A. (Tebbetts) Yes.
Q. Okay. And, then, to complete the rate base calculation, you subtract out accumulated depreciation and deferred tax reserve to get a year-end rate base on this schedule, is that correct?
A. (Tebbetts) Yes.
Q. Okay. And, to that, you apply a rate of return, to get a return on rate base, and that shows up on Line 53, correct?
A. (Tebbetts) Yes.
Q. Okay. And, then, to that number you add in depreciation and property taxes on the new plant, correct?
A. (Tebbetts) Yes.
Q. Okay. And that gives us a total revenue requirement of one -- I'm sorry, an annual revenue requirement of roughly a million dollars, 1,032,000. So, that's the revenue requirement on the current plant, correct?
A. (Tebbetts) Yes.
Q. Okay. And, then, what's requested in this case is "175,355", that's Line 62 on this schedule,

is that right?
A. (Tebbetts) Yes.
Q. Okay. And the way we get 175,000 in this case is we look at what was built into rates last year, subtract that out, and add in this year's, is that correct?
A. (Tebbetts) Yes.
Q. Okay. So, the additional revenue requirement associated with this plant is $175,000 roughly?
A. (Tebbetts) Yes.
Q. Okay. Now, to trace that $175,000 through the customer bills, I want to turn to HMT-2, Page 1 of 4.
A. (Tebbetts) Are you on Bates Page 52?
Q. Which is Bates 52?
A. (Tebbetts) Okay. Thank you.
Q. Correct. And, so, in this instance, unlike the O&M expenses where you developed a factor to apply to rates, in this case, you're calculating an increase to base rates, is that correct?
A. (Tebbetts) Yes.
Q. Okay. And, to get the percentage to apply to distribution rates, you're taking the $175,000

that we talked about, making some adjustments to it, which we'll get to in a minute, and then dividing that number by a forecast of base distribution revenues to get an adjusted increase of 0.21 percent, is that correct?

A. (Tebbetts) Yes.

Q. Okay. So, I wanted to talk about the difference then between the $175,000 -- well, let's come back to that. I just want to finish this analysis. So, this 0.21 percent, if I then look at HMT-2, Page 4 of 4, which is Bates 55?

A. (Tebbetts) Yes.

Q. I see a schedule with all of your rates down the left-hand column, and I see column (b), which is "Proposed Distribution Increase". And that 0.21 percent is the 0.21 percent we've been talking about, is that right?

A. (Tebbetts) Yes.

Q. Okay. And, just to complete this, I want to trace these two rate changes to the bill impact schedule that you provided, which is HMT-4, Page 57.

A. (Tebbetts) Yes.

Q. If I were to compare these rates, would I find mathematically that they have been increased by 0.21 percent?
A. (Tebbetts) No. You would not.
Q. Okay. Why is that?
A. (Tebbetts) Because there are two components in these. The first component is the 0.21 percent, but then there's also the addition of the adjustment factor of $0.00038, so -- in the distribution piece. So, it's not an overall 0.21 percent increase, it's a two-part increase.
Q. And the second part that you mentioned, the factor would only apply to the lines "Distribution Charge", is that correct? There's actually two lines for Distribution Charge, is that right?
A. (Tebbetts) Yes. Actually, and the 0.21 percent increase for capital expenditures would also only apply to those two lines.
A. (Mullen) If I could just correct that, it also applies to the Customer Charge.
Q. Okay. So, if I were to take the Customer Charge and do the math on those two numbers

there, would I find a 0.21 percent increase? Because, frankly, I'm not finding that. I just want you to check that.

A. (Mullen) And I think the explanation for this is, if you -- looking on Bates 57, you will see the first column of rates is "May 1st, 2016 Current Rates". If you flip back two pages to Bates 55, you will see the first column is "Approved June 1, 2016 Base Distribution Charges". That relates to changes that were made and recently approved by secretarial letter in DE 13-063. What we wanted to show on Bates 57 was, for anybody that's currently a customer, what they're getting right now in their bills is the May 1st rates. The rates from 13-063 that were already approved, the customers haven't seen yet. So, on Bates 57, we said "Here's what May 1st rates are. Here's what a customer is going to see as a difference on June 1st." That takes into account this REP/VMP filing, and it takes into account what was already approved in 13-063.

Q. But I think your answer just conflicted with itself. So, let me ask it another way. Does

Bates 57 isolate just the increase associated with the programs that are at issue in this case or does it include other things?
A. (Mullen) It has the increases from this case, as well as the other increases in distribution rates that were already reflected in 13-063. And the impacts from that were in a separate -- in a separate document.
For purposes of doing this calculation on this page, we wanted to be able to say "what is a customer going to see as a difference in their bill on June 1st, as compared to prior to June 1st?"
Q. Okay. So, the 11.35 Customer Charge, on Bates 57, includes both of those increases, is that what you're saying?
A. (Mullen) Correct.
Q. Okay.
A. (Mullen) And that 11.35 goes back to Bates 55, you will see that in Column (g).
Q. So, would you be able to calculate for us, maybe not today, but maybe at some point in the near future, the isolated impact of this filing on a customer's bill?

A. (Mullen) As compared to anything else, is what you're saying?
Q. Well, -- well, I guess I would ask you to compare it to a logical starting point.
A. (Mullen) Well, and we took as a logical starting point what customers currently have in bills now. I certainly understand your question and say "just related to this, as compared to any other rate changes, what is the impact?" We can certainly do that.
Q. Well, I guess what I would suggest is, is I would suggest that a way to present this, to isolate the impact on this case, would be to leave column 1 as it is, where it says "May 1", and the customer charge is "$11.29". And, in column 2, instead of including two rate increases, I would isolate this rate increase, and that way we would be able to see what the impact is of just this proposal which is before the Commission.
CHAIRMAN HONIGBERG: Can I make an alternative suggestion? Since I think what you said, Mr. Mullen, is that the June 1 rates include something approved in a different

docket, that you show that as the second column, and then a third column that shows the increase off of that, because the already-approved-by-secretarial letter is -- that's going to happen on June 1, according to what you've just said. And the change that you're requesting here could be shown off both the May rate, the first column, and the already approved June rate, the second column.

Is that -- Mr. Dexter, is that an acceptable alternative or do you want to see something --

MR. DEXTER: Well, I think --

CHAIRMAN HONIGBERG: -- want to see it broken out further or differently?

MR. DEXTER: I think that the rates are proposed for effect in this case on June 1st also. So, --

CHAIRMAN HONIGBERG: But, if you're trying to isolate this request, --

MR. DEXTER: Right.

CHAIRMAN HONIGBERG: -- you want to compare it to what's approved for June 1, do you not?

MR. DEXTER: Either way. I would just like to see what the impact of this case is. And I think they could do it either on that May 1st rates without that other increase.

