

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

March 6, 2018 - 10:09 a.m.
Concord, New Hampshire

DAY 1
Morning Session ONLY

19 MAR '18 09:47

RE: DG 17-048
LIBERTY UTILITIES (ENERGYNORTH
NATURAL GAS) CORP. d/b/a LIBERTY
UTILITIES: Request for Change in
Rates. (Hearing on the merits)

PRESENT: Chairman Martin P. Honigberg, Presiding
Commissioner Kathryn M. Bailey
Commissioner Michael S. Giaimo

Jody Carmody, Clerk

APPEARANCES: Reptg. Liberty Utilities (EnergyNorth
Natural Gas) Corp. d/b/a Liberty
Utilities:

Michael J. Sheehan, Esq.

Reptg. Residential Ratepayers:

D. Maurice Kreis, Esq., Consumer Adv.

Brian D. Buckley, Esq.

Pradip Chattopadhyay, Asst. Cons. Adv.

James Brennan, Finance Director

Office of Consumer Advocate

Reptg. PUC Staff:

Paul B. Dexter, Esq.

Alexander F. Speidel, Esq.

Stephen Frink, Dir./Gas & Water Div.

Al-Azad Iqbal, Gas & Water Division

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

**CERTIFIED
ORIGINAL TRANSCRIPT**

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I N D E X

PAGE NO.

Statement by Mr. Dexter regarding certain provisions of the Settlement Agreement 11

* * *

WITNESS PANEL: STEVEN E. MULLEN
JAMES J. BRENNAN

Direct examination by Mr. Sheehan (Mullen) 16, 20

Direct examination by Mr. Kreis (Brennan) 18, 58

Cross-examination by Mr. Dexter 66

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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.
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3	Direct Testimony of David B. Simek and Daniel S. Dane, with attachments	premarked
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4	Direct Testimony of Christian P. Brouillard, with attachments	premarked
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5	Direct Testimony of Melissa F. Bartos, with attachments	premarked
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6	Direct Testimony of David A. Heintz, with attachments	premarked
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E X H I B I T S (continued)

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
7	Direct Testimony of David B. Simek and Gregg H. Therrien, with attachments	premarked
8	Direct Testimony of Gregg H. Therrien, with attachments	premarked
9	Direct Testimony of David B. Simek (Re: Lead-Lag), with attachments	premarked
10	Direct Testimony of Paul M. Normand, with attachments	premarked
11	Direct Testimony of Robert B. Hevert, with attachments	premarked
12	Direct Testimony of David B. Simek (Re: Tariff - Tariff NHPUC No. 9 Perm. Rates)	premarked
13	Direct Testimony of Steven E. Mullen, with attachments	premarked
14	Direct Testimony of Dr. Ben Johnson, with attachments	premarked
15	Direct Testimony of Dr. Pradip Chattopadhyay, with attachments	premarked
16	Direct Testimony of James J. Brennan, with attachments	premarked
17	Direct Testimony of Jayson P. Laflamme and Donna H. Mullinax, with attachments	premarked
18	Direct Testimony of Al-Azad Iqbal, with attachments	premarked

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E X H I B I T S (continued)

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
19	Direct Testimony of James J. Cunningham, with attachments	premarked
20	Direct Testimony of J. Randall Woolridge, with attachments	premarked
21	Supplement to Testimony of Jayson P. Laflamme and Donna H. Mullinax	premarked
22	Staff Attachment 8 to Stephen P. Frink Testimony filed 11/30/17	premarked
23	Rebuttal Testimony of David Simek and Daniel Dane, with attachments	premarked
24	Rebuttal Testimony of William Clark and Stephen Hall, with attachments	premarked
25	Rebuttal Testimony of Tisha Sanderson and Steven Mullen, with attachments	premarked
26	Rebuttal Testimony of Steven Mullen, with attachments	premarked
27	Rebuttal Testimony of Gregg Therrien	premarked
28	Rebuttal Testimony of Robert Hevert, with attachments	premarked
29	Agreement regarding Permanent Rates	premarked

P R O C E E D I N G

1
2 CHAIRMAN HONIGBERG: We are here in
3 DG 17-048, which is Liberty Utilities
4 (EnergyNorth Natural Gas) rate case. And we're
5 here for a hearing on the matters, which is
6 going to go multiple days. We're going to talk
7 about the schedule in a minute.

8 Before we do anything else, let's
9 take appearances.

10 MR. SHEEHAN: Good morning,
11 Commissioners. Mike Sheehan, for Liberty
12 Utilities (EnergyNorth Natural Gas).

13 MR. KREIS: Good morning, Mr.
14 Chairman, Commissioners. I'm D. Maurice Kreis,
15 the Consumer Advocate, here on behalf of the
16 residential customers of Liberty Utilities.
17 And the distinguished attorney to my left is
18 Brian Buckley, our staff attorney.

19 MR. DEXTER: Good morning. Paul
20 Dexter, representing the Commission Staff, with
21 Alexander Speidel, of the Legal Division.

22 CHAIRMAN HONIGBERG: All right.
23 Where do we want to start?

24 Mr. Sheehan.

1 MR. SHEEHAN: I have a short list of
2 preliminary matters in no particular order.

3 We have pending a motion for a view
4 and a motion for a protective order of the
5 various confidential data responses. And I did
6 obtain concurrence from Staff and the OCA
7 shortly before filing.

8 We have an exhibit list, which I left
9 on the table, I think it's near Commissioner
10 Bailey. Numbers 1 and 2 were marked at the
11 temporary rate hearing. Numbers 3 through 29
12 are the various testimonies of all the parties'
13 witnesses, through the Settlement Agreement.
14 And beginning at number 30 are documents that
15 we expect to be offered during the hearing.
16 They will come in as we go. And unfortunately,
17 I left some blank numbers at the bottom as
18 there may be more.

19 And the other -- the other
20 preliminary issue was, in speaking with Staff,
21 it's our understanding that they will represent
22 to the Commission that there are certain issues
23 in the Settlement Agreement they do not contest
24 or support, whatever language they choose, it

1 will be good to get that out of the way early
2 as well.

3 Other than that, we have Mr. Mullen
4 and Mr. Brennan ready to present the Settlement
5 Agreement.

6 CHAIRMAN HONIGBERG: All right. I
7 know we have talked about the motion for a
8 view, and we'll grant that motion. And I'm not
9 sure how to work out the logistics of that, but
10 I think we'll need to find a time when
11 everybody is available to go out and do that.

12 How long do you anticipate that trip
13 taking, Mr. Sheehan?

14 MR. SHEEHAN: You know, an hour.
15 It's not a -- so, it's close by. We could even
16 do it on one of the hearing days. If we're
17 scheduled to start at 10:00, we could all meet
18 there at 9:00. You know, we don't need the
19 protections of a jury view that a court would
20 have. We could show up, and we'll have someone
21 there to just point and give you the 30-minute
22 tour, and then we can come back. That's what I
23 was thinking at least.

24 CHAIRMAN HONIGBERG: All right.

1 Well, I'll have you speak with Staff and the
2 OCA, and the folks who have access to the
3 calendars, about when will make the most time
4 to do that -- most sense to do that, sorry.

5 With respect to the Motion for
6 Protective Order, I did see that in the motion
7 it indicated that there was no objection.
8 That's right, Mr. Dexter and Mr. Kreis?

9 MR. DEXTER: No objection from Staff.

10 *(Atty. Kreis nodding in the*
11 *affirmative.)*

12 CHAIRMAN HONIGBERG: All right. So,
13 we'll treat that -- all that matter as
14 confidential. Unless someone makes a Right to
15 Know request, then we may have to do something
16 else with it. But, at least for now, it will
17 be treated as confidential.

18 Let's talk scheduling, both one minor
19 matter today and then talk about the weather.
20 We're going to -- let's do this off the record.
21 And we may need to put something on the record,
22 but let's talk off the record first.

23 *[Off-the-record discussion*
24 *ensued.]*

1 CHAIRMAN HONIGBERG: We had a
2 discussion off the record about scheduling.
3 There's a phone call being made regarding
4 witness availability, but we may be adjusting
5 the schedule for subsequent days of this
6 hearing.

7 With that, --

8 MR. DEXTER: Mr. Chairman, I had --

9 CHAIRMAN HONIGBERG: Mr. Dexter.

10 MR. DEXTER: Excuse me. I had one
11 preliminary matter as well.

12 CHAIRMAN HONIGBERG: Sure.

13 MR. DEXTER: Staff found themselves
14 in the situation of seeking -- filing a Motion
15 for Protective Treatment for some information
16 that the Company had sought confidential
17 treatment for. That came in on January 8th.
18 And the motion sort of speaks for itself, but
19 there was information related to Liberty's
20 customer service performance that was contained
21 in a report prepared by Liberty Consulting. It
22 was attached to Mr. Frink's testimony.

23 Two figures in that report were
24 inadvertently not treated confidentially. So,

1 I filed a revised version and filed a Motion
2 for Confidential Treatment.

3 I don't think there will be any
4 objection from the parties, but I wanted to
5 remind the Bench of that motion that was filed.

6 CHAIRMAN HONIGBERG: Is Mr. Dexter
7 correct that there is no objection to the
8 motion?

9 MR. SHEEHAN: Correct.

10 *(Chairman and Commissioners*
11 *conferring.)*

12 CHAIRMAN HONIGBERG: We don't see any
13 reason why we wouldn't grant this, although I
14 don't think we've had a chance to really look
15 at it in any great depth. For now, we'll treat
16 it all as you've requested.

17 MR. DEXTER: Thank you.

18 CHAIRMAN HONIGBERG: To the extent
19 those numbers come up, we just need to make
20 sure that people are aware of it, just like the
21 other information that's been filed for
22 confidential treatment. Okay?

23 MR. DEXTER: I don't expect there
24 will be any questions on those numbers.

1 CHAIRMAN HONIGBERG: All right. Is
2 that it for preliminary matters? Are we ready
3 to start hearing from witnesses?

4 *[No verbal response.]*

5 *(Chairman and Commissioners*
6 *conferring.)*

7 CHAIRMAN HONIGBERG: Actually, before
8 anybody moves into place, Mr. Dexter, is now a
9 time when you would put on the record the parts
10 of the Settlement between the Company and the
11 OCA that Staff agrees with and those that they
12 intend to litigate?

13 MR. DEXTER: Sure. I'd be happy to
14 do that now, if that's appropriate.

15 CHAIRMAN HONIGBERG: Just have you --
16 have you had this discussion with Mr. Sheehan
17 and Mr. Kreis, so this is not going to be news
18 to them, right?

19 MR. DEXTER: That's correct.

20 CHAIRMAN HONIGBERG: Okay.

21 MR. DEXTER: So, the largest item of
22 the list that Staff agrees to appears on the
23 Settlement at Page 4, which is the return on
24 equity and the weighted average cost of

1 capital. Staff's in agreement with that
2 clause.

3 I guess I should use the version of
4 the Settlement with the Bates pages. Hold on
5 please.

6 MR. SHEEHAN: If I may interject? We
7 filed a revised copy of the Settlement where we
8 Bates paged and adjusted one schedule.

9 MR. DEXTER: And Staff also does not
10 object to the item on Page 5, titled "Materials
11 and Supplies", which will move the -- I don't
12 need to go through the substance of them, if I
13 just list them? Okay.

14 Page 8 in the Settlement has a
15 paragraph entitled "Effective Date for
16 Permanent Rates and Recoupment". And Staff has
17 no problem with that.

18 Page 9, "Rate Case Expenses". Staff
19 doesn't have an objection to the way those are
20 being treated in the Settlement.

21 Page 14, there's a provision
22 regarding "Residential Low Income Assistance
23 Program". Staff has no objection to that
24 clause of the Settlement.

1 Page 14 also has a clause on "Next
2 Distribution Rate Case". Staff has no
3 objection to that clause.

4 And I skipped over one. I'm going to
5 jump back now to Page 7 and 8, which outlines
6 the basics of the step adjustment. And Staff
7 has no objection to the framework of the step
8 adjustment that's laid out.

9 So, those are the areas where we
10 don't plan to pursue any questioning.

11 CHAIRMAN HONIGBERG: Okay. Thank
12 you, Mr. Dexter.

13 Mr. Sheehan.

14 MR. SHEEHAN: Could I ask Staff one
15 clarifying question. On the step increase, you
16 said "the framework". Is there an objection to
17 the amount? Which is in the final paragraph on
18 Page 8.

19 MR. DEXTER: No. I guess, when I
20 said "framework", there's no number associated
21 with the FASB change for pensions and OPEBs.

22 So, I guess what I should have said
23 is, you know, we still want the opportunity to
24 review the step adjustment when it comes in,

1 but we don't have a problem with the framework
2 and we don't have a problem with the \$5 million
3 cap at this point.

4 MR. SHEEHAN: Thank you.

5 CHAIRMAN HONIGBERG: All right.

6 Thank you. Thank you for that.

7 So, now are we through all the
8 preliminaries?

9 *[No verbal response.]*

10 CHAIRMAN HONIGBERG: All right.

11 Mr. Sheehan, why don't you have your witnesses
12 move into place.

13 MR. SHEEHAN: Staff **[Company?]** and
14 the OCA jointly call Mr. Mullen and Mr.
15 Brennan. Oh, I'm sorry --

16 CHAIRMAN HONIGBERG: Mr. Kreis,
17 what's you got?

18 MR. KREIS: Well, I just wanted to
19 say Mr. Buckley is back from his phone call,
20 and --

21 CHAIRMAN HONIGBERG: All right.
22 Let's go off the record.

23 *[Brief off-the-record discussion*
24 *ensued.]*

[WITNESS PANEL: Mullen|Brennan]

1 CHAIRMAN HONIGBERG: All right. So,
2 we're going to not hold the continuation of
3 these hearings tomorrow and Thursday this week.
4 We're going to have the parties, the Company
5 and the OCA and Staff, work out a revised
6 schedule, based on the availability of
7 everyone, including this room and the
8 witnesses, and everyone who's relevant to this.
9 Whether we pick back up on next week, the 14th
10 or the 16th, or we wait until the following
11 week, we'll let you all work that out, and then
12 issue a revised notice, probably a secretarial
13 letter, with the new schedule. Okay?

