

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DE 16-383

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

Request for Change in Rates

DIRECT TESTIMONY OF
AL-AZAD IQBAL

December 16, 2016

1 **Q. Please state your name, current position, and business address.**

2 A. My name is Al-Azad Iqbal, and I am employed by the New Hampshire Public
3 Utilities Commission (Commission) as Utility Analyst. My business address is 21 South
4 Fruit Street, Suite 10, Concord, New Hampshire, 03301.

5 **Q. Please summarize your educational and professional background.**

6 A. My educational and professional backgrounds are summarized in Appendix A.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to provide Staff's recommendation as to whether
9 the costs associated with the Company's Concord Training Center costs should be
10 recovered through the rates proposed in this proceeding. This recommendation impacts a
11 larger question concerning whether the construction of the Training Center was a prudent
12 investment for Liberty as a whole (Granite State Electric and EnergyNorth) as compared
13 to other alternatives available for training. In addition to providing information on
14 Training Center costs, cost allocation, cost recovery and utilization, my testimony also
15 examines the methodology and underlying assumptions used by Liberty to evaluate the
16 cost and benefits of building the Training Center.

17 **Q. Please summarize your finding and recommendations regarding on these issues.**

18 A. The Commission should deny recovery of the Training Center costs in this
19 proceeding and address the issue of cost recovery in the next Liberty Utilities
20 (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities ("EnergyNorth") rate filing,
21 where a full prudence review can be conducted. In this proceeding (and in Docket DA
22 16- 560 where Liberty has requested approval of the lease of the facility by EnergyNorth
23 to Granite State as an transaction between a utility and an affiliated party), Liberty failed

1 to provide a cost/benefit analysis on which the decision to build, maintain and operate a
2 training center justified the decision to go forward with the project. Furthermore, the
3 information provided in this case and the Affiliate Transaction docket does not
4 demonstrate that building the Training Center was the least cost alternative. Finally, in
5 the event that the Commission includes the costs associated with the Training Center in
6 rates, Staff recommends that the Training Center costs be allocated between the gas and
7 electric utilities based on actual training hours, rather than number of employees as is
8 currently being done.

9 **Q. Briefly describe Liberty's filings that address the Training Center.**

10 A. In DG 14-180, EnergyNorth's last rate filing, Liberty identified the Training
11 Center as a future capital investment that it would be seeking to recover in rates after it
12 was placed into service.

13 In DA 16-560, Liberty provided a lease agreement between EnergyNorth and
14 Granite State whereby Granite State is leasing the non-exclusive right to occupy and use
15 the land and building known as the Training Center. The lease provides that "Granite
16 State's Proportionate Share" shall be twenty-five percent (25%) and will be recalculated
17 based on the ratio of EnergyNorth's and Granite State's union employees as of end of the
18 immediately preceding calendar year.

19 In DE 16-383, this Granite State rate case, Granite State seeks to recover
20 \$146,559 (Schedule RR-3-12(CU)) of lease costs for the Training Center.

21 In none of these dockets has Liberty provided sufficient support to demonstrate the
22 reasonableness of building the Training Center.

23 **Q. Please summarize the Training Center capital costs and annual operating expenses.**

1 A. See Table 1, below, for the original projected cost, actual cost, operating and
 2 maintenance costs.

Table 1: Concord Training Center Estimated Annual Operating Costs¹

| | |
|--------------------------------------|-----------|
| Original Estimated Cost ² | 1,450,000 |
| Cost of building on books | 4,109,880 |
| Accum Depr thru 3/31/16 | (118,365) |
| | 3,991,515 |
| Return @ EnergyNorth WACC of 7.05% | 281,402 |
| Annual Book Depreciation | 118,364 |
| Estimated Insurance on Bldg. | 1,500 |
| Utilities | 39,762 |
| Property Taxes | 30,210 |
| Routine Maintenance | 115,000 |
| Total | 586,238 |
| Percentage to GSE based on use @ 25% | 146,559 |

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4 **Q. Please briefly describe Liberty’s supporting analysis.**

5 A. In response to data request Staff 2-3 in DA 16-560, Granite State provided a
 6 cost/benefit analysis and its rationale for building the Training Center. Granite State
 7 examined only the incremental cost of training personnel at the National Grid training
 8 facility at Millbury, Massachusetts based on six months of training use by gas employees
 9 and 12 months of training by electric employees during 2013. Basically, these
 10 incremental costs involved travel costs and overtime for attendees and, where
 11 appropriate, cost of instructors. Liberty referenced some minor benefits (scheduling
 12 efficiency, optional basic training for non-field employees, training for other
 13 stakeholders, etc.) associated with building the Training Center but did not provide any