CHAIRMAN HONIGBERG: But I think they have already shown off of May 1st including both.

MR. DEXTER: Right.

CHAIRMAN HONIGBERG: And, if you show it without the already approved, you'll be showing a rate that doesn't exist, and will never exist, isn't that right? Right, Mr. Mullen?

WITNESS MULLEN: Right. We can certainly show the progression, from May 1st to the already approved June 1st and then to this, and show the increments related to each one.

MR. DEXTER: I think that would be helpful.

WITNESS MULLEN: Okay.

CHAIRMAN HONIGBERG: So, we're turning that into a record request, is that right, Mr. Dexter?

MR. DEXTER: That would be

appreciated.

CHAIRMAN HONIGBERG: All right. So, that will be "Exhibit 4".

(Exhibit 4 reserved)

CHAIRMAN HONIGBERG: Mr. Sheehan, you understand what has just happened?

MR. SHEEHAN: Yes, sir.

CHAIRMAN HONIGBERG: All right.

WITNESS MULLEN: It's one of those things, when you have lots of rate changes going on at the same time, how do you show it? And, you know, you can show it six ways to Sunday, but it's a matter of, you know, however you want to do it, we will do it.

CHAIRMAN HONIGBERG: No, I understand, Mr. Mullen. I mean, you talked about starting from a logical point, and Mr. Dexter was talking about a different logical point, but both are logical. And, so, we'll get the information that everybody is looking for, I think that will --

BY MR. DEXTER:

Q. Okay. I'd like to go back to HMT-1, Page 3 of 12 we were just on. And that's Bates 52, in

Exhibit 3. And I would ask the panel -- we had talked about the $175,000 being the revenue requirement associated with capital in this case, and the fact that only $72,000, on Line 1, is being built into the rate increase. And I would ask the witnesses to address the differences between -- you know, what makes up the difference between those two numbers, roughly $103,000?

A. (Tebbetts) Yes. If you go back to Bates Page 42, there's a couple of things that have been changed here. The first item that we updated was under column "Actual Calendar Year 2014", Line 4, the "Book Depreciation Rate". So, in the past, when we make this filing in March of 2015, we don't have this information from the FERC Form 1 yet. And, so, what we've done here is provided an update using the 2014 FERC Form 1, and that carries through down to Line 62, which is the "Incremental Annual Rate Adjustment". And, so, what we originally filed, and I -- if you can flip back to Bates Page 52, you will see under Footnote (1), in the second line it says "Less DE 15-087

Approved Revenue Requirement" of "$377,950", that was the number there that was approved in this docket to recover from customers for the annual revenue requirement. By making that update, and another update which I'll mention in a moment, it changed the annual revenue requirement. And, so, we felt it was appropriate, and to the benefit of customers, to make that change and reduce the revenue requirement for 2015 to reflect that.

The other item that we changed and updated, based on our discussions with Staff, is Line 55, which is "Property Taxes". And, again, we didn't have FERC Form 1 information when we made this filing back on March 15th, 2015. And, so, we used a previous year's property tax number, and this information is also from the FERC Form 1. And, so, we've updated that number. And, with those two updates, it changed the incremental rate adjustment.

And we've done the same thing for Calendar Year 2015, for Line 4 and Line 55, and we were able to do that in this period because the FERC

Form 1 information had already been available after the original filing on May 15th -- March 15th, I'm sorry. And, so, with those changes, you have an updated increase of $71,923.

A. (Mullen) If I could just add to Ms. Tebbetts' testimony. The revenue requirement, the revised revenue requirement for Calendar Year 2014, on Bates 42 of Exhibit 3, also takes into account the bonus depreciation that was the subject of Ms. Tebbetts' technical statement, which is Exhibit 2. We factor all three of those things, the book depreciation rate, the bonus depreciation, and the property tax rate, and that resulted in the new revenue requirement, the "274,518", as compared to what was approved last year.

Q. So, all three of those changes were taken into account?

A. (Mullen) Correct.

Q. So, while we're on HMT-1, Page 3 of 12, I have some more questions on that. If I go down to the section where it says "Rate Base Calculation", Line 44 through 48, particularly Line 48, it says a "year-round" -- "Year End

Rate Base". Is it correct that the capital expenditures that are being sought for recovery in this case occurred throughout the year, not at the beginning of 2015, is that correct?

A. (Mullen) That's correct.

Q. And is it correct that, by calculating a full year's revenue requirement, in Lines 44 through 58, you would be capturing the revenue requirement associated with these investments as though they had been made on January 1st, not throughout the year?

A. (Mullen) This calculation follows the Settlement Agreement that was, when this first started, in DG 06-107, and as continued in DE 13-063. The calculation, even when you take into account the book depreciation rate, that is based on average plant. The property tax amount is based on average plant during the year. So, I actually testified in support of the Settlement Agreement in DG 06-107, when this plan first started, and have been involved with it, with this REP/VMP program every year. That is the calculation that has been reviewed and approved since the inception of the program.

Q. Yes. No, I wasn't suggesting it wasn't reviewed and approved. I was just asking that isn't it correct that you're calculating a full year's revenue requirement on plant that was not yet in service?

A. (Mullen) Again, you're taking depreciation based on an average of the year, you're taking property taxes based on an average of the plant in a year. I understand your question, in terms of the mechanics of the calculation, but -- in terms of the workings of the calculation, that's correct.

Q. Okay. Now, let's talk then about the depreciation and the taxes that you mentioned. So, depreciation is shown on Line 54, correct, and this year it's "$223,690"?

A. (Mullen) That's book depreciation, and that's correct.

Q. Right. Now, how do you get to that number?

A. (Mullen) You take the -- you take the plant that was placed in service during the year, and you take the book depreciation rate that is on Line 4 of "2." -- if I can read it --

"2.86 percent", and you multiply the two. The 2.86 percent is calculated by taking the depreciation expense on distribution plant for the year, and dividing that by the average net plant in service. You take the difference between the -- you take the beginning and ending year and you take the average of the net plant. That's how that rate is determined.

Q. But it's applied to year-end plant?

A. (Mullen) It's applied to plant put in during the year.

Q. Okay. And the rate is determined by taking what again? If you could repeat that?

A. (Mullen) Average net plant in service for the year.

Q. That's the denominator. What's the numerator?

A. (Mullen) Depreciation expense for the year on distribution plant.

Q. So, per books depreciation divided by average plant?

A. (Mullen) Correct.

Q. Okay. Now, and that gives you a rate of 2.86 percent in this case, is that right?

A. (Mullen) That's right.

Q. Right. Now, what would that rate would be -- would that rate be higher or lower if you did it on year-end plant, rather than average plant?
A. (Mullen) If you did it on year-end plant, well, your denominator would be higher, and, therefore, the rate would be lower.
Q. Would be lower. So, you're applying it to year-end plant, but you're calculating the rate based on average plant, is that correct?
A. (Mullen) That's correct.
Q. And what's the thinking behind that?
A. (Mullen) That's the formula that was approved from the inception of the program, and it's been followed consistently throughout.
Q. And, if we were to jump to HMT-5, Page 1 of 1, which is Bates 58, this has to do with property taxes. Is that theory that we just talked about for depreciation essentially applied in this property tax calculation as well?
A. (Mullen) And which theory would that be?
Q. That you're taking average plant to develop a rate, but then applying that rate to year-end plant.