14 The witnesses are in position.
15 Mr. Patnaude, would you do the honors please.

16 (Whereupon **Steven E. Mullen** and
17 **James J. Brennan** were duly sworn
18 by the Court Reporter.)

19 CHAIRMAN HONIGBERG: Mr. Sheehan.

20 MR. SHEEHAN: I plan to introduce Mr.
21 Mullen and have him walk through the Settlement
22 Agreement. And then Mr. Kreis intends to
23 introduce his witness and ask any further
24 questions of Mr. Brennan.

[WITNESS PANEL: Mullen|Brennan]

1 Maybe we should -- never mind. He's
2 sworn in. So, if Mr. Brennan wants to chime
3 in, he can certainly chime in before, if that's
4 okay.

5 CHAIRMAN HONIGBERG: Mr. Kreis, why
6 don't you have -- let's do this. Mr. Sheehan,
7 why don't you introduce Mr. Mullen and get his
8 credentials on the record, and then, Mr. Kreis,
9 why don't do the same with Mr. Brennan. And
10 then you can start substantive questions,
11 Mr. Sheehan.

12 **STEVEN E. MULLEN, SWORN**

13 **JAMES J. BRENNAN, SWORN**

14 **DIRECT EXAMINATION**

15 BY MR. SHEEHAN:

16 Q Mr. Mullen, your name and position with the
17 Company please.

18 A (Mullen) My name is Steven Mullen. I'm the
19 Senior Manager of Rates and Regulatory Affairs
20 for Liberty Utilities Service Corp.

21 Q And you provided testimony in this docket?

22 A (Mullen) Yes. More than one piece.

23 Q And you participated in the conversations that
24 resulted in the Settlement Agreement that's

1 before the Commission in this docket?

2 A (Mullen) Yes, I did.

3 Q Going quickly through your testimony, Exhibit
4 Number 13 is testimony you filed as allowed by
5 the Commission when it consolidated 16-560, the
6 lease docket, with this. Do you have that in
7 front of you?

8 A (Mullen) I do.

9 Q And do you have any changes to that testimony?

10 A (Mullen) I do not.

11 Q And if I were to ask you the same questions
12 today, would your answers be the same?

13 A (Mullen) Yes.

14 Q The other testimony that you filed were -- are
15 marked as Exhibits 25 and 26. The first is
16 rebuttal testimony, along with Tisha Sanderson,
17 and the other is testimony filed just by you.
18 Do you have those testimonies in front of you?

19 A (Mullen) I do.

20 Q And the same questions, if I were to ask you
21 the same questions -- do you have any changes?

22 A (Mullen) I do not.

23 Q And if I were to ask you the same questions,
24 would the answers be the same?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) Yes. They would.

2 Q Do you therefore adopt what has been marked as
3 Exhibits 13, 25, and 26 as your sworn
4 testimony?

5 A (Mullen) I do.

6 MR. SHEEHAN: Thank you.

7 MR. KREIS: Good morning, Mr.
8 Brennan.

9 WITNESS BRENNAN: Good morning.

10 BY MR. KREIS:

11 Q Could you please identify yourself for the
12 record.

13 A (Brennan) My name is James Brennan.

14 Q And you are employed by?

15 A (Brennan) I'm the Finance Director for the New
16 Hampshire Office of Consumer Advocate.

17 Q Mr. Brennan, did you submit prefiled direct
18 testimony on behalf of the OCA back on November
19 30th of last year?

20 A (Brennan) Yes.

21 Q And is that testimony what has been marked for
22 identification as, I believe, "Exhibit
23 Number 16"?

24 A (Brennan) Yes.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 Q And is it fair to say that the subject of that
2 testimony was a critique of the initial rate
3 case filing that Liberty made last year and
4 your proposed revisions to the revenue
5 requirement that the Company initially proposed
6 for use in developing permanent rates?

7 A (Brennan) Yes. That's correct.

8 Q And do you have any corrections to that
9 testimony?

10 A (Brennan) No, I don't.

11 Q And, so, again, assuming the subject is the
12 initial rate filing that Liberty made back last
13 year, if I asked you those same questions here
14 on the stand, would your answers be the same as
15 the ones that you have written in your prefiled
16 testimony?

17 A (Brennan) Yes.

18 Q And, so, to that extent, do you adopt that
19 testimony as your testimony here?

20 A (Brennan) Yes.

21 MR. KREIS: I think that's all I have
22 by way of the initial queries.

23 CHAIRMAN HONIGBERG: Mr. Sheehan.

24 MR. SHEEHAN: Thank you.

1 BY MR. SHEEHAN:

2 Q Mr. Mullen, let's go through the Settlement
3 Agreement, which has been marked as "Exhibit
4 29". And the first substantive term of the
5 Settlement Agreement is on Page 3, captioned
6 "Revenue Requirement, Rate Base, Rate of
7 Return". Is there something to be clarified in
8 that caption?

9 A (Mullen) Yes. The words "Rate Base" in that
10 caption should not be there because the rate
11 base is not a number that is identified in the
12 Agreement.

13 Q We understand that the Staff has agreed to the
14 basic calculations of the 9.4 percent rate of
15 return and the capital structure listed on Page
16 4. Can you give us an overview -- and what
17 they don't agree with in the second line is the
18 \$10 million permanent rate increase, correct?

19 A (Mullen) Correct.

20 Q Could you start by just giving us an overview
21 of where that request in the Settlement
22 Agreement of \$10.3 million fits within the
23 framework established by the various parties
24 during the course of this litigation?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) Certainly. The Company's original
2 filing, as revised through its rebuttal
3 testimony, for purposes of a permanent rate
4 increase, was a request for an annual increase
5 to distribution revenues of \$14.5 million. In
6 the OCA's testimony, they had recommended
7 \$9.2 million. And the Staff's testimony had
8 recommended \$4 million.

9 As you've heard, the Staff is in agreement
10 with the capital structure and the return on
11 equity in this proceeding. So, if you, all
12 else being equal, if you were to make that
13 adjustment to -- if you were to adjust Staff's
14 original filing and OCA's original filing, just
15 based on the changes to the capital structure
16 and the return on equity, the OCA's filing
17 would be roughly about \$11.2 million, instead
18 of 9.2, and Staff's 4 million would be roughly,
19 you know, about \$5.7 million.

20 So, when you compare those numbers to the
21 Company's position in rebuttal testimony of
22 14.5, we're actually below OCA's -- what would
23 be OCA's adjusted number, all else being equal.
24 And we're about halfway between what Staff --

1 the Company's number and Staff's adjusted
2 number. So, I think that in and off itself,
3 you know, lends to the reasonableness of the
4 \$10.3 million request.

5 Q Beginning on Page 4 is a list of issues that
6 were addressed in the Settlement Agreement.
7 And Issues Numbers 1 through 6, on Page 7, all
8 deal with the makeup of the \$10.3 million
9 increase, is that correct?

10 A (Mullen) That's correct. And as it says in the
11 lead-in just before Item 1, on Page 4, those
12 are the more significant items. There were
13 some other, you know, odds and ends for some
14 adjustments to revenue requirement that had
15 been proposed, which have also been taken into
16 consideration, but were not specifically
17 itemized in this Settlement Agreement.

18 Q And what was the source of the dozen or so
19 issues that some of which are called out here
20 specifically and some, as you just mentioned,
21 were sort of small and lumped in, was that not
22 Staff's initial position of going through our
23 presentation and requesting adjustments based
24 on a number of items?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) It was a combination of the issues
2 raised by Staff and the OCA.

3 Q So, there was our proposal, the Company's
4 proposal, and then a list of proposed
5 adjustments by those two, the Staff and the
6 OCA?

7 A (Mullen) That is correct.

8 Q And that sort of is forming the outline of the
9 conversation we're having here today?

10 A (Mullen) Yes.

11 Q And as you said, the 10.3 number, is that a
12 line-by-line, plus/minus, plus/minus for each
13 of those proposed adjustments from their
14 testimonies?

15 A (Mullen) No. No. The term we use in here,
16 it's a "liquidated amount" for those various
17 items. With so many items in play, and, you
18 know, when you get into the Settlement
19 discussions and you start trying to talk about
20 individual items, I mean, you could spend a lot
21 of time going back and forth trying to agree on
22 each and every individual item. Or, when you
23 get down to it, the case is really about
24 setting a revenue requirement. It's not

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 setting line items to look at each year.

2 So, you know, and I've been doing this for
3 a number of years. And what happens is, you
4 end up coming to "What's a reasonable result
5 coming out of this proceeding?" If we were
6 still trying to talk about individual line
7 items, we probably wouldn't be discussing the
8 Settlement Agreement here today.

9 Q Is it fair then to say that, if we were to try
10 to put a specific number on Issue A, for
11 example, there may still be disagreement
12 between Staff and the OCA as to what a
13 particular number should be for a particular
14 issue?

15 A (Mullen) Yes. And the matter is that we've
16 agreed that what has come out is a fair and
17 reasonable result considering everything taken
18 into account.

19 Q With that backdrop, let's go through these
20 issues and give a brief explanation of what
21 they are. First is "Prepayments Included in
22 Cash Working Capital". Could you give us a one
23 or two paragraph primer on the framework
24 within which this issue is being discussed?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) Sure. And as I actually read that
2 title, it really should be about "Prepayments
3 in Rate Base". Let me explain. Prepayments
4 are, as typically in all the years I've been
5 doing this, has been included as a rate base
6 item to be as part of the revenue requirement.

7 Q Let me just interrupt you. Give us an example
8 of what "prepayments" are?

9 A (Mullen) For instance, if you pay property
10 taxes, you pay, you know, so many months ahead.
11 And, so, you've paid that on the books. And,
12 so, since it's a prepayment, that's money that
13 you've expended that goes into rate base and
14 that they have to collect it from customers
15 later.

16 Staying with the issue of property taxes,
17 we also have cash working capital as part of a
18 rate case. Cash working capital is to
19 recognize the difference in time between when
20 you pay an expense and when you receive the
21 money from customers. And in doing that, we
22 prepare a lead/lag analysis, which we did in
23 this case. And property taxes, you go through
24 all the payments and, you know, all that, and

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 you come up with a number of days.

2 Well, in reviewing Staff's testimony, they
3 said "well, if you -- the property taxes are
4 included in the calculation of cash working
5 capital, they should not also be included --
6 you shouldn't be including prepayments in rate
7 base." And, you know, as we discussed that, we
8 said "Okay, yes, there's some validity to that
9 theory." However, as we looked at it, we said
10 "Okay, if you do one or the other, do you get
11 the same result?" And the answer is "No."

12 If you took prepayments out of rate base,
13 as Staff suggested, that's about a 2. something
14 million, I don't remember the number offhand.
15 However, if you did the analysis and took out
16 the underlying expenses, the impact was, you
17 know, was roughly half of that coming out of
18 cash working capital. So, we said "Hey,
19 there's some validity to the theory. However,
20 we don't agree about the amounts." So, for
21 purposes of putting this Settlement together,
22 we made allowance for that in coming up with
23 the liquidated number, but, you know, there was
24 no agreement on the position.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 So, but we knew that issue was out there,
2 and we said "Okay, that's a fair issue. But
3 we'll make allowance for it."

4 Q The Issue Number 2, which is one that Staff has
5 agreed with, and again, we have an obligation
6 to show the Commission that this Settlement is
7 reasonable. So, just give us an explanation of
8 what Issue Number 2 is, even though it's not
9 contested.

10 A (Mullen) Issue Number 2 really deals with fuel
11 supply, for liquefied natural gas, propane, and
12 gas in storage. Now, this is a distribution
13 rate case. And you'd say "Well, those are all
14 fuel supplies. Why were they in here in the
15 first place?" And this is a historic thing,
16 where there's no other rate components where
17 the Company receives a return for having those
18 inventories on hand. So, as part of this
19 Agreement, we've said "Okay. We'll pull them
20 out of the distribution rate case and we'll
21 make provision for it in our next cost of gas
22 filing." So that way the supply-related costs
23 will end up being in the supply-related charge.

24 Q The next issue, Issue Number 3, is the "Concord

[WITNESS PANEL: Mullen|Brennan]

1 Training Center". If you could, again, outline
2 the broad parameters of the dispute over this,
3 these costs, and how they were resolved as part
4 of this Settlement.

5 A (Mullen) Well, this issue has been in play for
6 a few years now. The Training Center came on
7 line at the end of March of 2015. There's
8 been, you know, I think we have a Lease
9 Agreement between EnergyNorth and Granite State
10 Electric, that's also, you know, been in play.
11 There's been some discussion about, you know,
12 different positions about whether we should
13 have built it, how much it was supposed to
14 cost. And, you know, without getting into all
15 the details right now, what we've done as part
16 of this proceeding is, you know, we want to
17 move on. And we said, you know, we'll make
18 some allowance as part of coming up. We'll
19 take this into consideration as part of the
20 \$10.3 million. We want to move forward.

21 The Training Center provides a lot of
22 value. It provides a lot of training that was
23 not -- provides for a lot of training that was
24 not available prior, it was not done prior.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 So, as part of this, and I think, you
2 know, Mr. Brennan can speak to it himself, if
3 he wants, but, you know, his position was
4 different than the Company's at the beginning,
5 and now the OCA is up here sitting beside me
6 saying that this is a reasonable result.

7 Q Did the Company's request for recovery, the
8 amount of recovery for the Training Center
9 change from its initial filing to its rebuttal
10 filing?

