



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 17-048

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

REBUTTAL TESTIMONY

OF

TISHA A. SANDERSON

AND

STEVEN E. MULLEN

January 25, 2018

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ATTACHMENTS

Attachment	Title
Attachment TAS/SEM-1	Copy of an August 4 – August 8, 2017, e-mail exchange
Attachment TAS/SEM-2	Staff response to LU 1-32

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1 **I. INTRODUCTION**

2 **Q. Please state your names and business addresses.**

3 A. My name is Tisha A. Sanderson. My business address is 15 Buttrick Road, Londonderry,
4 New Hampshire.

5 My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry,
6 New Hampshire.

7 **Q. By whom are you employed and in what capacity?**

8 A. (TAS) I am employed by Liberty Utilities Service Corp. (“Liberty”) as Director of
9 Finance for the Eastern Region. I am responsible for budgeting, financial reporting, and
10 accounting for Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth” or “the
11 Company”), Liberty Utilities (Granite State Electric) Corp. (“Granite State”), and for
12 other operating utilities in the Eastern Region.

13 (SEM) I am employed by Liberty Utilities Service Corp. (“Liberty”) as Senior Manager,
14 Rates and Regulatory Affairs. I am responsible for rates and regulatory affairs for
15 EnergyNorth and Granite State.

16 **Q. Have you previously submitted testimony in this proceeding?**

17 A. (TAS) No.

1 (SEM) Yes. I submitted prefiled testimony on June 30, 2017, on the subject of the
2 Concord Training Center. My professional background and qualifications are contained
3 in that prior testimony.

4 **Q. Ms. Sanderson, please describe your educational background and professional**
5 **qualifications.**

6 A. I have a Bachelor of Science in Business with a concentration in Accounting. I am
7 presently pursuing my Certified Public Accounting License with an expected completion
8 date of June 2018. I have over 20 years of experience of increasingly senior positions
9 within the construction, engineering, and utilities industries.

10 **Q. Ms. Sanderson, have you previously testified before this Commission?**

11 A. I previously submitted prefiled rebuttal testimony in Docket No. DE 16-383, the most
12 recent distribution rate case for Granite State.

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

14 A. Our testimony is provided in rebuttal to the testimony of Staff witness Stephen P. Frink
15 related to the topic of planning and budgeting. In reaching his conclusions, Mr. Frink
16 relied in part on a November 1, 2017, Recommendations Verification report (the
17 “November 2017 Report”) prepared by the Liberty Consulting Group (“LCG”). Other
18 comments related to the November 2017 Report are provided in a separate piece of
19 rebuttal testimony sponsored by Mr. Mullen, which is being contemporaneously filed
20 with this testimony.

1 **Q. Please summarize your testimony.**

2 A. The concerns expressed in Mr. Frink’s testimony regarding the Company’s planning and
3 budgeting processes paint an inaccurate picture of the current status of those processes.
4 Particular conclusions reached by LCG and Staff were based on an inaccurate
5 understanding of conversion work being performed on the Company’s Keene Division’s
6 propane/air system along with a misguided focus on older projects. Had the focus of
7 LCG’s review been on more current projects, it is clear that those concerns would be
8 unwarranted.

9 **II. PROBLEMS WITH FOCUS OF LCG’S REVIEW**

10 **Q. Do you have any concerns with Mr. Frink’s key observations and conclusions
11 regarding Liberty’s business planning and estimated processes?**

12 A. Yes. Mr. Frink provided in his Attachment SPF-8 the November 2017 Report to support
13 his key observations and conclusion. LCG reported improved monitoring and tracking of
14 capital expenditures variances, improved control and management of the capital budget
15 process, and improved reporting processes. Mr. Frink, however, only gave brief mention
16 to “significant progress in implementing the recommendations,”¹ and chose to highlight a
17 concern regarding a particular conclusion by LCG regarding the Company’s planning and
18 estimated processes.

¹ Testimony of Stephen P. Frink at Bates 000031, line 22 through Bates 000032, line 1.