A. (Mullen) You're applying that rate to plant put in during the year.
Q. To the plant at year end, correct?
A. (Mullen) To the total capital investment made during the year.
Q. And, in this case, the property tax rate that's been presented -- updated is 3.01 percent for 2015, is that correct?
A. (Mullen) That's correct.
Q. And, again, that's developed by -- why don't you tell me how that's developed?
A. (Mullen) For the 3.01 percent for 2015, you take the municipal taxes on Line 8 of 3,540,000, and you divide that by the average net plant in service.
Q. And, again, if you were to calculate that rate based on year-end net plant, would that rate be higher or lower?
A. (Mullen) The same answer I had before. The denominator would change, and, therefore, the rate would change.
Q. And which would it be, higher or lower?
A. (Mullen) It would be -- it would be a lower rate.

Q. Okay. So, again, in calculating the rate, you're using average plant, but, in applying the rate, you're using year-end plant, is that right?
A. (Mullen) That's how the formula works, yes.
Q. And that's been done in the past dockets?
A. (Mullen) It's been done since the inception in 2007.
Q. Okay. So, I'm going to turn to the O&M section. Is it correct that all the O&M is related to the VMP Plan, and none of it is related to the REP plan?
A. (Carney) Correct.
Q. Okay. And how about the capital expenditures? Are they all related to the REP Plan or are they spread over both plans?
A. (Brouillard) The capital expenditures are all related to the REP Plan.
Q. Okay. So, the REP is capital and the O&M is VMP?
A. (Brouillard) That is correct.
Q. So, again, we started out the hearing by saying that we're talking about $1,999,000 roughly in expenditures before FairPoint reimbursements.

And I would ask the panel how that compares to budgeted costs for 2015?

A. (Mullen) Just to make sure we're dealing with the same numbers here, you're asking about which number in particular?

Q. "$1,994,184", which appears on Line 1 of Bates 41 of Exhibit 3?

A. (Mullen) Okay. If I can refer you to Bates 18, you can have a easy comparison here. On Line 13 of Bates 18, you'll see, in column (a), that was the budgeted expenses for 2015, the budgeted expenses were "1,860,397", and the actual expenses were the "1,994,184".

Q. Right. And, percentagewise, what kind of an increase is that?

A. (Mullen) I'll have to get out my calculator.

A. (Carney) A little over 1 percent.

Q. And how did that compare to actual expenditures in 2014?

A. (Mullen) How did what compare to 2014?

Q. The $1,994,184 that we've been talking about.

A. (Mullen) Well, if I refer back to Bates 41, it appears that number was "1,395,166". I say that, because what's happened over time with this filing is that there's been some different views about whether or not to include FairPoint reimbursements in the total. I actually have last year's filing here, so I can take a look at that to see if that is before or after the FairPoint reimbursements, so we're talking apples and apples.

Q. I think that would be a good idea.

A. (Mullen) I'd have to actually take that subject to check. I think, looking through it quickly right now, I might not have the right answer.

Q. So, we were looking at Bates Page 18 a minute ago. The double asterisk, which is a footnote, I see what the footnote says on the bottom, but where does that double asterisk -- what does it relate to?

A. (Mullen) That goes back to the accrual discussion we had earlier. Looking at that footnote, what that does is it takes the 1,994,184 and removes the impact of the 2014 expenses that were paid in 2015. If you take that out, you can see a cleaner view of 2015 costs that are being -- as sought for recovery here, and that comes to the "1,720,507" that's in the footnote.

Q. Thank you. So, again, on Bates Page 18, which is Appendix 1 to the report, there's a fairly significant increase in police detail on Line 6. Can you explain what caused that?

A. (Carney) The increase is essentially driven by the volume of traffic control that's required in order for us to perform our work. There is a set of uniform traffic codes that have specific requirements for traffic control. And, in a good majority of our service territory, we can use third party flaggers at a greatly reduced rate, as opposed to being required to use police details in our southern part of our service territory, essentially Derry, Windham, Pelham, and Salem. And one of the towns increased their rates by 23 percent during 2015. The impact of police details, in general, is roughly $2,200 per mile added on top of our trimming costs. And, if we have multiple crews or are required to have multiple details at any given work site, it adds up. So, we don't -- we don't have much say in that matter. They're going to tell us where we have to have police details, and it's pretty much everywhere we work. Whether we're doing a customer call, a trouble call, or planned trimming or tree removal.

Q. Is it something that's increased in years prior to 2015 as well?

A. (Carney) It really has a lot to do with the volume of work that we're doing. For example, at the planned work, back on a five-year cycle, it was 175 miles, versus going forward on a four-year cycle, because we're increasing the miles, it would stand to reason that the police costs are going to incrementally jump up to cover that extra work. It's been variable. Over the last couple of years, we're essentially using a running average of three to four years, based on the best police invoice information that we can generate that from. That's the only way we can kind of dial it in, but it's still fairly course.

Q. What's the three-year average used for? Budgeting purposes?

A. (Carney) Correct.

Q. Okay. So, we had talked earlier about the development of the factor on HMT-3, Page 1 of 1, and I'll get the Bates number in a minute. It's Bates 53 in the new filing. And Line 2 talks about a reconciliation of a refund of O&M expense above base. Can you explain to me why you would be refunding expenses above base and not collecting expenses above base?

A. (Tebbetts) Yes. So, in 2014, and I don't have the filing in front of me, so I'm going off memory, but, in 2014, we had an amount over base, and then, once you took into effect the FairPoint credits, we then had an amount under base. And, so, the amount under base is what we refunded to customers. And, if you take a look at Bates Page 41, you can see, in the "Actual Calendar Year 2014", column (g), the total O&M recovery of "$1,149,415" is less than the $1,360,000 in base rates.