11 A (Mullen) We did take into account some -- we
12 reduced the amount by about 167,000, that was a
13 result of the PUC Staff audit related to some
14 costs, because we did speed the process up at
15 one point to get the project in service. I
16 think there was also an \$8,000 bond refund.

17 And, you know, also what's taken into
18 account is that this went into service the end
19 of March of 2015. So, any depreciation expense
20 that has taken place through the end of the
21 test year also will not be recovered by the
22 Company. There's just no way to get that back.

23 Q The next issue is labeled "Depreciation and
24 Amortization". Again, can you describe

[WITNESS PANEL: Mullen|Brennan]

1 generally what the -- the broad parameters of
2 the issue, the history of that issue, and how
3 it arose in this particular docket?

4 A (Mullen) As part of a rate case filing, we're
5 required to file, as part of the 1600
6 requirements, our most recent depreciation
7 study. We filed one in this proceeding. We
8 had our expert witness, Paul Normand, prepare a
9 study. And coming out of that, he had
10 recommendations related to certain depreciation
11 lives, as well as a depreciation reserve
12 imbalance.

13 Through this agreement, we have done a few
14 things. On Attachment A, which is Bates 017,
15 we have a list of all the various FERC accounts
16 where the various plant items are, and what the
17 agreed upon service lives, net salvage values,
18 and depreciation rates are for those various
19 accounts. That listing includes accounts used
20 by both EnergyNorth and the Keene Division, and
21 I will get to that in a minute.

22 Actually, I'll get to it right now. The
23 next part of this was to align the depreciation
24 rates for EnergyNorth and the Keene Division.

[WITNESS PANEL: Mullen|Brennan]

1 They use some of the same FERC accounts, and
2 they had different lives. Predominantly, the
3 lives for the Keene Division were shorter than
4 the lives of the EnergyNorth company. So, by
5 putting these together, what we've done is
6 we've said "we're going to use just one life
7 for the same type of assets." And what that
8 does is, that ends up extending the lives of
9 some of the Keene assets and reducing the
10 revenue requirement associated with those
11 assets.

12 Part c, under number 4, is just the Keene
13 assets were subject to an agreement in their
14 last rate case, which was DG 09-038, that
15 stated that essentially those were done on an
16 individual asset basis. And all this does is
17 it puts the Keene, by saying they would be
18 under group depreciation, puts them on the same
19 basis as the rest of the EnergyNorth assets.

20 Part d is just a housekeeping matter. In
21 looking at -- in looking at some of the FERC
22 account numbers that were used or that are used
23 right now for some of the -- I think for three
24 of the EnergyNorth accounts, they're really in

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 the transmission-related numbers, rather than
2 distribution-related numbers, has no impact
3 other than they have to make an entry on the
4 books to put them into the distribution-related
5 accounts, because we don't have transmission
6 assets.

7 In terms of Part e, a depreciation reserve
8 imbalance, or the word says "variance" there,
9 as part of a depreciation study, what's looked
10 at, particularly as this is done using whole
11 life depreciation. When the study is done,
12 there's an analysis done of comparing the
13 accumulated depreciation that's on the books
14 versus what the depreciation otherwise would be
15 if you used the recommended lives and net
16 salvage values. And you can come out with a
17 surplus or a deficit. If it's a surplus, that
18 means that you've recovered too much
19 depreciation expense over the years and you
20 have to give it back to customers. And if it's
21 a deficit, you haven't recovered enough
22 depreciation expense over the years, and it
23 works the other way, you charge customers.

24 Q And is that one of the reasons you have

[WITNESS PANEL: Mullen|Brennan]

1 depreciation studies done?

2 A (Mullen) Yes.

3 Q Is to figure out whether there is a imbalance
4 and to have a basis to address it?

5 A (Mullen) There's that, and there's also to see
6 whether the existing lives and net salvage
7 values need to be adjusted based on more
8 current information.

9 Q So, in this case, what was the finding with
10 regard to the depreciation reserve balance?

11 A (Mullen) The initial finding in Mr. Normand's
12 testimony, based on his results, was
13 approximately a \$10 million depreciation
14 reserve deficit. As part of this Agreement,
15 and through also revising some of the
16 depreciation lives, we've agreed to a lower
17 depreciation reserve deficit of \$8.9 million.
18 With that, too, we have agreed to a five-year
19 amortization of that asset, and we will --
20 excuse me, of that variance, and, in the next
21 rate case, which typically Liberty companies
22 have been on a three-year cycle. So, in the
23 next rate case, we will -- we have committed to
24 do an assessment again of the status of the

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 depreciation reserve variance to determine what
2 the balance is at that point, and then
3 determine, from that point going forward, what
4 the amortization of the remainder would be.

5 Q Mr. Mullen, you said "we'd back likely in three
6 years", but there's a term later in the
7 Settlement that we won't be back any later than
8 four years.

9 A (Mullen) Correct.

10 Q Instead of a stay-out period, we actually have
11 a come-back deadline?

12 A (Mullen) Exactly.

13 Q And the amortization, that's just us recovering
14 from customers the amount we should have
15 recovered over the past bunch of years in this
16 depreciation reserve?

17 A (Mullen) Yes. And the approach we've taken is
18 to say, it's a fairly large number right now,
19 but, you know, we're not looking to recover all
20 of it by the next rate case. We're looking to,
21 you know, in this case, if you look at three
22 years versus a five-year amortization, it would
23 be roughly 60 percent of it. And then, in that
24 next proceeding, whatever is left there, there

[WITNESS PANEL: Mullen|Brennan]

1 would be another analysis done based on the
2 lives and the net salvage values to see what
3 the actual variance is. And any determination
4 from that point going forward will be
5 determined in that proceeding.

6 Q So, this Agreement is to amortize over five
7 years. We'll be back in three or four. So,
8 there will still be a significant piece of it
9 left, and we can address it at the next rate
10 case?

11 A (Mullen) Yes. But it wouldn't be so large an
12 amount that, at least theoretically, but that
13 it's unwieldy.

14 Q Mr. Normand, our consultant, recommended a
15 different period over which to recover this?

16 A (Mullen) In his initial testimony, yes, he did
17 recommend a longer period.

18 Q And what did he recommend in his initial
19 testimony?

20 A (Mullen) He recommended 12 years.

21 Q What would happen if 12 years was adopted, and
22 we were back in another rate case in three
23 years, what would have happened to that
24 \$9 million imbalance?

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) It would have gone down very
2 minimally. And depending on what else happens
3 with that study, we could be dealing with a
4 much larger -- you know, with still a very
5 large amount that, you know, we'd essentially
6 just be kicking the issue down the road.

7 Q Now, it's an obvious question, we have an
8 expert that recommended in his testimony 12
9 years, and we have a Settlement where we're
10 proposing five years. Can you explain to the
11 Commission why it should adopt the five-year
12 proposed in the Settlement, rather than the 12
13 years that was in our expert's filing?

14 A (Mullen) Yes. And in discovery, Mr. Normand
15 explained that, you know, he looked at the
16 issue on basically looking only at
17 depreciation, and not taking into consideration
18 what had happened over the prior ten years or
19 so.

20 So, this proposal takes into account the
21 entirety of all the issues that are in the
22 Settlement Agreement. And again, it's not just
23 looked at as depreciation in isolation.

24 Q And I think that covers Issue Number 4, yes?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) Yes.

2 Q The next one is labeled "iNATGAS". And again,
3 a quick refresher of what iNATGAS is and what
4 the issue was that was presented in this rate
5 case.

6 A (Mullen) INATGAS is a compressed natural gas
7 facility. We sell gas to the facility, they
8 sell compressed natural gas. That is located
9 on Broken Bridge Road, in Concord. It was the
10 subject of a -- it was a special contract that
11 was the subject of a docket in 2014. That
12 special contract was approved. And since that
13 time, there's, you know, there's been review of
14 the construction costs. And if you read
15 through the testimony, you will see a different
16 position on there between the Company and
17 particularly with Staff. And, you know,
18 recognizing this, and coming up with the
19 10.3 million revenue -- liquidated revenue
20 requirement, we've taken that into
21 consideration in terms of coming to the final
22 result.

23 Q And in simple terms, is it not a dispute
24 between recovering all of the costs that we

[WITNESS PANEL: Mullen|Brennan]

1 actually incurred to build the facility, and
2 roughly half of the costs that Staff suggests
3 we should recover based on the initial order in
4 that docket?

5 A (Mullen) I believe that's a fair summary.

6 Q And again, you said that this Settlement
7 Agreement took that issue into consideration in
8 coming up to the \$10 million agreed number?

9 A (Mullen) Yes, it did.

10 Q The next heading is "Keene Production Costs and
11 Emergency Response Costs". First, can you tell
12 us what the Keene emergency response costs are?

13 A (Mullen) Those are costs that the Company
14 incurred by paying municipalities for their
15 response related to a December 2015 incident
16 that happened at the Keene propane facility.

17 Q So, this is a proposal for how to recover those
18 costs?

19 A (Mullen) Yes. And in the Company's initial
20 filing, it had proposed including the emergency
21 response costs and the production costs, which
22 predominantly are costs that the company has
23 incurred to staff the facility 24 hours a
24 day/seven days a week. We had proposed to take

[WITNESS PANEL: Mullen|Brennan]

1 those costs and amortize them over three years
2 and include them in distribution rates.

3 What this provision in the Settlement does
4 is it removes these costs from distribution
5 rates. They will be put into the cost of gas
6 rate charged only to Keene customers over a
7 five-year period, basically it will be over
8 five winter periods.

9 Q And again, the production costs you said are
10 primarily the 24/7 costs that followed the
11 December 2015 incident?

12 A (Mullen) Yes.

13 Q The next item is the step increase. We've
14 heard Staff say that they agree to the
15 framework and they don't have a problem with
16 the \$5 million cap as explained there.

17 Could you just give us an outline of what
18 makes up the \$5 million step increase and what
19 framework you are proposing as part of the
20 Settlement?

21 A (Mullen) Well, the framework is provided on
22 Bates 018.

23 MR. SHEEHAN: If I may interject, I
24 have a slightly larger copy of Attachment B I

[WITNESS PANEL: Mullen|Brennan]

1 can spread around. And the electronic version
2 blows up well.

3 *[Atty. Sheehan distributing*
4 *documents.]*

5 MR. SHEEHAN: This isn't marked
6 separately, just for the record.

7 **BY THE WITNESS:**

8 A (Mullen) So, Bates 018 lays out the structure
9 for the costs that would be recovered as part
10 of the step adjustment. The first -- top of
11 the first type of costs are non-growth related
12 projects that the Company placed into service
13 during 2017. A list of those projects, at
14 least the budgeted amounts, are on Bates 019 of
15 the Settlement, or the second page of what
16 Mr. Sheehan just handed out. Since those are
17 budgeted amounts, we've agreed, at the end of
18 the section, to, by March 30th, to provide a
19 list of all the actual costs, and then to
20 recalculate the schedule. If the schedule
21 comes out to less than the \$5,044,835, then the
22 lower number will be used for purposes of the
23 step adjustment. And if the number was to come
24 out higher, we will be limited to the

1 5,044,835.

2 BY MR. SHEEHAN:

3 Q And the reason for the delay is simply getting
4 all the records and bills paid and accounting
5 work that needs to be done?

6 A (Mullen) Yes. Typically, our projects are held
7 open for 90 days after they're placed in
8 service, to allow for what we refer to as "late
9 charges", invoices that come in later on, and
10 to make sure that we have all the costs
11 accounted for.

12 The second component of what would be
13 included in the step adjustment is on the top
14 of Bates 008, and that relates to an accounting
15 change implemented by the Financial Accounting
16 Standards Board. That relates to pension and
17 benefits accounting. Without getting too deep
18 into the components of pension and benefits,
19 there are a lot of components, the service
20 cost, interest costs, return on the assets,
21 that, until this accounting change, we had been
22 allowed to capitalize a portion of each one of
23 those costs as part of capital projects.

24 Through this accounting change, only the

[WITNESS PANEL: Mullen|Brennan]

1 service cost component is allowed to be
2 capitalized and added to capital projects.
3 What that means is, the remainder then ends up
4 going to operating expenses. Since -- and so
5 that will end up increasing our operating
6 expenses compared to what they were
7 historically. So, this provision related to
8 the step increase allows for that and accounts
9 for that.

10 And you will see, if I can find it, on
11 Bates 018, Line 60, which if you look at what
12 Mr. Sheehan handed out, if you flip it over,
13 you will see, on Line 60, there's an amount of
14 roughly \$420,000 associated with that.

15 The third part of the costs to be
16 recovered through the step adjustment relates
17 to 2017 costs for degradation fees paid to the
18 City of Manchester and legal costs associated
19 with the lawsuit that involved the City of
20 Manchester and the City of Concord. That has
21 now been resolved. The costs incurred in 2017,
22 we've -- since they were after the test year,
23 we've agreed to include as part of the step
24 adjustment and recover them through the step

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

1 adjustment.

2 And finally, there's some carryover costs
3 that were discussed during the Company's most
4 recent Cast Iron/Bare Steel proceeding, which
5 was Docket Number DG 17-063. There's a
6 reference here to the transcript from that
7 hearing where there was discussion about those
8 costs. Basically, it's costs in excess of
9 5 percent that aren't done, because mainly
10 through paving work that's not in place by the
11 end of the CIBS year.

12 Q Mr. Mullen, those are capital costs that would
13 normally go into rates, but they're allowed to
14 go in sooner through the CIBS Program, except
15 for these carryover costs?

16 A (Mullen) Correct.

17 Q And, so, this is just picking up the ones that
18 weren't put into rates as part of the CIBS?

19 A (Mullen) That's correct.

20 CHAIRMAN HONIGBERG: Mr. Sheehan,
21 before you move on to the next item, which I
22 think you're about ready to do, at the top of
23 Bates 019, actually, 018 as well, they both say
24 "DRAFT - PRIVILEGED AND CONFIDENTIAL".