1 **Q. What was that concern?**

2 A. As stated by LCG,

3 Management appears to have improved the timing of
4 preparation for some of its business cases, but we found the
5 Keene Propane project...an exception. Importantly, the
6 information management provided does not support a
7 determination that management has improved cost estimates
8 for projects included in its board-approved budgets.²

9 As shown in the above quote, as well as throughout the Planning and Budgeting section
10 of the November 2017 Report, LCG's conclusion in this area was largely based on its
11 analysis of what it termed the "Keene Propane" project. LCG's analysis suffered from a
12 fundamental misconception and misunderstanding, both by Staff and LCG, of the work
13 that was being performed and will be performed in the future in Keene.

14 The work in Keene regarding conversion of the existing propane/air system to
15 compressed natural gas ("CNG") and/or liquefied natural gas ("LNG") consists of two
16 distinct projects. The first project involved the conversion of the high pressure portion of
17 the system that serves the Monadnock Marketplace to CNG, which will enable the
18 retirement of the blower system that has been problematic, as the Commission is well
19 aware. The other project is the eventual conversion of the remainder of the existing
20 system to CNG and/or LNG. Conversion of the remaining portion of the system is
21 something that will take place over a number of years, and will be performed in phases.

² Mr. Frink's Attachment SPF-8 at Bates 102.

1 Both LCG and Staff mistakenly conflated these two projects into one.

2 **Q. Does the Company now, or did it ever have, a project named “Keene Propane?”**

3 A. No. When LCG first requested 2016 and 2017 capital budget information, we requested
4 clarification of exactly which project LCG was interested in reviewing, particularly given
5 the distinction described above and the fact that conversion of the entire system had not
6 commenced and would not commence during 2017. After some initial communications
7 with LCG during which we explained that the high pressure conversion was different and
8 separate from the eventual conversion of the entire Keene system, and after LCG
9 reviewed a list of projects and LCG communicated with Staff, LCG informed the
10 Company that it was interested in reviewing the 2016 and 2017 budget information for
11 Project 8843-C18820.³

12 **Q. Was it explained to LCG what Project 8843-C18820 entailed?**

13 A. Yes. The following description was provided to LCG in one of the discovery responses
14 provided on August 11, 2017:

15 The *high pressure* conversion project was an emergent
16 project that arose subsequent to the 2016 budget approval.
17 The project was undertaken to eliminate the need for a
18 blower system on the *high pressure* portion of the
19 distribution system. Different project numbers were used for
20 2016 and 2017. In 2016, there were two separate project
21 numbers: 8843-C18820 for the installation of distribution
22 main on Production Ave. and 8843-REL113 for the
23 conversion of the Monadnock Marketplace *high pressure*
24 system customers from propane/air to CNG. PUC Staff

³ See Attachment TAS/SEM-1, a copy of an e-mail exchange between the Company and LCG that took place over the period August 4 – August 8, 2017.

1 requested that the conversion be delayed into 2017, so no
2 money was spent on 8843-REL113 in 2016. The conversion
3 project will be completed in 2017. Refer to the Project Close
4 Out Report for 8843-REL113 and 8843-C18820 for 2016.
5 For 2017, 8843-C18821 is the project number for both the
6 main installation on Production Ave. and the *high pressure*
7 conversion from propane/air to CNG.⁴ (emphasis added)

8 Despite that description and the documentation provided for each of the three project
9 numbers, LCG and Staff apparently believed that the conversion of the high pressure
10 portion of the system and the ultimate conversion of the remainder of the Keene system
11 were part of a single project. An example of this misunderstanding is found on Bates
12 000099 of Mr. Frink's Attachment SPF-8. That page includes the following statement,
13 "Management prepared a June 2016 business case for the conversion of the Keene
14 system." Noticeably absent from that statement is that the referenced business case
15 clearly identified the conversion as for the "high pressure" or "HP" portion of the system.
16 The assumption that there was only a single project planned for conversion of the entire
17 system from propane to natural gas is contrary to how the separate conversions were and
18 are being planned. The high pressure conversion was planned with the primary goal of
19 being able to retire the blower system as soon as possible. Additional discussion of the
20 distinction between the separate conversions is included in the joint rebuttal testimony of
21 William J. Clark and Stephen R. Hall that is being filed contemporaneously with this
22 testimony.