¹ Attachment AI-1 (DA 16-560 Staff 1-2)

² Attachment AI-2 (DG 14-180, Brouillard testimony, Bates page 0175)

1 cost or savings estimates for those items. In response to data request Staff 1-1 in DA 16-
2 560, Granite State stated that it included training hours projected in 2016 as its rationale
3 for the 25% allocation of costs to Granite State.

4 Regarding alternatives for training sources, Liberty mentioned that it searched the
5 local area for another source of training and found no available gas or electric training. It
6 also considered utilizing an existing Liberty facility in the Manchester yard but ruled it
7 out because of environmental and permitting issues.

8 **Q. What is your opinion of the analysis provided?**

9 A. Staff believes that the analysis is inadequate, especially considering that the
10 Training Center was budgeted to cost \$1.5 million, and, ultimately, cost over \$4 million.
11 First, Granite State analyzed only one year's incremental cost of training at the National
12 Grid facility at Millbury, MA. The Company provided no evidence that during its
13 decision making process it evaluated the cost of training options other than using existing
14 Liberty facilities (such as the Manchester yard) or the cost of building a new training
15 center. A comparative economic analysis of training options should have been done at or
16 before the time when the decision was made to build and operate the Training Center.
17 Based on the information provided by the Company in its filings and through discovery,
18 it appears the decision to build the Training Center was not a prudent decision, as it has
19 resulted in a significant increase in annual training costs. A more thorough analysis prior
20 to making that decision most likely would have resulted in a different outcome, one that
21 would have been less costly, therefore, the costs associated with the Training Center
22 should not be allowed in rates in this proceeding.

23 **Q. Please elaborate on your concerns about Liberty's analysis?**

1 A. Staff has concerns about the accuracy and usefulness of Liberty's incremental
2 cost analysis. As mentioned earlier, using only one year's cost for analysis to analyze an
3 investment of \$4 million is far too simplistic. Staff believes that a long term economic
4 analysis (i.e. discounted cash flow analysis etc.) should have been done for this project.

5 Liberty calculated an annual incremental cost \$374,490 (combined Granite State
6 and EnergyNorth) of using National Grid for training. Incremental costs included travel
7 time, overtime where applicable and instructor costs, all of which could be avoided or
8 reduced if training were done locally.³ The estimated cost savings are significantly less
9 than the combined Granite State and EnergyNorth annual cost of \$586,238 (revenue
10 requirement to recover the capital cost and operating and maintenance expenses) for the
11 Training Center.⁴ This limited analysis indicates that building the Training Center
12 increased combined company annual training costs by \$211,748.

13 Furthermore, Staff has concerns about the hours and costs Liberty used to
14 calculate the incremental cost of training using National Grid. The incremental cost is
15 based on an analysis of employees who trained at National Grid during periods of time in
16 2013. According to Liberty, the incremental travel time was approximately 3,000 hours
17 (combined Granite State and EnergyNorth for both Management and Union trainees for
18 the year 2013. (DA 16-650 Staff 2-3). Staff compared these estimated hours with 2013
19 actual training data (Staff Tech 1-3⁵), which shows total actual hours of 3,699 for all
20 Management and Union related training hours, including travel. If the estimated
21 incremental hours (travel to Milford MA) is correct, only 699 hours were for actual

³ Attachment AI-3 (Staff 2-3, in DA 16-560)

⁴ Attachment AI-1 (DA 16-560 Staff 1-2)

⁵ Staff questioned the accuracy of the data in Staff 2-3 at a technical the technical session which prompted Liberty to update the response in Staff Tech 1-3.

1 training. Liberty also stated that the incremental cost figure was derived from a
 2 conservative estimate.⁶ These figures raise concerns regarding the accuracy of Liberty’s
 3 incremental cost estimates and its justification for the Training Center.