[WITNESS PANEL: Mullen|Brennan]

1 MR. SHEEHAN: I will file a letter
2 effectively removing that. That's just left
3 over from, I believe, whoever prepared this
4 report was sending it to us with that heading,
5 which just never came off.

6 CHAIRMAN HONIGBERG: Okay. Thanks.

7 BY MR. SHEEHAN:

8 Q And the last paragraph of the step section of
9 the Settlement Agreement has the numbers, the 5
10 million and change that you referenced earlier,
11 and that's a number that will go into rates as
12 part of the step, unless the actuals are lower?

13 A (Mullen) Correct.

14 Q The next section, which is headed -- titled "C.
15 Effective Date for Permanent Rates and
16 Recoupment", this is a section Staff has agreed
17 to. And again, just a paragraph on what this
18 section does.

19 A (Mullen) First, it sets the date for effective
20 rates for the permanent increase of May 1st,
21 2018. It also discusses how the recoupment
22 would work back to the date of temporary rates,
23 which was July 1st of 2017. And there's a
24 calculation on Attachment C, which is on Bates

[WITNESS PANEL: Mullen|Brennan]

1 020, that provides the difference between the
2 \$10.3 million revenue requirement per this
3 Agreement and the 6 and three-quarter million
4 dollar annual increase that was implemented on
5 a temporary basis beginning July 1 of 2017.

6 That comes to just under \$3.6 million.

7 Q And that's recovered through a line item in the
8 LDAC charge?

9 A (Mullen) That is correct.

10 Q The same, Section D, "Rate Case Expenses", has
11 been agreed to. But, again, a brief
12 description of how those were handled.

13 Let me just back up. What you've
14 described for the recoupment, that's standard
15 practice for most rate cases, is that fair?

16 A (Mullen) Standard practice to go back to the
17 date of temporary rates, yes. What we did not
18 mention there is that the agreement provides
19 for a 20-month period for the recoupment, which
20 would basically end at the end of 2019.

21 The similar period of time would be for
22 the rate case expenses, which are also
23 recovered through the LDAC. Right now, we have
24 a -- we have Attachment D that lays out what

[WITNESS PANEL: Mullen|Brennan]

1 we've incurred so far and what we estimate the
2 rate case expenses to be by the end of the
3 case. We will, of course, make the final costs
4 available for review.

5 Q Sections E and F, those are the topics to be
6 covered by Mr. Therrien and Mr. Johnson as part
7 of the decoupling issue, is that correct?

8 A (Mullen) Yes. Decoupling and rate design, yes.

9 MR. SHEEHAN: And for the
10 Commission's benefit, the parties have agreed
11 to sort of carve that piece out and presenting
12 the Settlement through those two gentlemen.

13 BY MR. SHEEHAN:

14 Q Page 12, Section G, "Keene Consolidation". Mr.
15 Mullen, could you, again, frame the issue.
16 What is the issue that we call "Keene
17 consolidation", and how have the OCA and the
18 Company propose to resolve it in this
19 Agreement?

20 A (Mullen) Simply put, the "Keene consolidation"
21 means that effective May 1, 2018, Keene
22 customers will pay the same distribution rates
23 as all other EnergyNorth customers. Right now,
24 there's quite a disparity in the rates between

[WITNESS PANEL: Mullen|Brennan]

1 the two utilities. And as part of this, the
2 Keene customers will see a decrease in their
3 distribution rates, as compared to what they're
4 currently paying. This will also -- by doing
5 so, this will help economically out in that
6 area of the territory and would help us to try
7 to expand out there.

8 Q And what was the primary or overriding concern
9 or objection from Staff with the Keene
10 consolidation?

11 A (Mullen) It was primarily the fact that the
12 Keene Division has not been earning money, and
13 that was a situation that existed before we
14 acquired the utility at the beginning of 2015.

15 Through this case, we have done a few
16 things to --

17 Q Let me just stop you there. To state the
18 obvious, so, if it's not earning enough money,
19 in effect, the other EnergyNorth customers are
20 picking up the slack?

21 A (Mullen) If you put them -- if you consolidate
22 them in, yes, all else being equal.

23 Q And, so, was Keene consolidation a topic of
24 conversation during the acquisition docket,

1 when EnergyNorth bought Keene?

2 A (Mullen) Yes. As part of DG 14-155, it was.
3 And there was mention in the Settlement
4 Agreement in that proceeding that, you know, a
5 consolidation, you know, could be forthcoming
6 at some point in the future.

7 Q And can you explain, does the rest of the terms
8 of the Settlement Agreement address how the
9 Company, with the OCA's support, will try to
10 ameliorate that, in effect, cross-subsidy that
11 now exists?

12 A (Mullen) Well, and some of those things have
13 already been discussed. Some are through the
14 lengthening of lives of depreciable assets for
15 Keene, which reduced the revenue requirement
16 associated with the Keene Division. By taking
17 the production costs and emergency response
18 costs out of the calculation of distribution
19 rates and putting those into the Keene cost of
20 gas, that also offsets some of that.

21 Further, in Section G, we've provided
22 that, consistent with our tariff, that we won't
23 commence any construction of any phase out
24 there until we have a -- we have a positive

[WITNESS PANEL: Mullen|Brennan]

1 value of a 10-year DCF analysis. Again, that's
2 consistent with wording in our tariff.

3 Also, going forward, as I mentioned, you
4 know, we want to see about expanding out in the
5 Keene Division. So, on Bates 012, there's a
6 discussion of a \$200,000 addition to basically
7 distribution margin. What that means is, at
8 the time of the next rate case, we will look at
9 the additional margin being received from
10 customers out in the Keene area. And if it's
11 less than \$200,000, we will make an adjustment
12 in that case for the difference for any
13 shortfall of that. The \$200,000 is based on
14 the first three phases of construction that we
15 plan out in that area, and customers that are
16 likely to sign up. So that will be -- that
17 will be another way to offset any deficit
18 related to the Keene Division.

19 Q So, the paragraph on the bottom of Page 12 into
20 13 is, in essence, a promise by the Company to
21 grow Keene in a way that will increase its
22 revenues and lessen the amount of subsidy?

23 A (Mullen) Yes.

24 Q And if we don't reach that \$200,000 goal, the

[WITNESS PANEL: Mullen|Brennan]

1 shareholders will bear that difference?

2 A (Mullen) That's correct.

3 Q And that goal, obviously, is, over the course
4 of our development in Keene, is to make Keene a
5 profitable center for the Company?

6 A (Mullen) Yes. Related to that, we are in the
7 process of converting at least a part of the
8 system to compressed natural gas. So, this
9 Settlement includes a provision, but that is
10 currently still subject to basically sign-off
11 by the Commission Safety Division. So, this
12 provision has a -- is conditioned upon
13 receiving that authorization no later than
14 May 1st of 2018. Because, otherwise, then all
15 the timetables get put off by the time you get
16 to the next rate case.

17 Q And the "sign-off" you're referring to, that's
18 arising from the Commission's order from last
19 October, I believe, in 17-068?

20 A (Mullen) That's correct.

21 Q And what's your understanding of the status of
22 that sign-off?

23 A (Mullen) As far as I'm aware, all requested
24 information has been provided, and we are

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 awaiting further notification from the Safety
2 Division.

3 Q And what's your understanding of the physical
4 status of the temporary facility in Keene?

5 A (Mullen) My understanding, based on briefings
6 that I've had, is that it's ready to go.

7 Q Literally ready to go?

8 A (Mullen) Yes.

9 Q There are a couple of other items at the end of
10 that section on the top of Page 13 regarding
11 Keene. And what are those?

12 A (Mullen) The first is that, beginning May 1st,
13 the Keene customers will be subject to the
14 LDAC, which they currently are not. That
15 recovers costs of energy efficiency programs,
16 environmental cleanups. The recoupment and
17 rate case expenses would also be -- is part of
18 that.

19 Q So, that's part of making them the same as
20 other EnergyNorth customers?

21 A (Mullen) Correct.

22 Q And the last section there?

23 A (Mullen) The last section is that, since Keene
24 will have a different source of supply, it will

[WITNESS PANEL: Mullen|Brennan]

1 continue to have a separate cost of gas charge.
2 And what's listed in that short paragraph are
3 the various types of costs that will be
4 included in that cost of gas charge. So,
5 therefore, any supply that's related
6 specifically to Keene customers will be paid
7 for only by Keene customers.

8 Q And the details of that would presumably be
9 worked out, if this is approved, through the
10 cost of gas hearings pertaining to Keene?

11 A (Mullen) That's correct.

12 Q The next section is labeled "H. Impact of Tax
13 Reform". And again, the background of the
14 issue and what the Settlement proposes.

15 A (Mullen) In December of 2017, there was tax
16 reform that was passed by the U.S. Congress and
17 signed into law. That provided for some
18 significant reductions to, among other things,
19 corporate tax rates. It also had a provision
20 that utilities would no longer be able to use
21 bonus depreciation. So, there were a few
22 things that happened there.

23 And related to that, as the Commission is
24 aware, it opened a proceeding, Docket IR

[WITNESS PANEL: Mullen|Brennan]

1 18-001. And it requested -- it actually
2 directed the utilities to file information by
3 April 1st of this year, along with a plan as to
4 how to return money to customers or otherwise
5 provide the benefit of the tax -- of the tax
6 reform to customers.

7 As part of this case, now, we -- that
8 order also said that, for any company that had
9 a rate case currently ongoing, to see if it was
10 possible to work something into the proceeding,
11 given the current schedule of the proceeding.
12 So, although we were under no obligation to do
13 anything in this proceeding as part of that tax
14 reform, we figured it would be beneficial to
15 provide to customers, as soon as we could, and
16 at the same time as these other rate changes, a
17 reduction to the annual revenue requirement
18 associated with the change in taxes.

19 So, what we've done, it was calculated on
20 Attachment E, which is on Page Bates 023, we've
21 calculated an amount that is just under
22 \$2.4 million. And that's an annual amount. So
23 that would be an annual reduction to customer
24 rates effective May 1.

[WITNESS PANEL: Mullen|Brennan]

1 If we had not included this provision in
2 the Settlement, we would have filed in
3 compliance with 18-001, by April 1st, which, if
4 I recall the order, we had to essentially do
5 some calculations, put items into a deferral
6 account, and then later determine how that was
7 going to be dealt with. And we figured it was
8 better and quicker to get the benefit to
9 customers through this rate case proceeding.
10 So, we have included the amount here.

11 The \$2.4 million is really comprised of
12 two different things. One is, since the tax
13 rates have changed, that changes the amount of
14 the gross-up that would have to be applied to a
15 revenue increase. That's roughly, if you look
16 at Bates 023, that's where you see a line that
17 says "Difference in gross-up", that's roughly
18 \$1.7 million.

19 Also, we had to determine the excess
20 deferred income taxes. That involved a review
21 of all of our deferred tax assets and deferred
22 tax liabilities on the books, which were all
23 done based on the prior tax rates, which, for
24 the Company, the Federal Tax Rate was

[WITNESS PANEL: Mullen|Brennan]

1 34 percent. Now, at the 21 percent, we had to
2 revalue all of those deferred tax assets and
3 deferred tax liabilities. And the next result
4 of that is, well, a little over \$27 million of
5 excess deferred taxes. So, that remains as a
6 reduction to rate base. But, in accordance
7 with the tax law, they would be returned to
8 customers over the average remaining life of
9 the underlying assets, which, for EnergyNorth,
10 were 39.05 years. So, that's an additional
11 \$700,000 on an annual basis, which brings you
12 to roughly the \$2.4 million.

13 Q This basic approach that is contained in the
14 Settlement Agreement, is it modeled or similar
15 to the approach taken by others?

16 A (Mullen) It's similar to other things that I
17 have seen, including looking back the last time
18 such a change happened, which was back in 1986.

19 Q And anything more current?

20 A (Mullen) Yes. I'm familiar with a filing that
21 Northern Utilities made in Maine. And, you
22 know, I've also had discussions with other
23 parts of the Company.

24 Q And at the highest level, in effect, this

[WITNESS PANEL: Mullen|Brennan]

1 \$2.4 million reduction would lower the
2 \$10.3 million requested increase to roughly 8?

3 A (Mullen) On a net basis, yes.

4 Q So, the net impact is the 8, rather than the
5 10.3, is one way of looking at it?

6 A (Mullen) Yes. If you look just at those two
7 numbers, yes.

8 Q Section K, "Residential Low Income Assistance
9 Program". Again, what was the issue, and the
10 resolution is obvious, the recommendation to
11 open a separate proceeding?

12 A (Mullen) This was an issue that arose in
13 Staff's testimony, about really taking a fresh
14 look at the programs and how the discounts are
15 applied on a total bill basis, and the various
16 components that the discount applies to.

17 However, given the impacts to other rate
18 components, and the concern that, you know,
19 potentially this wasn't really, at least in the
20 Company's perspective, this wasn't something
21 that was particularly noticed at the beginning
22 of the proceeding, we've agreed to that it's
23 better to take a look at this in a generic
24 proceeding, that would also include Northern

[WITNESS PANEL: Mullen|Brennan]

1 Utilities, and, you know, come to at least the
2 same result in both cases. By looking at it in
3 two separate rate cases, we have the potential
4 for coming out with just different results.

5 Q And the last, Section L, "Next Distribution
6 Rate Case". This is requiring the Company to
7 come back no later than the test year of 2020,
8 correct?

9 A (Mullen) Correct.

10 Q And the reason for a so-called "come-back",
11 rather than a stay-out, is what?

12 A (Mullen) Well, and that ties into the
13 decoupling provision, where you come back --
14 you don't wait too long before you come back in
15 and you reset the revenue.

16 You'll hear more about that whatever day
17 that is now.

18 MR. SHEEHAN: Thank you. Those are
19 all the questions I have. Mr. Kreis may have
20 some follow-up or questions for Mr. Brennan.