⁴ Information was provided to LCG with respect to all three project numbers identified in that response.

1 **Q. Did LCG’s focus and sample size of four projects fairly represent the larger**
2 **population of projects for which Liberty Utilities is requesting recovery in this case?**

3 A. No. LCG’s contract specified the evaluation of four specific projects when conducting a
4 follow-up review to measure the Company’s progress from the recommendations in the
5 initial 2016 report. The four projects selected for LCG’s review included a 2014
6 Training Center Project, a 2014 iNATGAS CNG Project, a 2016 Blanket IT Project, and
7 a 2017 “Keene Propane” Project. The Company questions the selection of these projects
8 as they betray a focus on projects which largely predate the issuance of the initial report
9 and thus could not fairly determine whether the Company has implemented the
10 recommendations of the initial report.

11 **Q. Was Staff asked for its assessment as to whether it believed that the sample projects**
12 **specified in LCG’s contract were sufficient to develop an overall conclusion and**
13 **understanding of Liberty’s current planning and budgeting processes?**

14 A. Yes. In response to LU 1-32, Staff offered the following statements:

15 Because the initial LCG audit was completed in 2016 and the
16 current audit was conducted in 2017 there were a limited number
17 of major capital projects for review. In light of that, the number
18 of projects reviewed by LCG does provide a reasonable basis on
19 which to determine if Liberty has, to date, implemented the LCG
20 recommendations on budgeting and planning processes.⁵

⁵ See Attachment TAS/SEM-2.

1 **Q. What is the Company's reaction to that response?**

2 A. The Company finds the statement that “there were a limited number of major capital
3 projects for review” to be a curious – and plainly incorrect -- statement. When measuring
4 progress from the initial 2016 report, LCG could have selected any of the 81 projects
5 included in EnergyNorth's 2016 budget, 11 of which had a budget amount of \$1 million
6 or more. Similarly, EnergyNorth's 2017 capital budget included 59 projects, of which 11
7 had budgets of at least \$1 million. Staff and LCG had 22 projects that exceeded \$1
8 million which they could have reviewed. Included in the 2016 budget was a \$12 million
9 project for work done on the Concord to Tilton High Line, the largest cost project ever
10 undertaken by EnergyNorth. Yet, despite the size of the project and its high visibility
11 during construction, that project was not deemed worthy of review as part of this
12 proceeding, either through the Staff audit, discovery, or in LCG's “follow-up” work. The
13 Company notes that the project was completed on time and, through prudent management
14 of the project, well under budget. Instead, Staff and LCG focused on projects that largely
15 predated the recommendations that they were purportedly trying to determine if the
16 Company had somehow followed.

17 **III. CONCLUSION**

18 **Q. Has Liberty made significant improvements to its planning and budgeting processes**
19 **in recent years?**

20 A. Yes. As stated above, LCG reported improved monitoring and tracking of capital
21 expenditures variances, improved control and management of the capital budget process,

1 and improved reporting processes. Yet despite those findings, Staff's testimony leaves
2 the false impression that there are still significant shortcomings.

3 **Q. If significant problems still existed with respect to planning and estimating capital**
4 **projects, would that be evident through, for instance, excessive budget variances?**

5 A. Yes.

6 **Q. What have Liberty's capital budget variances been over the last two years?**

7 A. Liberty's 2016 Capital Budget for EnergyNorth, Keene, and Granite State totaled
8 \$63,802,000 and total spending came within \$153,056 (0.24%) of budget. For 2017, the
9 total budget of \$82,499,330 was underspent by \$8,039,603, but that was primarily the
10 result of work that had originally been budgeted in the Town of Hanover and the City of
11 Lebanon but that did not take place due to an extended approval process. While some of
12 that budgeted spending was able to be directed to advancing other projects, some of the
13 capital dollars remained unspent. These recent results demonstrate that Liberty has a firm
14 handle on its capital planning and budgeting processes.

15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.

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