A. (Mullen) If I can help with that? If you look on Line 5 for "CYS 2013", you see a number of "$35,861".

Q. I'm sorry, I don't know what page you're looking at?

A. (Mullen) I'm on the same page, Bates 41.

Q. Okay.
A. (Mullen) Line 5, in column (f).
Q. Yes.
A. (Mullen) 35,861.
Q. Yes.
A. (Mullen) Then, if you go to Line 6, in the next column, column (g), you'll see a number in parentheses of "245,751". Each year you look at the increment from one year to the next. So, when you go down to Line 7, in column (g), you'll see a credit amount of "210,585". That's comparing the "245,751", on Line 6 in that column, to the "35,861", on Line 5 in column (f). So, over the past year, customers have received a credit in their bills for that decrement, let's say.
Q. So, are you saying that, basically, in 2014, you spent less than what was built into base revenues and this is the refund?
A. (Mullen) No.
Q. Okay.
A. (Mullen) I'm saying that, in 2014, the amount that was over base revenues was less than the amount that was over base revenues the prior

year. So, the net increment between the two years was a decrease.

Q. Okay. And, then, skipping now, back on Bates 53, which is the factor calculation, skipping down to Line 4, what does that line represent?

A. (Tebbetts) That line is a calculation of Bates Page 54, which is interest calculated based on the beginning balance for when we start recovering the incremental O&M.

Q. So, is this related to the O&M that's at issue in this case, the interest that's going to be collected on the O&M that's at issue in this case?

A. (Tebbetts) Yes.

Q. Okay. And that's all detailed on Bates Page 54 you said, is that right?

A. (Tebbetts) Yes.

Q. So, why does the interest rate on this page increase in column (e), starting in April of 2016?

A. (Tebbetts) The interest rate that's charged to customer deposits is also used in our rate filings. And that interest rate has been increased for January 1, 2016, but we don't apply it to customer deposits until the first quarter preceding the period in which the rate was increased, which would mean that the rate increase is April 1st. And, so, we've applied that 3.5 percent to the April 1st interest rate in column (e).

A. (Mullen) And that's consistent with the 1200 rules for the interest rate on customer deposits and when you change it, and what month you go back to look at. And it basically has to be the -- I'm going off memory here, but I believe it's the first of the month preceding the calendar quarter. So, if you would think it would normally change January 1, however, if you go back to the first of the month preceding the quarter, that would have been December 1st, and it had not changed to 3.5 percent yet.

Q. Okay. So, if we can flip just quickly two pages forward, to Bates 56, there's another calculation involving interest, and Column (f) has interest rates. And it shows that these interest change -- rates changed in April of 2014. Can you explain, reconcile these two interest rate changes?

A. (Tebbetts) Yes. Actually, the interest rates are correct. I will note that the dates on Line 1, "May 2014", should say "May 2015". And that the date on Line 9 should say "January 2016".

Q. And, so, again, basically the -- both of these schedules deal with the fact that the O&M expenses that are approved in these cases get reconciled, with interest, back and forth, whether they're over or under collected over time, is that right?

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

Q. And that's the way the original mechanism was set up?

A. (Tebbetts) Uh-huh.

Q. Is that right?

A. (Tebbetts) Yes.

Q. Okay. Now, is it also true that the base rate increases that are associated with the capital expenses don't get reconciled?

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

Q. Okay. And earlier today we talked about $100,000 in -- $103,000 revenue requirement associated with capital expenditures from 2014 that were corrected -- that are going to be corrected by sort of adjusting the 200 -- the rate increase in 2015, is that true?

A. (Tebbetts) Yes.

Q. But there won't be any interest associated with that overcharging, is that correct?

A. (Tebbetts) There is no calculation in these schedules for that.

A. (Mullen) If I could just add to that. As we were going through and updating the 2015 numbers, and we looked at the 2014 items that we talked about, we said "Well, there's a couple of different ways we could look at this." The 2014 rates were approved, they were reviewed, we had, you know, meetings with Staff, discovery. We could have just left well enough alone and said "Well, 2014 is approved, it's in rates." But we looked at it and said "That's not the right thing to do for customers." So, we said, "If we're going to go back and correct for the bonus depreciation, let's correct those other items as well."

So, typically, once something is approved and put into rates, you don't go back and change it. And I think that, if the -- if the dollars were turned around, that, if what we had in the filing last year was too low, and we were here this year seeking to change 2014, I don't think we'd have any support for changing those numbers upward.

But, again, we looked at it, and said "what's the right thing to do for customers as we look back on these numbers?" And that's what we did, was we changed the rates.

You know, any time you change numbers that you previously filed, you never want to have to do that. But I think we'd rather sit up here and answer questions about it and know that we're going forward doing the right thing for customers, rather than just go forward with numbers that turned out to be too high.

Q. And the shift in the implementation of the date of the rates by one month, isn't it correct that the rates were in effect -- I want to call them the rates -- they included some errors, were in effect for 13 months, rather than 12 months as planned, is that true?

A. (Mullen) Those rates went into effect May 1 of last year.

Q. And they're still in effect today?

A. (Mullen) If it's related to capital, it stays in effect. It's built into the rates going forward.

Q. Okay. And that's sort of a fundamental difference between the -- the one part of the clause that reconciles and the other part doesn't reconcile. Would you agree that it's sort of a fundamentally different way of going about rate recovery?

A. (Mullen) Well, one's related to expenses, which reconcile, and one's related to capital costs, which are built in and they stay in rate base. So, you will continue to recover on those going forward.

Q. So, I wanted to get back to this reconciliation. We were on Page 053, Bates 053, which is the O&M, the calculation of the factor. Can you explain where -- well, let me just -- let me ask it this way. Can you explain the derivation of Line 6, which is the forecast, the sales forecast?

A. (Tebbetts) When you ask about the "derivation",

are you referring to what was in Exhibit 1?
Q. Well, I'm looking at Exhibit 3, in Line 6, it's Bates 53.
A. (Tebbetts) Yes. So, I just want to be clear, you're asking me the difference between this number here, versus what we originally filed?
Q. Well, I was going to ask that, but I was just -- I wanted to have you explain what this was first, and then --
A. (Tebbetts) Okay. This number is a forecast of sales from a Company forecast for 11 months, starting June 1st, 2016, which goes through April 30th, 2017.
Q. So, it's an 11-month forecast?
A. (Tebbetts) Yes.
Q. And how does that differ from the corresponding number in Exhibit 1?
A. (Tebbetts) The number in Exhibit 1 included estimated kilowatt-hour deliveries from May 1st, 2016 through April 30th, 2017. So, this difference is one month less.
Q. And, if actual sales come in different from forecasted, any over or under recoveries will be returned to customers, correct?

A. (Tebbetts) Any over recoveries will be returned and any under recoveries will be charged to customers in the subsequent year.
Q. Fair enough. So, again, flipping ahead two -- well, I guess I'm flipping back one page to Bates 52. And this is where we have a similar calculation, but this one is a calculation to base rates, correct?
A. (Tebbetts) Yes.
Q. Okay. And this one doesn't use a forecast of sales, this one uses a forecast of revenues to develop the rate increase, is that right?
A. (Tebbetts) Yes.
Q. Now, where does this forecast of revenues come from?
A. (Tebbetts) The forecast of revenues comes from forecasted billing determinants for the calendar year of -- I'm sorry -- of fiscal year of June 1st, 2016 through May 31st of 2017.
Q. And, so, this is 12 months of expenses -- or, 12 months of revenue requirement divided by 12 months of revenues gives you that rate, is that how this works?
A. (Tebbetts) Yes.