21 CHAIRMAN HONIGBERG: All right.
22 We're going to take a break before Mr. Kreis
23 and Mr. Brennan start. We'll take ten minutes.

24 *(Recess taken at 11:21 a.m.)*

[WITNESS PANEL: Mullen|Brennan]

1 *and the hearing resumed at*
2 *11:36 a.m.)*

3 CHAIRMAN HONIGBERG: Mr. Kreis.

4 MR. KREIS: Thank you, Mr. Chairman.

5 Just a few questions for Mr. Brennan to round
6 out what we heard from Mr. Mullen, and
7 hopefully we'll move these witnesses into their
8 cross-examination phase rather quickly.

9 BY MR. KREIS:

10 Q Mr. Brennan, in your prefiled testimony that we
11 talked about earlier, Exhibit 16, you
12 recommended a revenue increase for the Company
13 of I believe around \$9.2 million, correct?

14 A (Brennan) That's correct.

15 Q And that compares to the Company's original
16 request of 14.5 million and the Staff's
17 proposal of 4 million, yes?

18 A (Brennan) Yes.

19 Q Could you just very briefly, as sort of
20 elevator speech, I guess, summarize what led
21 you to trim the Company's initial proposed
22 revenue increase down to 9.2 million?

23 A (Brennan) Yes. My revenue requirement
24 recommendation of 9.2 million, if you reference

[WITNESS PANEL: Mullen|Brennan]

1 the testimony as shown on Table 1, at Bates
2 227, on Line 4, and this revenue requirement
3 recommendation was based on three OCA
4 recommendations. The first one was excluding
5 Keene's revenue requirement for ratemaking
6 purposes, due to a lack of business planning
7 and DCF analysis that was available at the time
8 of the testimony being written. This is
9 summarized on Page -- the revenue requirement
10 impact is summarized on Table 3, which is at
11 Bates 239, in Column 2, showing a Keene revenue
12 requirement of about \$880,000 being backed out
13 of OCA's recommended revenue requirement. And
14 I'll note that the OCA does not oppose
15 consolidation in principle.

16 The second recommendation that led to the
17 9.2 million was a disallowance of the Concord
18 Training Center, due to a lack of planning and
19 analysis at the time that the decision was
20 made. And this -- the effect of this is
21 summarized on Table 2, at Bates 238, in
22 Column 2, summarizing a roughly \$800,000
23 Training Center revenue requirement, which was
24 taken out of the OCA's revenue requirement

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 recommendation.

2 And finally, the OCA recommended a
3 weighted average cost of capital, after tax, of
4 6.413 percent. That is summarized on Table 10,
5 at Bates 245. And the impact of the change in
6 the cost of capital is shown on Table 2, Bates
7 238, in Column 4, Line 4, of \$3.8 million.

8 And a combination of those three
9 recommendations led to the \$9.2 million revenue
10 requirement recommendation.

11 Q And just for the record, the OCA's analysis of
12 the weighted average cost of capital and the
13 appropriate return on equity was originally
14 contained in Dr. Chattopadhyay's testimony, and
15 that has been marked for identification as
16 "Exhibit 15", correct?

17 A (Brennan) Yes. That is correct.

18 Q Mr. Brennan, did you consider any other issues,
19 apart from the ones you just identified, as you
20 analyzed the Company's initial filing?

21 A (Brennan) Yes. I looked at the overall revenue
22 requirement, including a review of the
23 Company's testimony, a review of their revenue
24 requirement schedules, and their updated

[WITNESS PANEL: Mullen|Brennan]

1 schedules and calculations, and the Company's
2 responses in discovery and technical session.

3 I knew Staff would be providing a
4 comprehensive revenue requirement analysis.
5 And therefore, I focused my testimony on those
6 particular issues of importance to the OCA.

7 Q The Settlement Agreement that the OCA has
8 signed with the Company settles on a revenue
9 deficiency of 10.3 million, which is somewhat
10 more than the recommendation in your prefiled
11 testimony. Why, in your opinion, does a
12 revenue deficiency of 10.3 million lead to just
13 and reasonable rates?

14 A (Brennan) The Settlement Agreement is a
15 compromising resolution of numerous issues and
16 concerns, not only raised by the OCA, but also
17 by Staff. But, importantly, the Settlement
18 Agreement includes full decoupling, which is a
19 major policy goal for the OCA. Which
20 essentially will remove the throughput
21 incentive for the utility to sell more natural
22 gas, and free the utility to pursue business
23 strategies and energy efficiency, customer
24 engagement in other areas, hopefully, more

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 effectively.

2 And the decoupling is also able to
3 facilitate better rate designs advocated by the
4 OCA for residential ratepayers, including lower
5 fixed customer charges that our panel of
6 experts will be discussing under rate design,
7 and also the elimination of declining block
8 rate designs that are also seen in the
9 Settlement Agreement that the OCA strongly
10 agrees with.

11 I also mentioned that the Settlement
12 Agreement results in significant reductions in
13 the R-3 and R-2 rates, as compared to the
14 Company's original filing.

15 So, while the OCA shares the concerns of
16 Staff, we've considered those concerns in this
17 Settlement Agreement in the \$10.3 million
18 revenue requirement. But, along with the
19 benefits of decoupling, rate design, and rates
20 based on those factors, we feel that the
21 \$10.3 million is just and reasonable.

22 Q Do you agree with the way that the Settlement
23 Agreement deals with the step increase?

24 A (Brennan) Yes. We agree with the cap for

[WITNESS PANEL: Mullen|Brennan]

1 \$5 million, the mechanism that Mr. Mullen laid
2 out. And we recognize that it's included in
3 rates.

4 Q And you mentioned earlier that you don't have
5 any objection and the OCA doesn't have any
6 objection to consolidating the rates for Keene
7 customers with those of the other customers.
8 Do you agree with the way that the Settlement
9 Agreement handles the issue of consolidated
10 Keene with the rest of the Company?

11 A (Brennan) Yes, I do. Our main concern that
12 lead to our original recommendation to exclude
13 Keene's revenue requirement was the absence of
14 seeing a plan, cash flow analysis, showing
15 where the Company was going to go forward, its
16 revenues and cash flows. And that has been
17 addressed in Settlement, it's been outlined by
18 Mr. Mullen prior to me.

19 So, we agree with consolidating rates to
20 bring operational efficiencies, accounting
21 efficiencies, and the things you normally would
22 expect to see following an acquisition. So,
23 it's a positive move.

24 Q And do you agree that the decision to defer any

[WITNESS PANEL: Mullen|Brennan]

1 examination of potential changes to the low
2 income program offered by Liberty Utilities to
3 its gas customers to a generic docket is an
4 appropriate way of addressing that issue here?

5 A (Brennan) Yes, I agree with that, as Mr. Mullen
6 said, to also include Northern Utilities. And
7 in addition to that, other intervenors, who did
8 not participate in this docket, that would want
9 to participate in discussions on the Low Income
10 Assistance Program. So, I agree with moving it
11 into a separate proceeding.

12 Q Mr. Mullen, you heard -- or, excuse me,
13 Mr. Brennan, you heard Mr. Mullen testify a
14 little earlier that, if you took the weighted
15 average cost of capital in the Settlement
16 Agreement and applied it to your original
17 recommendation with respect to the revenue
18 requirement, we would actually get to a revenue
19 requirement that is actually larger than the
20 one contained in the Settlement Agreement. You
21 heard him testify to that, correct?

22 A (Brennan) Yes. That is correct. And I agree
23 with that. As you go back and reference Table
24 2, Column 5, where it has the \$9.2 million

[WITNESS PANEL: Mullen|Brennan]

1 revenue requirement with the adjustment that
2 Mr. Mullen was discussing, from changing from a
3 8.4 ROE to a 9.4 ROE, would approximately lead
4 to that \$11.2 million revenue requirement.

5 Q So, would it be fair to say that that isn't
6 necessarily the way we got to the settlement
7 numbers that we agreed to?

8 A (Brennan) That is correct. That is just
9 addressing the statement that Mr. Mullen made.

10 Q But would you also agree with me that the point
11 Mr. Mullen made is, I guess you could say, a
12 reasonable sanity check with respect to the
13 overall terms of the Settlement Agreement?

14 Not to put words in your mouth, of
15 course.

16 A (Brennan) I'm sorry. I would agree.

17 Q Okay. And overall, are you satisfied that the
18 terms of the Settlement Agreement would result
19 in just and reasonable rates and an appropriate
20 resolution of all the issues raised by both the
21 OCA and the Staff, in response to the Company's
22 request for a rate increase?

23 A (Brennan) Yes. In totality, taking into
24 consideration a liquidated revenue requirement

[WITNESS PANEL: Mullen|Brennan]

1 figure, the inclusion of decoupling and rate
2 designs, the OCA's position is that the
3 Settlement is just and reasonable.

4 MR. KREIS: Mr. Chairman, those are
5 all the questions I have. So, I believe these
6 witnesses are ready for cross-examination.

7 CHAIRMAN HONIGBERG: Mr. Dexter.

8 MR. DEXTER: Thank you. So, I have a
9 series of questions I'd like to ask on the
10 basis of the Settlement today. And as we
11 discussed earlier, we have a lot of questions
12 we'd like to ask on underlying parts of the
13 case that were addressed today in the
14 Settlement, but there are other witnesses that
15 will be providing more detail on that.

16 So, for this panel, I would just like
17 to ask some limited cross-examination on what
18 we heard today, basically.

19 **CROSS-EXAMINATION**

20 BY MR. DEXTER:

21 Q So, I'd like to start with Mr. Mullen. Mr.
22 Mullen, at the outset, you began by giving some
23 information about where the Company started, in
24 terms of a revenue deficiency, and how that

[WITNESS PANEL: Mullen|Brennan]

1 number was revised, and how that compared to
2 the Settlement and how that compared to Staff's
3 recommendation. Do you recall that?

4 A (Mullen) I do.

5 Q And I'd just like to ask you a few questions
6 about that, to try to make sure we're on an
7 apples-to-apples comparison.

8 Could you tell me again in total what the
9 Company's position on a revenue deficiency was
10 the last time they calculated that for the
11 record, which I believe was in your rebuttal
12 testimony?

13 A (Mullen) It was approximately \$14.5 million for
14 a permanent increase.

15 Q And in that 14.5 million, that reflects a
16 consolidation of the Keene Division, would you
17 agree?

18 A (Mullen) Yes.

19 Q Now, is there a revenue deficiency from Keene
20 that's built into that number that's going to
21 be spread across the entire customer base after
22 consolidation?

23 A (Mullen) There's a number in that 14.5.
24 However, that number, per the Settlement

[WITNESS PANEL: Mullen|Brennan]

1 Agreement, is now different.

2 Q Right. No, I was asking about your rebuttal
3 testimony. I'm just asking you to break down
4 that 14.5 million into a revenue deficiency for
5 EnergyNorth and a revenue deficiency for Keene.

6 A (Mullen) Let me address the rebuttal testimony
7 of Mr. Simek and Mr. Dane, which was premarked
8 as "Exhibit 23". If you look at Bates 026 of
9 Exhibit 23, in the column that says "Total", on
10 Line 13, the revenue deficiency is
11 "14,544,943". That included an amount for
12 Keene of "\$883,697", in the prior column.

13 Q So, what would the remaining amount be for
14 EnergyNorth?

15 A (Mullen) As shown in the "EnergyNorth" column,
16 on Line 13, the amount would be "13,661,246".

17 Q Okay. Now, you had mentioned that, if Staff's
18 position taken in its testimony back in
19 November were updated for the settled upon
20 weighted average cost of capital, that Staff's
21 revenue deficiency would be 5.7 million. Do
22 you recall that?

23 A (Mullen) Yes. Rough justice.

24 Q And is it correct that that would be a number

[WITNESS PANEL: Mullen|Brennan]

1 just for EnergyNorth, as you understand Staff's
2 testimony?

3 A (Mullen) Yes. Because Staff did not include
4 Keene in its recommendation.

5 Q Okay. So, if one were to compare the two
6 positions, would it be correct to compare the
7 5.7 million for Staff's testimony to the
8 13.7 million contained in the Company's
9 rebuttal testimony, just looking at the
10 EnergyNorth piece?

11 A (Mullen) That's fair.

12 Q Okay. Thanks. So, in your summary, you talked
13 about the liquidated revenue requirement
14 containing an amount for -- reflecting the
15 issues related to the Concord Training Center.
16 And my question to you is, if the Settlement is
17 approved, what, from a bookkeeping and
18 accounting standpoint, would happen to the
19 Training Center on EnergyNorth's books?

20 A (Mullen) The Training Center would remain on
21 EnergyNorth's books, and as provided in the
22 Settlement Agreement, the Lease Agreement with
23 Granite State Electric would remain in place.

24 Q So, would there be any exclusions from plant on

[WITNESS PANEL: Mullen|Brennan]

1 the Company's books related to this Settlement?

2 A (Mullen) No. There would not be any specific
3 exclusions from plant. However, in coming up
4 with the amount of revenue that would be
5 recovered through the rates coming out of this
6 proceeding, there is an implicit reduction,
7 because we took the issues related to the
8 Training Center into account.

9 Q Right. Right. And going forward then, in the
10 next rate case three or four years down the
11 road, is it correct that the full amount of the
12 Training Center, as it was booked, would be
13 proposed in rate base, barring any other
14 unusual circumstances?

15 A (Mullen) Given, you know, the normal
16 depreciation and all of that. However, to the
17 extent that there was an allowance in this
18 Agreement, that is an annual number. So, if
19 you look at, you know, if you look at getting
20 to the \$10.3 million, and anything that we've
21 made provisions for is an annual reduction to
22 what otherwise would have been recovered
23 related to the Training Center.

24 Q Right. So, on the rate base side of the

[WITNESS PANEL: Mullen|Brennan]

1 equation, if I understand what you're saying,
2 barring some unusual circumstances, in a future
3 rate case, the Training Center would appear at
4 its full net book value in rate base. Is that
5 correct?