4 A comparison of actual Management and Union related training cost and
 5 incremental cost for 2013 shows a similar anomaly. See Table-2 and Table-3, below.
 6 The total payroll cost for actual training was \$194,811 whereas Liberty’s estimated
 7 incremental cost saving is \$157,770. Inexplicably, for Granite State the estimated hours
 8 saved are higher than the actuals (1,692 hours of estimated travel savings versus 1,008
 9 hours of total actual training). Liberty mentioned (Tech 1-3) that the actual costs do not
 10 include National Grid instructor costs because Liberty was not billed for these costs. No
 11 analysis has been provided comparing the cost for a National Grid instructor(s) with the
 12 cost of the Liberty instructor(s), so it is undetermined as to whether instructor training
 13 would differ.

14
 15 Table 2: 2013 Actual Training Hours (Source: Staff Tech 1-3⁷)

| | Energy North | | Granite State | | |
|-------------|----------------|-----------|----------------|----------|-------------|
| | No. Of trainee | Hours | No. Of trainee | Hours | Total Hours |
| Management: | 7 | 168 | 14 | 336 | 504 |
| Union: | 87 | 2523 | 24 | 672 | 3195 |
| Total | | 2691 | | 1008 | 3699 |
| | | | | | |
| Payroll | | \$126,037 | | \$68,774 | \$194,811 |

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⁶ Attachment AI-3 (DG 16-560, Staff 2-3) “As the cost estimate was based on the number of employees who attended training during that time period, the cost estimate is significantly less than the amount that would be calculated based on the amount of training that has been conducted and will be conducted going forward at the Liberty training center...”

⁷ Attachment AI-4

1 Table 3: 2013 Incremental Hours (Source: DA 16-560, Staff 2-3⁸)

| | Energy North | | Granite State | | Total |
|------------------|----------------|----------|----------------|----------|-----------|
| | No. Of trainee | Hours | No. Of trainee | Hours | |
| Management: | 1 | 80 | 16 | 288 | 368 |
| Union: | 15 | 1200 | 52 | 1404 | 2604 |
| Total | | 1280 | | 1692 | 2972 |
| Overtime Payroll | | \$63,000 | | \$94,770 | \$157,770 |

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 3 Staff also compared 2015 training costs, the first year the Training Center was
 4 used, with previous years' training costs to see if any savings were achieved, but Staff
 5 could not identify any savings.

6
 7 Table 4: Yearly Management and Union Training cost – actual per Staff Tech 1-3⁹

| Year | Energy North | | Granite State | |
|------|----------------|-----------|----------------|-----------|
| | No. of trainee | Cost | No. of trainee | Cost |
| 2013 | 94 | \$249,656 | 38 | \$237,994 |
| 2014 | 101 | \$305,821 | 42 | \$328,543 |
| 2015 | 101 | \$273,285 | 42 | \$299,480 |

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 9 Other witnesses in this case present testimony concerning deficiencies in
 10 Liberty's capital budgeting process, specifically, that projects have been undertaken
 11 without appropriate analysis of alternatives and that cost estimates have varied
 12 significantly from actual construction costs. These conclusions apply to the Training
 13 Center as well.

⁸ Attachment AI-3

⁹ In this Table, the training costs include the cost technical training staff, travel time to the training centers and training hours multiplied by times employee hourly pay. Attachment AI-4

1 **Q. What is your opinion about Liberty's assertion that it could not find local training**
2 **resources?**

3 A. It is not clear what steps Liberty took in its search for an alternate provider for
4 training. Liberty stated that “Utilization of third party training facilities and instructors
5 causes limited availability and often times conflicts with operational requirements.”¹⁰
6 Yet, the other combined gas and electric utility in New Hampshire ¹¹ does not own a
7 training center. UES relies on contracted instructors and local technical institutions for
8 its training needs, including hands-on training. Staff is not aware of any instance where
9 UES could not meet its training requirements because of unavailability of such services
10 in New Hampshire or elsewhere.

11 **Q. What is your opinion on the method used by the Company to allocate the costs of**
12 **the Training Center between EnergyNorth and Granite State?**

13 A. The lease provides that the annual costs of the training center be allocated using
14 the ratio of EnergyNorth's and Granite State's union employee. There are different
15 training requirements for gas and electric employees, and thus the number of employees
16 might not reflect actual usage of the Training Center. Staff believes that a more
17 consistent and reasonable allocation could be made using the proportion of training hours
18 for management and union trainees of Granite State and EnergyNorth, on average over
19 the immediate past 3 years. Given that the rationale for building the Training Center is to
20 meet training needs of management and union employees, and given that environmental
21 and safety training does not require a special training center, Staff believes that it is

¹⁰ Attachment AI-5 (DG 14-180, Staff 2-6)

¹¹ Unital Energy Systems (“UES”), which serves 103,500 electric customers and 78,700, natural gas customers in Maine, Massachusetts and New Hampshire, and employs 500 employees of which 159 are union employees. (Source : Annual Report 2015)

1 reasonable to exclude environmental and safety inputs from the cost allocation method.