Q. Okay. Now, would staff be able to provide a reconciliation --

MR. DEXTER: And I point out to the Bench that this figure on Bates 52 just arrived at our office on Friday. There was a different -- not only a different number, but a different method of calculating this. So, I didn't have a chance to ask this question earlier to work it out. But what I wanted to get from the Company was a reconciliation of these two forecasts. The one on Bates 52 is revenues, which, as the witness said, is basically a sales forecast times rates, and the one on Bates 53 is a sales forecast. And I would just want to make sure that we're working off the same basic information here. I would like to have had this worked out ahead of time, but, again, this number just arrived on Friday.

CHAIRMAN HONIGBERG: What is it you want from the Company then?

MR. DEXTER: I would like a calculation that shows that the same sales forecast was used in calculating these two numbers.

CHAIRMAN HONIGBERG: Mr. Mullen.

WITNESS MULLEN: Okay. So, basically, for the -- you want to know that, for the 11 months forecast and for the 12 months forecast that we're using for different calculation purposes, that we're using the same forecast source data?

MR. DEXTER: Correct.

BY MR. DEXTER:

Q. Well, I guess I should have asked the question first. Are you using the same forecast information for these two calculations?

A. (Mullen) Yes.

MR. DEXTER: Okay. And I would like, if the Bench would allow it, a calculation that shows some backup, in other words, that shows that these two numbers are derived from the same underlying data.

CHAIRMAN HONIGBERG: I guess the question then is to the witnesses. Is that a calculation or a document establishing that, is that something you can prepare or is it an explanation you can give orally?

WITNESS MULLEN: Well, we can give it

orally. I'm not sure if that will satisfy Mr. Dexter, but we can give it oral.

CHAIRMAN HONIGBERG: Okay. Why don't you describe what you can do, and we'll see how that jibes with what Staff is looking for.

WITNESS MULLEN: Sure. We used the same forecast billing determinants for Bates 52 and Bates 53. The only difference is that one of the calculations is for 11 months, and goes from June 1st, 2016 through April 30th, 2017, and the other is for 12 months, and it goes from June 1st, 2016 through -- make sure I got my date -- actually, make sure I get my -- one includes the month of May and one does not, but they're from the same source.

CHAIRMAN HONIGBERG: So, Mr. Dexter, what is it you're looking for from the witnesses beyond that?

MR. DEXTER: Well, I wanted to see some detail behind it. I did talk to counsel and got a response to what he called "Staff Data Response 001", which gave a breakdown of the $34 million in revenues on Line 2. And I'd be happy to make that an exhibit.

But what's not on here, there are no totals that indicate to me that the sales numbers are the same as the ones that are on Bates 53. I just wanted to make sure that the number were -- that they were derived from the same source.

CHAIRMAN HONIGBERG: And he's just said that under oath. So, what else do you want from him?

MR. DEXTER: Well, I guess that will suffice.

CHAIRMAN HONIGBERG: Okay.

WITNESS MULLEN: If I can just add, it gets a little more complicated, too, because one of them is only on kilowatt-hours. And what Mr. Dexter was just referring to is a response to Staff Request 001, also includes things like fixture counts and customer charges.

MR. DEXTER: All right.

BY MR. DEXTER:

Q. So, in the original filing, again, I'm looking at Bates 52, which is Exhibit 3, and if I look at the equivalent schedule in Exhibit 2, I

think it is, which is Bates 15 in Exhibit 2, that calculation was based on a revenue requirement figure, as opposed to a distribution revenue figure, is that true?
A. (Mullen) That's correct.
Q. And how, just generally, how would one derive the revenue requirement figure? I know there's a reference to a docket, but how would that be derived?
A. (Mullen) Again, that one came out of a docket that was referenced, and this was also described in the Joint Technical Statement of myself and Ms. Tebbetts, that's in Exhibit 3. When we put together the 2014 reconciliation, we did not have forecasted information at the time. And what was used, and again this was reviewed with Staff at the time, was we used an annual revenue requirement number that was from a recently concluded proceeding.
Q. Right. No, I understand that. I was just asking more generally what goes into the revenue requirement calculation?
A. (Mullen) Revenue requirement calculation is done based on a return on plant, O&M expenses,

depreciation expenses, taxes.

Q. And, if I were to go back to prior -- prior calculations -- well, let me ask it this way. This revenue requirement that you had originally here is referenced to Docket 15-087. So, what time period would that revenue requirement have been based on?

A. (Mullen) That would have been an annual period that, if it was 15-087, that was for the REP/VMP for last year. So, that would have been for the period May 1, 2015 through April 30th, 2016.

But we have updated that and we are no longer using that number.

Q. And the forecast is for 2016 and 2017, correct? The forecast on Bates 52, which is the new way of doing this?

A. (Mullen) It's the revised way, which goes back to how it had been done every year prior to last year. That's correct.

Q. Prior to last year, right. Well, does it surprise you that a forecast of revenues, which is roughly 34.6 million, does it surprise you that that number is lower than a revenue

requirement that was established back in 2015?
A. (Mullen) Not at all.
Q. And why is that?
A. (Mullen) Because we just, with the 13-063 rate change that was just approved by secretarial letter, that ended recoupment -- recovery of temporary rate recoupment and rate case expenses from Granite State Electric's last rate case. And that was a decrease of, I believe, somewhere of around $1.5 -- or, $1.1 and $1.5 million a year.
Q. So, when you talked about increasing -- I'm sorry, recalculating the 2014 revenue requirement for capital allowances for property tax rates and depreciation rates that were not correct, did you also consider recalculating this figure, and by "this figure" I mean the revenue requirement figure from last year, to reflect what was in the Settlement?
A. (Mullen) Which settlement are you referring to?
Q. The one that established -- the one that established -- pardon me, it's Exhibit 8 to Heather Tebbetts's testimony. I can get you a number. Hold on.

A. (Mullen) I think I need you to restate the question.

Q. Yes, I don't blame you. It's a bad question. So, I'm back on Exhibit 1, which was the March 15th filing. There's a Settlement attached as Appendix 8, starting on Bates 21, and it talks about how to do these calculations for base rate increases, and it talks about that on Bates 23. And it says that the denominator in this calculation should be forecasted base distribution revenue. Would you agree?

A. (Mullen) I agree.

Q. Okay. And I think you said just said that this year, as it was originally filed, and last year, you used a different method. You used a revenue requirement number, not a forecasted base distribution revenue. Is that true?