6 A (Mullen) It would.

7 Q Okay. And the revenue side of the future
8 revenue requirement cost of service
9 calculations, the revenues would be decreased
10 somewhat because of the allowance that's built
11 into the 10.3 million allowed in the
12 Settlement. Is that fair?

13 A (Mullen) That's fair.

14 Q Okay. Would the net result of that be then,
15 when you propose a revenue deficiency three or
16 four years back -- out, that you will recoup
17 some of that write-off in your next revenue
18 deficiency?

19 A (Mullen) I don't think we're going to recoup
20 anything, because anything that happens between
21 now and then is gone, and it's not going to
22 be -- by the same token, the Training Center
23 will also be depreciating. So, there's not
24 going to be any recoupment of anything. This

[WITNESS PANEL: Mullen|Brennan]

1 is a -- this is a settlement that allows us to
2 go forward. It allows the Training Center to
3 remain in place and provide the value that we
4 believe it has.

5 Q But you would agree, though, in your revenue
6 deficiency calculations three or four years
7 out, that your test year revenues will be
8 reduced because of this, because of the
9 Settlement, wouldn't you?

10 A (Mullen) They're reduced by everything that is
11 in the Settlement. But we still believe that
12 that provides us with a just and reasonable
13 result, and that provides us with sufficient
14 revenues to go forward. So, if we thought we
15 were going to be coming out of this with a
16 shortage, we probably wouldn't have entered
17 into the Settlement Agreement.

18 Q Okay. Similarly, with respect to the iNATGAS,
19 will the result of the Settlement be any
20 reduction in the plant values of the iNATGAS
21 facility, of the facility you built in
22 connection with the iNATGAS contract, is that
23 going to be reduced on the books at all?

24 A (Mullen) I'll shorten it to say I have the same

1 answers as I did for the Training Center.

2 Q Okay. Similarly, concerning bookkeeping, as a
3 result of this Settlement, I'd like to ask you
4 what the books will show for the amortization
5 of the depreciation reserve imbalance?

6 A (Mullen) It will show exactly what's laid out
7 on Bates 006, Item 4.e. So, each year we will
8 have an annual amortization of \$1.78 million
9 that will show up on the Company's books as an
10 addition to expense.

11 Q And that's reflecting what?

12 A (Mullen) That's reflecting recovery of the
13 deficit that currently exists on the Company's
14 books because of things being under
15 depreciated.

16 Q Okay. And that's, again, calculated on a
17 5-year amortization, if I recall, is that
18 right?

19 A (Mullen) Yes.

20 Q Okay. And I'd like to ask about, unless I
21 missed it, I think counsel was very careful and
22 went through every paragraph of the Settlement,
23 with the exception of bill impacts, which are
24 listed on -- which are mentioned on Page 13,

[WITNESS PANEL: Mullen|Brennan]

1 and then there's some schedules.

2 Could you provide a summary of the bill
3 impacts of the Settlement?

4 A (Mullen) Well, sure. And I believe Mr. Sheehan
5 may have skipped over this section because of
6 the rate design changes and the tie with that
7 that will be covered by our expert witness
8 panel. But I can certainly get into that a
9 little bit.

10 As you said, on Bates 013, Section I, it
11 mentions "Bill Impacts". Refers to Attachment
12 F, which gives me another opportunity for a
13 housekeeping matter. Through a drafting issue,
14 when you turn to -- beginning on Bates 024,
15 they all say "Attachment Rates-8" for the
16 sixteen pages of that. They all say
17 "Attachment Rates-8". They should say
18 "Attachment F". That was just another drafting
19 glitch.

20 But, if you turn to Bates 025, I'll give
21 you an overview of what the impact of this
22 would be to a residential heating customer on
23 an annual basis. If you look in Bates 025, in
24 the "Total" column on the far right, you will

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 see that this is for a customer using an
2 average of 760 therms on an annual basis. And
3 if you go down to the bottom of the schedule,
4 where it starts on Line 134, it says
5 "Difference", you will see a difference in the
6 total bill amount as compared to temporary
7 rates of "\$52.89" on an annual basis, or
8 "4.62 percent". On Line 138, there is an
9 increase -- there is an indication there
10 related to depreciation rates, which says "Base
11 Rate". That is an annual increase of "\$39.14",
12 or "6.77 percent" on distribution rates. And
13 for the cost of gas and LDAC, the only change
14 is to the LDAC, and that's "\$13.76", or
15 "2.43 percent".

16 That's just a summary for that rate class.
17 As I say, you know, we'll have a panel that's
18 going through rate design, because there's been
19 some other issues with rate design that kind of
20 play into how some of these numbers come about.

21 Q Fair enough. I just would ask if you could
22 complete the analysis then and indicate, as you
23 did for the residential heating class, could
24 you do the same analysis for the residential

[WITNESS PANEL: Mullen|Brennan]

1 heating classes in the Keene Division?

2 A (Mullen) If you turn to Bates 035, at the top,
3 on the very far left, the second line down says
4 "Keene Residential to EnergyNorth Residential
5 (R-3)". Again, going to the same lines at the
6 bottom, on Line 853, the total bill difference
7 is a decrease of "\$162.91", or just under
8 12 percent. The distribution rates, referred
9 to as "base rates", is "\$215.95", as a
10 decrease, or just under 31 percent. And where
11 they start paying the LDAC, where they did not
12 prior pay the LDAC, that would be an increase
13 of "\$53.04", or "7.87 percent".

14 Q Okay. And if I have further questions on the
15 bill impacts, I should direct those to the
16 panel on decoupling and rate design, is that --

17 A (Mullen) Sure.

18 Q Okay. I had one point I forgot to make when I
19 was making the comparison between the Company's
20 EnergyNorth revenue deficiency of 13.7 million
21 and the Staff's revenue deficiency of
22 5.7 million. And what I wanted to ask you
23 about was the impact of shifting the fuel
24 inventories from base rates to the cost of gas.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 Is it correct that that impact is not reflected
2 in the Company's figure of \$13.7 million? In
3 other words, that those numbers were still base
4 rate items when the Company put that
5 \$13.7 million figure together?

6 A (Mullen) Subject to check, I believe that that
7 was an adjustment we made as part of the
8 rebuttal testimony. I'd have to -- I'd have to
9 check. I'd have to confirm with Mr. Simek and
10 Mr. Dane. You know, if not, then I have the
11 opportunity to stand corrected. But I'm
12 just -- I don't recall at the moment.

13 Q Do you recall the revenue requirement impact of
14 that issue, roughly speaking?

15 A (Mullen) I think it was roughly \$300,000.

16 Q That's Staff's recollection as well. Okay.

17 MR. DEXTER: Well, that's all the
18 questions I had on the Settlement. I have a
19 lot of questions today -- well, I have some
20 questions today related to the issue of the
21 Training Center as it was proposed. So, I
22 could move into those now, if that's
23 appropriate?

24 CHAIRMAN HONIGBERG: Sure.

1 BY MR. DEXTER:

2 Q So, concerning the issue of the Concord
3 Training Center, Mr. Mullen, you expressed some
4 frustration I think in your rebuttal testimony
5 about the number of dockets that this Center
6 has been reviewed at. Could you tell me which
7 was the first docket that the Company proposed
8 to put the cost of the plant in rate base?

9 A (Mullen) It was originally in the Company's
10 prior distribution rate proceeding, which was
11 Docket DG 14-180. It was originally proposed
12 as an item to be recovered through a step
13 adjustment.

14 Q Okay. And do you recall what the -- what the
15 amount was projected for in that step
16 adjustment?

17 A (Mullen) I believe it was roughly
18 \$1.45 million --

19 Q Okay.

20 A (Mullen) -- of capital.

21 Q And how was that case resolved? Was it through
22 litigation or a settlement?

23 A (Mullen) It was a settlement.

24 Q And did the settlement adjustment [agreement?]

[WITNESS PANEL: Mullen|Brennan]

1 include a step adjustment?

2 A (Mullen) It did not.

3 Q Did not. So, how is it that it came to be
4 proposed in this case?

5 A (Mullen) It's an asset on our books.

6 Q Okay. Can you state for the record what the --
7 when the -- I'm sorry, let me rephrase that.
8 When was the Training Center closed to plant?
9 When was it put on the books? Moved from
10 construction work in progress to plant in
11 service?

12 A (Mullen) I know it was placed in service at the
13 end of March of 2015.

14 Q And at that time, what was the -- so, at that
15 point, it would be a gross plant value. What
16 was the gross plant value of the plant at that
17 time?

18 A (Mullen) It was approximately \$3.8 million.

19 Q So, in going through some questions, I want to
20 refer to some documents that were -- that were
21 attached to Mr. Iqbal's testimony. Do you have
22 his prefiled testimony? Do you have that in
23 front of you?

24 A (Mullen) I have it here.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 Q So, I'd like to explore for a few minutes the
2 original decision that the Company made to go
3 forward with the Training Center, go through
4 some of the cost changes, and then go through
5 some of the analyses that were done associated
6 with the Training Center.

7 And I would like to direct your attention
8 to Mr. Iqbal's testimony at Bates 048. It's a
9 four-page document entitled "Business Case".

10 A (Mullen) I'm there.

11 Q And could you state for the record what the
12 projected cost of the Training Center was in
13 this Business Case?

14 A (Mullen) If you turn to -- the number shows in
15 two places. It shows on Bates 050, in the
16 upper right-hand corner. And it also shows on
17 Bates 051, about halfway down the page, on the
18 left-hand side. And it was \$1,028,000.

19 Q And what was the purpose of this Business Case?
20 Could you describe what the Business Case is,
21 in terms of Liberty's procedures?

22 A (Mullen) This is -- the business case is used
23 to summarize a proposed capital project, and
24 the various details associated with it and what

[WITNESS PANEL: Mullen|Brennan]

1 it's expected to cost.

2 Q And who does the Business Case go to?

3 A (Mullen) It's goes to a number of people, and
4 depending on the amount and depending on what
5 the topic is.

6 Q Okay. Well, how about this Business Case? Who
7 was this Business Case intended to go to?

8 A (Mullen) If you look at the -- if you look at
9 Bates 051, you'll see that there is a spot on
10 the bottom there where there's some people who
11 are listed. And, you know, whether or not when
12 this was prepared if you get down to the
13 CFO/CEO level, I think a lot of it depends on
14 what the impact -- what the dollar amount of
15 the original capital is. And I don't recall,
16 back in the beginning of 2014, as I wasn't at
17 the Company at the time, how many people had to
18 sign off on the document on a capital structure
19 of just over a million dollars.

20 Q Okay. Well, I see a name on Bates 051 that
21 says "President-LU East Richard Leeher". Was he
22 basically the president of Liberty New
23 Hampshire operations at the time?

24 A (Mullen) Yes, he was.

[WITNESS PANEL: Mullen|Brennan]

1 Q And, so, does this indicate that the idea was
2 that this decision would go right to the
3 president?

4 A (Mullen) That's how it appears, yes.

5 Q And that's the idea. And when you say there's
6 a sliding scale, I would imagine the higher the
7 dollar amount, the higher a level within the
8 Company it requires approval of, is that
9 basically how it works?

10 A (Mullen) Yes.

11 Q Okay.

12 A (Mullen) I have not prepared a business case
13 myself, because I don't get involved with
14 proposing capital projects.

15 Q Nor have I. So, if we could look at Bates 049
16 for a moment, which is Page 2 of the Business
17 Case, there's two paragraphs that I'd like to
18 focus in on for a minute. And one is the one
19 that's entitled "Financial Assessment". And
20 it's just one sentence. So, could you read
21 that into the record please, what the financial
22 assessment in this Business Case showed?

23 A (Mullen) The sentence says: "Simple ROI for
24 the project has payback in less than three

1 years."

2 Q And in plain English, how would you -- what
3 does that mean?

4 A (Mullen) That means, in three years you recover
5 the cost.

6 Q And you recover the costs, if you look at the
7 paragraph above that, on the basis of savings,
8 is that true?

9 A (Mullen) Where are you referring to?

10 Q Well, let me pull that question back. So, how
11 does the Company plan to recover these costs in
12 three years? What was going to provide the
13 three-year payback?

14 A (Mullen) I believe that's if you -- then that's
15 assessing what was being spent versus what was
16 proposed for the costs.

17 Q Okay. And if you look at the paragraph before
18 "Financial Assessment", entitled
19 "Alternatives/Options", again, it's just one
20 sentence. Could you read that into the record
21 please.

22 A (Mullen) It's actually two sentences.

23 Q If you could read them both.

24 A (Mullen) "Training can be provided at National

[WITNESS PANEL: Mullen|Brennan]

1 Grid's Training Facility in Millbury, Mass.

2 The estimated cost for having an outside agency
3 provide training is \$400,000 per year."

4 Q Okay. And we understand that you've testified
5 at length that this is was -- this is an old
6 document and that option is no longer
7 available, but I'll just -- we'll leave that at
8 that.

9 Is the three-year payback that's listed
10 under "Financial Assessment" simply this
11 elimination of this \$400,000, as compared to
12 the \$1.028 million as the cost of the facility?
13 Is that where the three years comes from?

14 A (Mullen) That's what it appears to be. But, as
15 I did not prepare the document, I cannot tell
16 you for sure.

17 Q Okay. All right. So, I want to look a little
18 bit further into this three-year payback.
19 There's been a lot of discovery on this
20 document -- on this project in a lot of
21 different cases, as you've said. So, in order
22 to assist in this analysis, I'd like to turn to
23 Mr. Iqbal's testimony at Page 56, Bates 056.
24 It's actually an attachment.

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) I'm there.

2 Q And I know your name is not prepared as the
3 respondent, but you're familiar with this
4 document, are you not?

5 A (Mullen) I am.

6 Q And essentially, this question asked if Liberty
7 performed a cost/benefit analysis associated
8 with the Training Center, is that true?