2 Using the 3-year average proportion of management and union employees, Granite State

3 would bear 36.5% of the Training Center cost instead of the 25% proposed by Liberty.

4 **Q. Do you have any other comments?**

5 A. The installed cost of the Training Center increased substantially from the
6 estimated figure submitted in DG 14-180 (Brouillard testimony from DG 14-180, Bates
7 page 0175, line 16). The estimate was \$1.45 million and the actual, installed cost is
8 \$4.10 million (DA 16-560 Staff 1-6). This suggests that Liberty did not adequately
9 research the cost to build, equip and furnish the Training Center prior to making the
10 decision to build it. The disparity between the original estimate and the actual cost of the
11 Training Center raises questions about the adequacy of the Liberty review of other
12 options available to meet its training requirements and the cost of those options. Without
13 accurate data, the results of any cost/benefit analysis cannot be relied upon. Table-5,
14 below, shows the cost of training in the two years prior to the opening of the Training
15 Center and training costs after the training center commenced operations in March
16 2015.¹² This Table shows no reduction in Granite State's training costs after the Center
17 was opened.

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¹² These costs do not include National Grid Instructor costs, and Staff Tech 1-3 does not show any incremental instructor cost for training in-house at the training center.

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Table 5: Annual Training Cost¹³

| | Energy North | | | Granite State | | | Safety/Symposium | Grand Total |
|------|-----------------------------|----------------------|-----------|-----------------------------|----------------------|-----------|------------------|-------------|
| | Actual Cost (Man+Union+Env) | Training Center Cost | Total | Actual Cost (Man+Union+Env) | Training Center Cost | Total | | |
| 2013 | \$288,163 | \$0 | \$288,163 | \$291,485 | \$0 | \$291,485 | \$98,131 | \$677,779 |
| 2014 | \$325,724 | \$0 | \$325,724 | \$346,394 | \$0 | \$346,394 | \$107,476 | \$779,595 |
| 2015 | \$305,302 | \$439,678 | \$744,980 | \$325,787 | \$146,559 | \$472,346 | \$116,822 | \$1,334,148 |

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4 **Q. What is your recommendation for the Commission?**

5 **A.** The lack of reliable analysis and support provided in this docket for the Training
 6 Center limits Staff's ability to sufficiently analyze and quantify the impact of this
 7 investment. The analyses that were submitted do not indicate that building the Training
 8 Center produced savings to Granite State or will result in future savings, but rather
 9 increased training costs. There is also a concern as to how Training Center costs are
 10 being allocated between Granite State and EnergyNorth. Therefore, Staff recommends
 11 that the Commission not allow recovery of the Training Center expenses of \$146,559
 12 included in RR-3-12 (CU) (Bates page 040). Given that 75% of the costs are allocated to
 13 EnergyNorth, and Liberty expects to petition the Commission for an increase in delivery
 14 rates in 2017, the Commission will be able to revisit this issue in that docket if it so
 15 chooses.

16 **Q. What information does Staff recommend Liberty provide to assist in the evaluation**
 17 **of the decision to build the Training Center?**

¹³ Based on Attachment AI- 4 (Staff Tech 1-3)

1 **A.** To be able to analyze and quantify the incremental cost of the Training Center,
2 and allocate costs, Staff believes that the following information is essential:

- 3 • Training requirements by position and number of positions (Qualification
4 vs. Training);
- 5 • Training options available and cost of each option (Q vs T);
- 6 • RFPs issued for training services (Q vs T);
- 7 • Consideration and efforts to provide training to others for profit;
- 8 • Business case provided corporate to support proposed training center;
- 9 • Revenue requirement related to the training center (capital & operating);
- 10 • Long term Cost/Benefit analysis comparing annual revenue requirement
11 to cost of alternative options;
- 12 • Training Center calendar from March 1, 2015 to present that includes all
13 scheduled events, event hours and attendees.

14 **Q.** **Does that conclude your testimony?**

15 **A.** Yes.