A. (Mullen) That's true. And, as I testified earlier, that was discussed, reviewed with Staff, and that was also approved at last year's hearing.

MR. DEXTER: I don't have any further questions.

CHAIRMAN HONIGBERG: Commissioner

Scott.

CMSR. SCOTT: Good afternoon. Most of my questions will be from Exhibit 3.

BY CMSR. SCOTT:

Q. I just want to confirm, if you go to Bates 4 on Exhibit 3, where you give the section -- the very end of the writing, Section F, where it talks about bill impacts. So, it says that "average residential customer will see an increase as a result of this filing of 0.56, or a half a percent". Is that not correct, given the exchange you had with Mr. Dexter?

A. (Mullen) Consistent with the exchange with Mr. Dexter, that increase is what customers will see on June 1st as a result of this change, as well as the 13-063 change. When we provide the record request, that will clear things up a little bit to get the increment related to this one.

Q. Okay. So, it's not just "this filing" as it says, so it's -- Okay. Thank you.

Also following much of Mr. Dexter's discussion with you, Mr. Mullen, or Ms. Tebbetts, whoever wants to answer, am I correct, it sounds like it was actually, in some ways, from more accurate data, a benefit to have the filing after the FERC Form 1, so you could have the benefit of that data. Is that a correct statement?

A. (Mullen) Well, that helps. I mean, the FERC Form 1 has always been used historically, because it's something that anybody can go and pick up and look at, and it's posted on the Commission's website. And, again, because of the timing of the change, going from National Grid's historic fiscal year basis, which ended March 31, and so they made a later filing in May, when he switched to a calendar year, for the March 15th filing, that same data source is not available.

So, yes, it did help having a little extra time. Now, you know, going forward, you know, we can, you know, we can see about doing something different about getting the information, or, if we make an initial filing and update it prior to hearing with the FERC Form 1 data, we can do that as well. I imagine there will be some further discussion in our recently filed rate case about the REP.

Q. Thank you. And, again, Exhibit 3, on Bates 9, there's a discussion about -- well, exact wording is -- it was talking about a certain amount of expenditure exceeding the budget "due to non-storm related trouble call volume" or an "increase" in that. I was curious what that was?

A. (Carney) That budget line item wasn't all spent on restoration. A lot of it was spent on preventing an interruption from occurring to begin with. So, again, it's a need-based, if you look at the three-year average over the last couple of years, budgets have been roughly around 70 to $75,000.

We dropped the amount for the 2015 budget, trying to put some more financial resources in other line items that we felt were necessary. And we continue to spend money, because we were trying to prevent interruptions from occurring.

Q. So, maybe I'm not understanding. So, what I'm trying to ask about is, you have a statement about "non-storm related trouble call volume".

A. (Carney) Correct.

Q.   And that's what you're talking about?
A.   (Carney) Correct.
Q.   Okay. So, you have people calling saying this is going on --
A.   (Carney) "We had an issue. We'd like you to know about it. We think it's going to be a problem sooner than later. Can you come out and take a look and provide whatever follow-up is necessary?" So, we address those as quickly as possible to prevent small or large-scale interruptions from occurring on the system. So, it's need-based.
Q.   Okay. Thank you. And, probably Mr. Carney at this point -- well, whoever wants to answer again. Also on Bates 9 there's a discussion about, and you've already said, you know, it's been a great, relatively speaking, less storms this year than other years, I think we're all happy about that. So, understanding the SAIDI and SAIFI numbers, for instance, are better than the past. Can you hazard a guess, if we were to have, somehow if you normalized it for storms, I know that's hard to do, but, you know, would we still see the same trend? Or is

it mostly due to weather or is it really a combination?

A. (Brouillard) It's typically a combination of factors. The weather enters into it, and then you get into some of the nuances of the weather pattern, whether it's, you know, related to wind, you know, maybe heavy, wet snow. And it becomes rather -- a rather difficult exercise to try to normalize that year to year. I've done it, you know, a time or two in the past, and it's been, as I said, difficult to get all the factors into play and to, you know, essentially, the analogy is you're really trying to weather-normalize, you know, the demand on the system, which is a little more dependent on temperature. But there are, you know, far more variables here.

And the actual tree trimming, the veg. management itself and where we focus also starts to play into it. So, it does become difficult.

I've settled on the fact that, you know, the best common denominator is what's on the table there, and that seems to normalize all factors.

Q. Thank you for that. Mr. Carney, on the Vegetation Management Program, I was curious how the public acceptance is for cutting? I think, you know, sometimes the public isn't always easy to deal with, I think is a fair statement.

A. (Carney) I think, since we've gone to prescriptive work planning as part of our Vegetation Management Program. And we have, you know, college-degreed foresters or arborists in the field having a factual conversation with a property owner about what it is we need to do and why we need to do it has been very well received. Certainly, restricted trims are way down. We have one circuit that's ready to go in Salem this year that frankly only has one refusal on it now, and it had quite a few prior to that.

So, I think, generally speaking, what I'm hearing from the work planners is from customers, this approach is very well received. We took down more trees last year than we ever thought we would be able to take down. Of course, on the other hand, we didn't really ask all the time. So, we've eliminated some future work being doing those removals. So, I think we're good to go.

Q. And you just made reference I think to my next question. I was curious is, in a vacuum, is not ground-to-sky clearing, isn't that the cheapest in the long run for vegetation management?

A. (Carney) My professional opinion of ground-to-sky clearing is is that it's incredibly expensive, it can be injurious to trees, and you may be creating more problems than you're solving. Because there will be a gradual decline in tree health, tree mortality, and you've now heavily weighted trees in the opposite direction. And, frankly, I'm not sure I know a customer that would appreciate having it end up on their house or their car, because they could simply point to the fact that we removed all the weight over our lines.

It's kind of a double-edged sword. You're generating a large amount of wood waste, you're increasing your traffic, you know, your police detail expenses. And, frankly, I haven't seen any reliability statistics that say that that amount of clearance gives you, you know, this percent improvement in your tree-related reliability.

We've always had overhang over our wires. We're increasing the clearances based on Puc Rule 307.10, and we're now prescribing specific work section by section, to make sure that the trees still look roughly like trees, and we, you know, we have that as secure as possible. We're always going to have tree interruptions. But, if we can limit the amount, the portions on the circuit impacting the least amount of customers that they -- I have no compelling reason to advise the management of this Company to go to ground-to-sky clearing.

Now, if we deferred maintenance for a long period of time, and we needed to recover clearance, especially outside of the substation, I might put that on the list of things to suggest and discuss. But, at that point, it's a big ticket item. Because, when you defer maintenance, you potentially increase the cost three times in one year.