9 A (Mullen) Yes.

10 Q And the answer was "Yes", that you did, and the
11 first paragraph talks about the cost/benefit
12 analysis that you performed. Is that correct?

13 A (Mullen) That was performed, not by me.

14 Q It was performed, yes, by Liberty. By "you", I
15 meant "Liberty"?

16 A (Mullen) Yes.

17 Q Yes. Okay. And again, we see a figure of
18 costs for training performed down in Millbury,
19 Massachusetts, through National Grid, of
20 \$375,000, which is close to the \$400,000 we
21 were talking about from the Business Case. Is
22 that -- would you agree with that?

23 A (Mullen) I agree those numbers are close.

24 Q Okay. And if we were to look for the detail of

[WITNESS PANEL: Mullen|Brennan]

1 the \$375,000 of the costs associated with
2 training down in Massachusetts at the Grid
3 facility, if we wanted to look at the detail, I
4 believe it's laid out in Mr. Iqbal's testimony
5 at Bates 058. Would you agree?

6 A (Mullen) There's an attachment there, and the
7 number comes to just under 375,000. So, yes, I
8 would agree.

9 Q Okay.

10 CHAIRMAN HONIGBERG: Mr. Dexter,
11 before you continue. You characterize the
12 document, Bates 058, as being part of
13 Mr. Iqbal's testimony, which it clearly is.
14 But it looks like it's an attachment to the
15 data response, that it was -- this is a Liberty
16 document?

17 MR. DEXTER: That's correct.

18 CHAIRMAN HONIGBERG: Okay.

19 MR. DEXTER: That's correct. That's
20 exactly right. It was an attachment to the
21 data request that we were just looking at.

22 CHAIRMAN HONIGBERG: Okay. Thank
23 you.

24 BY MR. DEXTER:

[WITNESS PANEL: Mullen|Brennan]

1 Q So, it appears to me from this document, at
2 Mr. Iqbal's attachment, Bates 058, that the
3 378 -- 374, \$375,000 is a summation of the last
4 two columns on the right-hand side of the
5 spreadsheet, one titled "Incurred Overtime
6 Travel Costs", and another entitled "Incurred
7 National Grid Instructor Costs". Would you
8 agree that that's how this spreadsheet works?

9 A (Mullen) Yes.

10 Q Okay. And, so, turning to the first column,
11 would you agree that of the 375 roughly
12 thousand dollars that was spent, 156 of it
13 related to incurred overtime travel costs?

14 A (Mullen) Where are you seeing that number?

15 Q I'm adding up 63,000, in the upper box, there's
16 no lines on this schedule, but if you go to the
17 second to the last column called "Incurred
18 Overtime Travel", and you look at the annual
19 subtotal figure, most of the way down in the
20 first box, I see a figure of "63,000". Do you
21 see that?

22 A (Mullen) I do.

23 Q And that's for the gas operation. The first
24 box deals with the gas operation. Would you

1 agree?

2 A (Mullen) Yes.

3 Q And the second box deals with the electric
4 operation, and that corresponding number is
5 90 -- roughly 95,000. Do you see that?

6 A (Mullen) I do.

7 Q Okay. So, if I add those together, I get
8 \$157,000. Would you agree?

9 A (Mullen) Roughly, yes.

10 Q Roughly, okay. So, could you tell us what's
11 meant by "Incurred Overtime Travel Costs" and
12 why that might be included in this schedule as
13 a training cost?

14 A (Mullen) I didn't prepare this particular
15 schedule, but let me take a look here.

16 (Short pause.)

17 **CONTINUED BY THE WITNESS:**

18 A (Mullen) I'd have to check the calculations.
19 I'm not sure offhand.

20 BY MR. DEXTER:

21 Q Okay. But would you agree that it was intended
22 to represent the amount of money that was
23 expended by the Company in overtime by sending
24 their employees down to train in Massachusetts?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) I would agree that's what's indicated
2 by the column heading.

3 Q Okay. And then moving to the next column, the
4 next column is entitled "Incurred National Grid
5 Instructor Costs". And if I were to do the
6 same mathematical calculation of adding up how
7 much of the \$375,000 was related to instructor
8 costs, I get a figure of 218,000, roughly. Do
9 you see that?

10 And again, it would be adding up those two
11 subtotals in the various boxes, one for gas and
12 one for electric.

13 A (Mullen) If you're looking at the gas number of
14 "115.2" (115,200) and the electric number of
15 "101,520", that gets to me to about a little
16 over 116,000 -- 216,000, excuse me.

17 Q Right. Yes. Okay. All right. So, that's
18 over half the savings are related to
19 eliminating National Grid instructor costs,
20 would you agree?

21 A (Mullen) I believe it's roughly half the
22 numbers shown on this schedule.

23 Q Right. And could you explain -- could you
24 explain how moving the operations in-house to a

[WITNESS PANEL: Mullen|Brennan]

1 training center would eliminate instructor
2 costs?

3 A (Mullen) This schedule was basically showing
4 what had been incurred for costs. I don't know
5 how -- I mean, as you know, we have our own
6 instructors. So, I'm not, you know, I'm not
7 sure what you're trying to get to here.

8 Q Okay. So, I think -- I think you said
9 something that's important, you said you have
10 your own instructors. So, let's fast-forward
11 now to 2018, where the facility is up and
12 running. Could you explain in detail what
13 instructor costs you incur now?

14 A (Mullen) We have a gas technical trainer and we
15 have an electrical technical trainer. They
16 have payroll costs, payroll benefits.

17 Q And there's a schedule in the case here that
18 details the various employees and their
19 payroll, as part of the payroll adjustment.
20 I'm not going to take the time to get to that
21 schedule, but they would be included in there.
22 In other words, these are -- these are costs
23 that the Company incurs that are included in
24 their cost of service today. Would you agree

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 with that?

2 A (Mullen) Yes.

3 Q And do you have a rough idea of what that would
4 be? Would it be 100,000? 200,000? 300,000?

5 I don't want to reveal any confidences, but
6 just a ballpark figure?

7 A (Mullen) Off the top of my head, no. But it's
8 basically the cost of two employees and
9 benefits.

10 Q Okay. All right. We'll leave it at that. So,
11 that was the initial Business Case, as I
12 understand it. Would you agree that this was
13 the initial Business Case filed in this,
14 related to this project?

15 A (Mullen) When you say "this", you're saying the
16 Business Case that begins on Bates 048 of
17 Mr. Iqbal's testimony?

18 Q Yes. That's right. The one we were talking
19 about earlier. You would agree that was the
20 initial one, right?

21 A (Mullen) Yes.

22 Q And there was a revised Business Case filed
23 shortly thereafter, if I remember correctly.
24 Do you recall that?

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) Yes. And I'm looking at it, beginning
2 on Bates 052.

3 Q That's why I couldn't find it. It came
4 earlier.

5 A (Mullen) No. I believe it's after.

6 Q Okay. So, on Bates 052, this was a revised
7 Business Case. And what's the date on this
8 one?

9 A (Mullen) Looking on Bates 052, it has a date of
10 "May 1st, 2014".

11 Q And what's the revised cost figure on this
12 revised Business Case?

13 A (Mullen) The revised number is "1,053,100".

14 Q So, I would characterize that as a fairly
15 insignificant change from the original Business
16 Case. Would you agree?

17 A (Mullen) I would agree, it's \$25,000.

18 Q Okay. And again, turning to Page 4 of this
19 Business Case, which is Bates 055 in the
20 document we're looking at, this indicates some
21 positions that would review this Business Case.
22 I guess what I'm asking is, would this have
23 gone through the same review process that we
24 established earlier for the first Business

1 Case?

2 A (Mullen) This would have gone through the
3 review process that was set up in the Company's
4 policies and procedures at the time.

5 Q At the time, right.

6 A (Mullen) Yes.

7 Q Okay. And if I were to look at Page 2 of this
8 Business Case, which is Bates 053 in the
9 document we've been looking at, would you agree
10 that, under "Financial Assessment", it says
11 there was none done?

12 A (Mullen) That's what it says.

13 Q Okay. So, are you aware of any financial
14 assessment that might have been done at this
15 time that's not specified here or would you
16 read this just to say there was no additional
17 assessment done?

18 A (Mullen) Well, what got added to this was the
19 \$25,000, which -- for future years. So, I
20 think that was just an addition to the
21 estimate.

22 Q Okay. So, are you aware of any other financial
23 assessments that were done of this Training
24 Center beyond the one that we just went through

[WITNESS PANEL: Mullen|Brennan]

1 in the initial Business Case?

2 A (Mullen) When you say "financial assessment",
3 you have to be more specific. I mean, there
4 were costs that were incurred over time. There
5 were change orders that were done. There was a
6 contract that was done with the contractor that
7 involved a financial assessment, involved
8 sign-offs.

9 So, when you say "financial assessment",
10 you have to be more specific.

11 Q Okay. Well, I guess I was referring to what
12 was included in the first document where there
13 was a reference that there would be a
14 three-year payback. Was there anything -- was
15 that ever updated? Was there an assessment
16 like that done? Was an update of that
17 assessment ever done?

18 A (Mullen) I don't recall seeing an update of
19 that statement.

20 Q Okay. Now, moving forward into the document,
21 Mr. Iqbal's testimony, I'd like you to turn to
22 Bates 062 for a moment. And this is a data
23 request that was asked in this -- in this case
24 concerning efficiency gains that were

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

1 referenced in a prior case related to the
2 Training Center. Do you have that document in
3 front of you?

4 A (Mullen) I do.

5 Q And is it correct to say that the response
6 talks about some various efficiencies that
7 result from having -- the Company having its
8 own center, versus outsourcing or doing
9 something else with training, but that those
10 weren't quantified? Is that essentially what
11 this says?

12 A (Mullen) If I could take a few minutes to read
13 it?

14 Q Sure. Absolutely.

15 *(Short pause.)*

16 **BY THE WITNESS:**

17 A (Mullen) Okay. I've read it.

18 BY MR. DEXTER:

19 Q Okay. So, would you agree, especially towards
20 the last, I guess it's a one-page document, the
21 last paragraph talks about "efficiency gains",
22 but said they would be "too complex to
23 analyze". Is that essentially what that says?

24 A (Mullen) I believe it also says that there's a

[WITNESS PANEL: Mullen|Brennan]

1 lot of variables. So, you'd have to make a lot
2 of assumptions. But the main point was that,
3 rather than having multiple people being
4 trained at multiple locations and doing
5 something on the job, one person here, two
6 people there, versus having a bunch of people
7 in a centralized location receiving training at
8 the same time, I think it's pretty clear that
9 there's efficiency gains there.

10 Q Right. But I agree, that's exactly what this
11 says. And I guess I just want to -- I want to
12 verify for the fact that there was no attempt
13 to quantify those efficiencies. Is that what
14 this -- was that what this response says?

15 A (Mullen) For the reasons stated in that
16 response, yes.

17 Q Okay. And the reason being that it was too
18 complex?

19 A (Mullen) The reason being that there were a lot
20 of variables and a lot of assumptions. The
21 word "complex" is used there, too. We could
22 spend forever, you know, if any analysis had
23 been done there, arguing about the assumptions
24 in the calculations.

[WITNESS PANEL: Mullen|Brennan]

1 But the overall point was that, if you
2 look at training of a number of people at the
3 same time in a controlled environment, versus
4 having onesies/twosies done, based on variable
5 conditions and with different supervisors, I
6 think that it's clear that there was -- there's
7 certainly some efficiencies there.

8 Q Okay. And again, I'm just trying to explore
9 the initial analysis that was done with the
10 three-year payback. And I'm just trying to
11 update that for whatever information is
12 available.

13 But I do want to go back in time a little
14 bit to the original, to the original Business
15 Case. Not to talk about the savings that we
16 just talked about, but I want to talk about the
17 cost that was built in to the estimate of
18 1,028,000 that was presented to senior
19 management for their review.

20 And in order to do that, we need to -- I
21 think it would be helpful to turn to Mr.
22 Frink's testimony. And there's an attachment
23 there that I'd like to direct you to. In
24 particular, I'd like to go to Bates 093 in Mr.

1 Frink's testimony.

2 A (Mullen) Are you sure it's "093"?

3 Q Bates 093, in Mr. Frink's testimony. It's part
4 of the Liberty Consulting report that was
5 attached as "Attachment 8" to Mr. Frink's
6 testimony.

7 A (Mullen) I think I pulled it out of here at one
8 point. Bear with me. I think I've got it in a
9 folder. (*Short pause.*) I'm there.

10 Q Okay. So, would you agree that the chart --
11 again, just for background, could you -- I
12 probably could do this when Mr. Frink takes the
13 stand, but, just generally speaking, could you
14 describe what Attachment 8 is to Mr. Frink's
15 testimony?

16 A (Mullen) Attachment 8 is a follow-up report
17 done by the Liberty Consulting Group, has a
18 date of November 1st, 2017.

19 Q And you were part of -- you were aware of
20 Liberty Consulting's review in this case of the
21 Training Center as a specific project, were you
22 not?

23 A (Mullen) Yes. I was the primary contact person
24 with Liberty Consulting.

[WITNESS PANEL: Mullen|Brennan]

1 Q Right. That's the word I was looking for,
2 because I know that was in a data request. So,
3 you were their primary contact. So, Liberty
4 Consulting, in this chart on Page 93, with
5 information that Liberty utilities provided,
6 broke down the 1,028,000 that was -- that was
7 in the original Business Case. And that's
8 presented in this table on Page 93, would you
9 agree?

10 A (Mullen) Yes. And those numbers match what's
11 on Bates 051 of Mr. Iqbal's testimony.

12 Q I could have saved myself a step there. I
13 didn't realize they were broken out in detail
14 in the Business Case. So, that makes things
15 easier.