Q. I understand I think what you said. I'm also wondering, and it's probably the wrong nomenclature I use, I guess what I'm getting at is, for a given area around a line, if you're able to bring the whole tree down, rather than just trim half of it or *etcetera*, and then weed-whack after that, is that not, in the long term, the cheapest way?

A. (Carney) Well, certainly, you know, I'm always looking for an opportunity to remove trees that need to be removed. Either they present some level of risk, even though they're not dead, there could be a structural defect, it could be, basically, its response to us pruning it, you know, three times in the last 15 years. And it would probably be better for us, from a reliability standpoint, to actually suggest to the property owner that we, in fact, remove that tree. Which is part of the reason why we're doing prescriptive work planning, because it's very difficult for our contractor crews, who have a limited skill set in determining risk, let alone having enough time to speak with a homeowner about why they're advocating what they're advocating, it's far, far better to use the work planners.

Q. Thank you for that. My next question is probably for Mr. Mullen, but, again, whoever wants. You know, as I get involved in ratemaking and the theory of ratemaking, what I constantly hear is "single issue ratemaking shouldn't be done, you should be looking at the broad-brush approaches". And, when I think of vegetation management, and even the reliability, I mean, I don't think it's a surprise that trees grow in New Hampshire. That's something, I think, we should all be able to anticipate. And the fact that infrastructure ages, that's something we certainly should be able to anticipate also.

So, I think Mr. Brouillard mentioned earlier some of the advantages of the approach we're taking now. But can you tell me why this is best for the ratepayers that we do this on a yearly basis, rather than it's an embedded program that should be done as part of your normal activities?

A. (Mullen) Sure. And I actually go back to the implementation of programs like this for Granite State, for Public Service of New Hampshire, and Unitil. And there's really a couple of things that come into play. One is that it sets dedicated money aside for these particular programs, which you never want to have the fact where you start looking at earnings at a company and saying "Well, gee, earnings are taking a hit. What do we do?" "Well, let's stop trimming trees for a little bit", or anything like that. So, that was one of the main factors when these programs were implemented for all three of those utilities.

Also what it does is, it keeps a heightened focus on reliability improvements and for purposes of vegetation management. Again, it's not for all the vegetation management expenses. There's a certain amount that's built into base rates, which is the majority of the costs. So, we're not seeking all of the costs here, because we're already getting a lot of that in base rates. This is just for the increment over and above.

And the idea behind the program was to say "Okay, that certain amount, we could just spend that amount that's in base rates and just keep it at that level." However, sometimes there's other things we want to do. I think over time there's been things like enhanced tree removals. Sometimes there's a lot of other types of things that you want to do in a year. And, as we know, customers get more and more intolerant on even momentary outages, especially with all the electronics that they have and all that. So, the more that we can have programs dedicated to reliability and the vegetation management, which goes to the reliability, and I think you see that in our reliability statistics and how they have trended over time, that goes to why having this program is just -- it's a good idea.

You know, you could say that "Well, yes, okay, it's in base rates." Then, there's always a lag between when you have and when you have another case. What this does is it gives more timely recovery, and it provides continued reliability benefits to customers each year.

CMSR. SCOTT: That's all I have.

CHAIRMAN HONIGBERG: Commissioner Bailey.

CMSR. BAILEY: Thank you.

BY CMSR. BAILEY:

Q. Mr. Mullen, you offered earlier that somebody might give us an update on the recovery from FairPoint. Can you tell me or somebody tell me what the status of that is?

A. (Mullen) I may defer to counsel on that one.

MR. SHEEHAN: Would you like me to do that now?

CMSR. BAILEY: Is that appropriate?

MR. SHEEHAN: I could make it part of the closing. The reason is, I am the person who knows. These people don't have firsthand knowledge of what happened. That's why they are --

CHAIRMAN HONIGBERG: Why don't we hold off. Why don't we hold off until your closing.

CMSR. BAILEY: Okay. Thank you.

BY CMSR. BAILEY:

Q. And I notice there are some lovely objects on the table. Does somebody want to tell us about what those are?

A. (Brouillard) Yes, I'd be happy to. I'll walk us through left to right. On the far left is the -- is really almost -- almost dates back to, you know, the origins of power distribution systems. We have bare conductor, which is tied onto a porcelain insulator. I have one phase there. But, normally, there would be three insulators mounted on a cross-arm, and you'd have, you know, three phases. And, of course, they're very much prone to a tree branch falling, as one example, and coming across one or more of the phases causing a permanent outage.

And, in the old days, there really weren't any in-line circuit-interrupting devices, there would be just one interrupting device at the substation. So, you would lose the whole circuit, potentially up to maybe 1,500 customers, because of one tree branch that, you know, fell from above.

Moving along to the -- at the far end for a moment, this is a modern spacer cable construction. It is a -- it's constructed of aluminum conductor, which is lighter, partially insulated. There's a covering over the conductor, which provides for a substantial amount of protection against incident or contact due to, you know, due to wind, and also due to branches falling from above. The system is actually supported by that silver aluminum wire, it's actually an aluminum and -- an Alumoweld wire, which has a steel core.

The whole configuration, that provides the mechanical support. And those three -- the three covered conductors hang on a spacer, hence the name "spacer cable", and they're supported in the air by the Alumoweld conductor, and they, of course, run pole-to-pole. So, branches have a tendency to bounce off the top messenger wire and fall harmlessly to the ground. Or, they could -- they could get caught up in between the -- in between the three conductors. But, typically, they will sit there for a period of time, in many cases several weeks, before the circuit would actually trip out. That provides us time to pick this up on patrol while the crews are out or a customer may call in, or it may eventually, due to the wind, just fall harmlessly to the ground.

So, as I stated before, we've seen many areas, particularly in our North Salem area, that have been very much prone to tree-related outages in the past that we've seen relatively little activity over the last couple of years.

Lastly, moving to the middle, the middle exhibit, that is, again, a tree-resistent conductor on a polymer insulator. The polymer insulator is much lighter in weight. There are labor savings associated with tying in that conductor. Unlike the exhibit on the far left, which requires a line worker to go up and actually twist the wire around the porcelain insulator and the wire to hold it in place, it's a rather simple vice-grip arrangement, once the conduct is in there, the line worker can, either with gloves or with a hot line tool, just splice in the conductor and it's locked into place. That wire also has a covering on it, which renders it, you know, resistent to tree contact in a similar manner as with the spacer cable.

So, we're applying a combination of spacer cable and the covered conductor in what we call "pocket problem areas", which aren't part of our Reliability Enhancement Program, but nonetheless reliability initiatives. And we're applying those to improve our reliability in select areas.

Also, with the application, as I mentioned earlier, of pole-top mounted reclosers, which are essentially circuit breakers out on the system. So, going back to my original example where in years -- many years past, a tree branch might lock out an entire circuit, by applying these interim circuit breakers along the way, it reduces the impact area of a tree branch, you know, assuming that it occurs beyond a spacer cable applied area.

Q. Thank you. On the spacer cable, it looks like the cables are insulated. So, if a tree branch touches those insulated cables, how does it short?

A. (Brouillard) Oh, they're only partially insulated. It isn't a fully insulated system, like an underground cable. So, it's really meant to protect against incidental tree contact from wind or, again, a branch coming -- coming in between phases. It would be a period of time before the fault finally burned, you know, actually burned into the covering.

Q. Okay.

A. (Brouillard) And the same with animal contacts, too. It's very resistent to animal contacts also. So, eventually, you know, Jeff still has to go out and trim the trees. But it does buy us time during storms and, you know, transient fault conditions.

CMSR. BAILEY: Thank you. I think all my other questions have been asked.

BY CHAIRMAN HONIGBERG:

Q. Mr. Carney, I want to ask you about something, or really just have like an observation about something Commissioner Scott was asking you about, the phrase "non-storm-related trouble call volume".

A. (Carney) Uh-huh.

Q. As you described it, that sounded like preventative work or work in anticipation of trouble.

A. (Carney) Actually, what that -- what the description describes is -- the perfect example is, we have a large storm in 2015, and there's a lot of breakage that didn't cause interruptions during the storm, but, in the two, three, four years after the storm, when we start to have limbs die or limbs that weren't hanging before are now hanging, typically, either on patrol, we do fast feeder patrols every quarter to maintain some level of reliability on the main line, that account, really, I mean, that spending is going around picking up those things that would cause a problem that haven't, but there is some storm restoration that's not a large storm type of event.

Q. Just strikes me that that phrase is nowhere near descriptive of what you're talking about.

A. (Carney) Okay.

Q. And I would encourage Staff and the Company to come up with a different phrase for that.

A. (Carney) Okay.

Q. Because it just -- I mean, you put that -- you could put that series of words together in virtually any order, --
A. (Carney) Right.
Q. -- and I still can't make sense of it based on what you're saying.
A. (Carney) I think the intent is, when we say "non-storm", it wasn't because of the event like we had in February, the wet snow. That's a storm. Okay? But we have other types of things that could create problems that aren't really "storm-related".
Q. And it doesn't sound like it's necessarily related to calls.
A. (Carney) Some -- okay.
Q. It's something else.
A. (Carney) Point well taken.
Q. Mr. Mullen, the accrual, the change from -- basically, the change from cash to accrual system of accounting for this, on Page 18, I think it's 273 some odd thousand dollars that is the difference for this year. Is that -- have I got that right?
A. (Mullen) That's the 2014 work that was paid in

2015, yes.

Q. And, so, what you were saying with Mr. Dexter I wasn't quite sure I was understanding at the time, but I think I've got it now, is that, in this transition, if this is approved, that first year there will be a larger -- a larger number than there would have been if we'd stayed with the cash way of doing things, correct?

A. (Mullen) Assuming you have an accrual at the end of the year, at the end of each year, yes, because there would not be a reversal of the prior year's accrual. So, the first year you implement it, you would have a carryover from the prior year, and you would have an accrual at the end of the year.

Q. And what you're making up for in the first year of the program was that, at the end of that first year you didn't -- you didn't account for some of the work that was done, you accounted for it in the next year, right?

A. (Mullen) Correct.

Q. And, if at some point in future you were to switch back, the first year transition would understate or would under collect for this process, right?

A. (Mullen) Yes.

Q. So, but over time, if you do it the same way every year, the differences will relate to how much work you do, not when the bills are sent out or collected?

A. (Mullen) Correct.

CHAIRMAN HONIGBERG: Okay. I think all my other questions were answered.

Mr. Sheehan, do you have any further questions for your witnesses?

MR. SHEEHAN: I do not.

CHAIRMAN HONIGBERG: All right. Gentlemen and lady, thank you very much. You can, I think, stay where you are, because I don't think it's going to take long for us to finish up.

We can strike the ID on Exhibits 1, 2, and 3, correct? And, Mr. Sheehan, you'll be submitting Exhibit 4 as quickly as you can?

MR. SHEEHAN: Yes.

CHAIRMAN HONIGBERG: All right. So, we'll do that.

Is there anything else we need to do before you sum up?

MR. SHEEHAN: Not from the Company.

CHAIRMAN HONIGBERG: All right. Mr. Dexter, you may proceed.

MR. DEXTER: Well, Staff would support approval of the program as filed in Exhibit 3 with the various updates that were done. We would not recommend approval of going to an accrual period at this point. This program is up for review, as Mr. Mullen said, in the rate case that was just filed, and I recommend that any program changes like that be handled in the rate case, not in this docket.

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: Thank you. First, with the FairPoint issue, I can report that, in April, we did reach a settlement agreement with FairPoint. As you may recall, there were two issues. One was FairPoint not paying us for the vegetation management. The second was an unrelated dispute over pole-setting charges. And we did reach a settlement of all those issues. FairPoint has, I think it was

April 15th it happened, paid all of the invoices that we thought were due. Through the process, there were literally hundreds of invoices over the last few years that were unpaid. There were one or two that got pulled out of the mix. But, basically, we got paid 100 cents on the dollar for what was owed us, and then we paid FairPoint some money for the disputed pole charges. So, as of April 15th, we are all even. And, hopefully, we don't slide into that problem going forward.

As for a closing, I don't need to say much, because we have covered a lot of ground here. At bottom, we believe the filing, the testimony today, and the exhibits does support the rate changes we have requested. And, for ease of reference, what we're actually requesting is to be found on Bates 52 and Bates 53; 52 is the change to the revenue requirement of 0.21 percent applied evenly, and Page 53 is the O&M recovery of the 0.00 -- 0.00038, that's what we're asking for to be put into rates. We believe this filing shows that they are just and reasonable rates. The net impact is something less than 50 cents on a customer's bill. And we'll provide exactly what the impact is in the revised -- or, new Exhibit 4. Thank you.

CHAIRMAN HONIGBERG: Do you want to say anything further about the accrual request?

MR. SHEEHAN: Notwithstanding Staff's comment, we do believe it is a -- it's a fair comment to address things in the rate case, but the rate case will have many issues. We see this as almost a housekeeping issue. We understand it will have an impact the first year, but it really is a mechanical, it's not changing at the end of the day what the customers will be paying, it's a timing issue, that would just take one thing off the table for the rate case discussion. So, we do think it's a reasonable thing to do now, and we could plan on it for the next filing.

CHAIRMAN HONIGBERG: Okay. Thank you. Thank you both, thank you all. We will take this under advisement and issue an order as quickly as we can. We are adjourned.

(Whereupon the hearing was adjourned at 3:56 p.m.)