16 So, right above the table in Liberty's --
17 Liberty Consulting's report, it indicates that
18 this estimate of 1,028,000 excluded site work.
19 Do you see that? It's in the paragraph right
20 above the chart.

21 A (Mullen) Yes. I see that on Bates 093.

22 Q Could you explain what "site work" would be in
23 this instance?

24 A (Mullen) "Site work" I understand to include

[WITNESS PANEL: Mullen|Brennan]

1 things like excavation and surveying and
2 related work.

3 Q You know why that would have been excluded from
4 this initial estimate?

5 A (Mullen) I didn't prepare it. So, I can't
6 answer that.

7 Q Okay. Can you think of any reason why it
8 might -- why it would be appropriate to exclude
9 site work from an initial estimate?

10 A (Mullen) I'd be speculating.

11 Q Okay. Similarly, above that table, there's a
12 sentence that says that this estimate was done
13 without the benefit of pricing from a
14 contractor. Do you see where it says that?

15 A (Mullen) I'm trying to find those exact words.

16 MR. DEXTER: Well, while you're doing
17 that, I'm going to hand out an exhibit. This
18 is a data response that I think you prepared,
19 although there isn't a name on it. And this
20 may be more familiar, this may be a format that
21 you're more familiar with.

22 This is a response, it's entitled
23 "PB-12". But I'll hand it out first and then
24 I'll describe it.

[WITNESS PANEL: Mullen|Brennan]

1 *[Atty. Dexter distributing*
2 *documents.]*

3 MR. DEXTER: Mr. Chairman, can we go
4 off the record for a moment and discuss exhibit
5 numbers?

6 CHAIRMAN HONIGBERG: Sure.

7 *[Brief off-the-record discussion*
8 *ensued.]*

9 CHAIRMAN HONIGBERG: The document Mr.
10 Dexter is handing out I understand does not yet
11 have an exhibit number. The parties are going
12 to figure out what number it should be, based
13 on their -- the very useful preplanning that
14 they did, and they'll figure that out over
15 lunch.

16 BY MR. DEXTER:

17 Q So, Mr. Mullen, is it correct that you prepared
18 this response?

19 A (Mullen) It's correct that I was involved in
20 the preparation of it. I don't recall whether
21 I was the sole preparer of it. I did provide
22 it to Liberty Consulting.

23 Q Okay. Fair enough. And the "PB" on top stands
24 for "Planning and Budgeting", is that correct?

[WITNESS PANEL: Mullen|Brennan]

1 A (Mullen) It does. Liberty's involvement --
2 Liberty Consulting's involvement involved
3 reviewing planning and budgeting, as well as
4 customer service.

5 Q Right. Right. And isn't it correct that Staff
6 answered -- asked a series of information
7 requests in a more traditional format, and
8 that, in order to expedite matters, we allowed
9 the Company to sort of renumber and regroup
10 their answers to make the process more
11 efficient? Is that a fair assessment of what
12 happened?

13 A (Mullen) Yes.

14 Q And, so, that's why this doesn't have a "Staff
15 1-1" or a "1-2" on it?

16 A (Mullen) This was more of an informal process.
17 The responses were provided directly to Liberty
18 Consulting.

19 Q Right. Right. With the understanding that
20 they would be appropriate for inclusion in the
21 record, if necessary, I believe?

22 A (Mullen) Yes.

23 Q Okay. So, would you agree that this response
24 indicates that the original estimate of

[WITNESS PANEL: Mullen|Brennan]

1 1,028,000 did not include site work and was
2 done without the benefit of pricing from a
3 contractor?

4 A (Mullen) That's what the response says, yes.

5 Q Okay. And would you agree that in the table in
6 Bates 093 of Mr. Frink's testimony, that the
7 external contract costs were \$439,000 out of
8 the 1,028,000?

9 A (Mullen) That's the total that's there, yes.

10 Q And that's over 40 percent of the projected
11 project costs?

12 A (Mullen) Yes.

13 Q Okay. Do you know what would have been
14 involved in getting a bid from a contractor
15 prior to preparing this Business Case, rather
16 than after preparing the Business Case as was
17 done? You know -- can you describe what might
18 have had to have taken place in order for that
19 to happen?

20 A (Mullen) Well, I assume that an RFP would have
21 been issued. You know, you have to really
22 scope it out and see. I think what you see for
23 the Business Case was an initial estimate by
24 Company personnel, again, without the benefit

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 of a contractor. That's why the number is low.

2 Q Okay. And when a contractor was brought in,
3 that number of 1,028,000 increased
4 substantially, did it not?

5 A (Mullen) Yes. I think, if you look at what,
6 you know, is identified here as "PB-12", the
7 last sentence of that response talks about the
8 amount of the contract that was executed with
9 North Branch Construction, which was a little
10 over \$2 million.

11 Q Right. Thank you. And that would equate to
12 the 439,000 that was included in the original
13 estimate, correct?

14 A (Mullen) Well, it doesn't equate.

15 Q Not numberswise, but it's a substitute for that
16 number in the original table. Would you agree?

17 A (Mullen) I would assume that's the case, yes.

18 Q Okay.

19 A (Mullen) As I didn't put the numbers together
20 in the original table, I can't tell you exactly
21 what was expected in there.

22 Q And the next page in Mr. Frink's attachment, it
23 would be Bates 094, lists in detail the items
24 that were included in this North Branch

[WITNESS PANEL: Mullen|Brennan]

1 Construction contract of \$2 million. Would you
2 agree? 2,042,000?

3 A (Mullen) Yes.

4 Q Okay. And if we look about five lines down, we
5 see, in fact, that site work is now included in
6 this estimate, and it comes in at \$328,000,
7 would you agree?

8 A (Mullen) I agree that's the line in that table,
9 yes.

10 Q Okay. And would you also agree that this North
11 Branch contract includes masonry at 145,000?

12 A (Mullen) "145,313", yes.

13 Q And steel at 113,000?

14 A (Mullen) And 500, yes.

15 Q And further down, I'm just trying to highlight,
16 I won't read the whole chart here, but about
17 three-quarters of the way down it says there's
18 \$260,000 for mechanical costs, would you agree?

19 A (Mullen) Yes.

20 Q And \$116,000 of electrical costs?

21 A (Mullen) Yes.

22 Q Okay. And, so, all of these costs that
23 weren't -- I'll withdraw that. The chart sort
24 of speaks for itself.

{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}

[WITNESS PANEL: Mullen|Brennan]

1 And even with this increase in contractor
2 costs, we still haven't reached the 3.8 million
3 that you indicated was the final cost number
4 for the facility, is that correct?

5 A (Mullen) That's correct.

6 Q So, there were further cost increases and
7 further additional costs that occurred to get
8 us from that point forward to the current cost
9 of 3.8 million, would you agree?

10 A (Mullen) Yes.

11 Q Okay. And I want to try to go through some of
12 those in detail, if I could. And I believe
13 they're detailed on Page 95 of the Liberty
14 Consulting report -- I'm sorry, Bates 095 in
15 the Frink testimony. But it's one page forward
16 in the Liberty report from the big chart we
17 were just looking at that totaled 2.4 [2.04?]
18 million. Do you see that?

19 A (Mullen) Excuse me. Point me to where you are
20 again.

21 Q Well, let me start again. So, I'm on Bates
22 095 --

23 A (Mullen) Okay.

24 Q -- of Mr. Frink's testimony. And in the middle

[WITNESS PANEL: Mullen|Brennan]

1 of the page, there are five or six or seven
2 different items that resulted in additional
3 costs on top of the 2.04 million, to get us to
4 the final costs. Would you agree?

5 A (Mullen) There are other costs listed here.
6 I'm not sure how the addition all works. I'm
7 just looking at a whole bunch of numbers right
8 now.

9 Q Okay. Well, I guess the report will speak for
10 itself. I want to go back to this page again,
11 and I want to look at the chart at the bottom
12 of the page. And in bold print it says "Not
13 Included in Original Estimate". Do you see
14 that?

15 A (Mullen) I do.

16 Q And again, some of the big figures on there
17 include architectural fees, 153,000, do you see
18 that?

19 A (Mullen) I do.

20 Q And civil engineering fees, \$102,000?

21 A (Mullen) Yes.

22 Q Security costs, \$58,000?

23 A (Mullen) Yes.

24 Q And so on and so forth, for a total of 406 --

[WITNESS PANEL: Mullen|Brennan]

1 407,000. And just below that, there are two
2 more large figures that also weren't included
3 in the original estimate. One of them is
4 called "Burdens". Can you explain what
5 "burdens" are?

6 A (Mullen) Overheads.

7 Q Overheads. Now, overheads, are they added to
8 virtually all projects, plant projects that the
9 Company engages in?

10 A (Mullen) Yes.

11 Q Okay. And how do they run? Are they -- how
12 are they calculated? On the basis of payroll,
13 or just generally speaking?

14 A (Mullen) There's a number of different things
15 that go into overhead costs. Some are payroll,
16 some are insurance. There's a number of
17 different factors that go in.

18 Q Okay. But do you know how they're calculated?
19 Are they -- is it done on a formula basis or do
20 they get allocated to projects on -- are they
21 actual numbers, project by project, or is it
22 more of an allocation?

23 A (Mullen) It's an allocation based on the
24 projects that are open at the time.

[WITNESS PANEL: Mullen|Brennan]

1 Q And is it based on company payroll or is it
2 based on the amount of a project? How do the
3 burdens get allocated?

4 A (Mullen) My understanding is the burdens get
5 allocated based on the activity for the open
6 projects in a particular month.

7 Q Okay. So, the next line, under "Additional
8 items that weren't included in the Original
9 Estimate", includes "RH White Construction
10 Contractor". Can you tell us what that was
11 for?

12 A (Mullen) Not off the top of my head. I mean,
13 R.H. White does a lot of work involving piping
14 for us, they do road work. And, so, without
15 looking at invoices, I couldn't tell you
16 offhand what that was.

17 Q Okay. But you would agree that it's different
18 from North Branch contractor? It's a different
19 contractor than North Branch?

20 A (Mullen) Yes.

21 Q Okay. And turning to Page 96, I just want to
22 finish up with a few things on this chart, and
23 then maybe it will be an appropriate time to
24 stop. Would you agree that, based on this

[WITNESS PANEL: Mullen|Brennan]

1 chart, the original estimate of 1,028,000 did
2 not include Company labor of \$47,000?

3 A (Mullen) That's what this -- now, you have to
4 keep in mind, the words in this chart are the
5 words of Liberty Consulting. When something
6 says "Not included in original estimate",
7 that's, again, Liberty Consulting's view of
8 things. But there's a line item of 47,000 for
9 "Company labor". I don't know if that's
10 incremental above what was included in the
11 original estimate.

12 I'm not sure exactly, just looking at the
13 number here, what exactly that's supposed to
14 represent.

15 Q Sure. Fair enough. So, let's go back to
16 Page 93, which is the Company's breakdown of
17 the original estimate, 1,028,000. And there's
18 six or seven detailed items there. Would any
19 of those include internal labor?

20 A (Mullen) Well, there's a line that says
21 "Internal Costs".

22 Q So that might be labor is what you're saying?

23 A (Mullen) It could be.

24 Q Okay. How about "Soft Costs"? What would that

1 be?

2 A (Mullen) Off the top of my head, I don't know
3 if that was supposed to represent overheads.
4 Again, I didn't put those numbers together.

5 Q Okay. Would you agree that AFUDC was not
6 included in the original estimate?

7 A (Mullen) I don't see it specifically identified
8 as a line item here.

9 Q And you do see it included on the chart that
10 Liberty Consulting put together as an item that
11 wasn't included?

12 A (Mullen) Yes. Now, what you have to keep in
13 mind, too, when we were talking about the items
14 specifically included in the contract and other
15 items that we're talking about, that contract
16 also included a specific list of items that
17 were not covered by the contract, but expected.

18 If you read through my rebuttal testimony,
19 one of the concerns I had with the way Liberty
20 Consulting wrote this up is they did not make
21 note of the fact that certain costs were
22 specifically excluded from the North Branch
23 Construction contract. So, that's something
24 you need to keep in mind when you're going

[WITNESS PANEL: Mullen|Brennan]

1 through in terms of what's included or what's
2 not included, is that things were identified,
3 but they weren't particularly part of the North
4 Branch contract.

5 Q So, the North Branch contract, as I understand
6 it, is the \$2 million on 094, Bates 094?

7 A (Mullen) That's the original amount that was
8 subject to change orders, which all got
9 reviewed by the PUC Audit Staff.

10 Q Right. So, you're saying, if I understand what
11 you're saying, is at the time the North Branch
12 contract was signed, all parties understood
13 that there were some costs that weren't going
14 to be included in that 2 million?

15 A (Mullen) Yes.

16 Q Okay. All right.

17 CHAIRMAN HONIGBERG: Mr. Dexter,
18 would this be a good time to break?

19 MR. DEXTER: Can I ask one last
20 question?

21 CHAIRMAN HONIGBERG: Sure.

22 BY MR. DEXTER:

23 Q "GZA Environmental", on Bates 096, do you know
24 what that is? And if so, could you tell us

[WITNESS PANEL: Mullen|Brennan]

1 what it is?

2 A (Mullen) They do a lot of environmental work.
3 And I believe that they were involved in
4 certain aspects of the project. Right off the
5 top of my head, I couldn't tell you exactly
6 what.

7 MR. DEXTER: Okay. All right. This
8 would be an appropriate time to break, Mr.
9 Chairman.

10 CHAIRMAN HONIGBERG: All right.
11 We're going to take our lunch break. And we'll
12 be back probably at two o'clock.

13 *(Whereupon the **Morning Session***
14 ***of Day 1** of the hearing was*
15 *recessed at 12:48 p.m., and the*
16 *hearing resumes under separate*
17 *cover in a transcript noted as*
18 ***"Day 1 Afternoon Session ONLY".)***

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{DG 17-048}[Day 1/Morning Session ONLY]{03-06-18}