

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

March 14, 2018 - 10:09 a.m.  
Concord, New Hampshire

DAY 2  
Morning Session ONLY

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

Sandy Deno, Clerk

**APPEARANCES:** Reptg. Liberty Utilities (EnergyNorth  
Natural Gas) Corp. d/b/a Liberty  
Utilities:  
Michael J. Sheehan, Esq.

**Reptg. Residential Ratepayers:**  
Brian D. Buckley, Esq.  
Pradip Chattopadhyay, Asst. Cons. Adv.  
Office of Consumer Advocate

**Reptg. PUC Staff:**  
Paul B. Dexter, Esq.  
Alexander F. Speidel, Esq.  
Stephen Frink, Dir./Gas & Water Div.  
Jayson Laflamme, Gas & Water Division  
Al-Azad Iqbal, Gas & Water Division

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

**CERTIFIED  
ORIGINAL TRANSCRIPT**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

I N D E X

PAGE NO.

**WITNESS PANEL:            DAVID B. SIMEK**  
**DANIEL S. DANE**

Direct examination by Mr. Sheehan            6, 12  
Cross-examination by Mr. Dexter            9, 13  
Interrogatories by Cmsr. Bailey            55  
Interrogatories by Cmsr. Giaimo            64  
Interrogatories by Chairman Honigberg            67  
Redirect examination by Mr. Sheehan            67

\*           \*           \*

**WITNESS PANEL:            WILLIAM J. CLARK**  
**(resumed)                    STEPHEN R. HALL**

Cross-examination resumed by Mr. Dexter            72

**E X H I B I T S**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

| <b>EXHIBIT NO.</b> | <b>D E S C R I P T I O N</b>  | <b>PAGE NO.</b>  |
|--------------------|---|------------------|
| 40                 | Liberty Utilities' response to Request No. Staff 8-17   | <i>premarked</i> |
| 41                 | Liberty Utilities' response to Request No. Staff Tech 3-13  | <i>premarked</i> |
| 42                 | Liberty Utilities' Response to Request No. Staff 8-23   | 45               |
| 43                 | Document titled "DG 17-048 Planning and Budgeting CNG Facility PB-5: Staff Questions 6-33, Staff 6-35 through Staff 6-39" | 73               |
| 44                 | Testimony of William J. Clark from Docket DG 14-091 dated April 4, 2014<br><i>[REDACTED - for public use]</i>             | 75               |
| 45                 | Prefiled Testimony of Stephen R. Hall from Docket DG 14-091 dated April 4, 2014   | 75               |

**P R O C E E D I N G**

1  
2 CHAIRMAN HONIGBERG: All right. We  
3 are here to resume the hearing in DG 17-048. I  
4 see witnesses are prepositioned.

5 Is there anything we need to do  
6 before we start hearing from them?

7 Mr. Sheehan.

8 MR. SHEEHAN: One preliminary matter.  
9 I circulated a informal draft exhibit list last  
10 week. Jody from the Staff had some corrections  
11 to that. Namely, I didn't mark out -- divide  
12 out the confidential and redacted versions.  
13 So, what Jody did to fix it was to make each of  
14 those a "23A" and "23B", where I had marked a  
15 single document "23". So, if there's a  
16 reference to that, I have a draft I could  
17 circulate to follow along.

18 Other than that, as per Mr. Dexter's  
19 letter about a schedule, we're going to start  
20 with these two witnesses, having interrupted  
21 Mr. Hall and Clark, and we'll get back to them  
22 when these two gentlemen are finished.

23 CHAIRMAN HONIGBERG: Mr. Dexter.

24 MR. DEXTER: Yes. I'd like to just

1 add to the discussion of the exhibit list.  
2 We're going to start today, I have a few  
3 exhibits to hand out today, maybe ten or  
4 eleven. And by agreement with all the parties  
5 and the Clerk, we're going to start with  
6 Exhibit 40. The list may indicate that we  
7 should start with 39, but we've got some  
8 confusion somewhere in between Exhibits Number  
9 1 and 39. So, to be safe, we didn't want to --  
10 we're going to start with 40 today. And if it  
11 turns out there is no Exhibit 39, we'll just  
12 indicate that at the next hearing.

13 CHAIRMAN HONIGBERG: Okay. I guess  
14 to Mr. Dexter, on the exhibit list, Mr. Frink's  
15 testimony, would that be part of 22 or is it  
16 something else?

17 MR. DEXTER: One of the mystery items  
18 is that it appears that we forgot to mark the  
19 full testimony of Mr. Frink. I'm not sure --

20 CHAIRMAN HONIGBERG: I'm sure that's  
21 not important, but --

22 MR. DEXTER: I'm not sure that's the  
23 only problem. What I intended to do was, when  
24 we put Mr. Frink on next week, was to put his

[WITNESS PANEL: Simek|Dane]

1 testimony in then. The only thing that got  
2 marked was Attachment 8.

3 CHAIRMAN HONIGBERG: Okay. That, as  
4 you say, that's one of the mysteries.

5 All right. Anything else?

6 MR. DEXTER: And apologies for the  
7 mysteries.

8 CHAIRMAN HONIGBERG: All right. If  
9 that's the worst thing that happens, we're  
10 doing great.

11 Anything else we need to do?

12 *[No verbal response.]*

13 CHAIRMAN HONIGBERG: Mr. Patnaude,  
14 would you swear the witnesses in please.

15 (Whereupon **David B. Simek** and  
16 **Daniel S. Dane** were duly sworn  
17 by the Court Reporter.)

18 CHAIRMAN HONIGBERG: Mr. Sheehan.

19 MR. SHEEHAN: Thank you.

20 **DAVID B. SIMEK, SWORN**

21 **DANIEL S. DANE, SWORN**

22 **DIRECT EXAMINATION**

23 BY MR. SHEEHAN:

24 Q I'll start with you, Mr. Simek. Your name and

[WITNESS PANEL: Simek|Dane]

1 position with the Company please.

2 A (Simek) David B. Simek. And I am Manager of  
3 Rates and Regulatory Affairs.

4 Q And did you file testimony in this matter?

5 A (Simek) I did, jointly with Mr. Dane.

6 Q And your testimony was initial testimony in  
7 support of the revenue requirement, and then  
8 rebuttal testimony, is that correct?

9 A (Simek) Yes.

10 Q I have your initial testimony marked as  
11 "Exhibit 7", along with Mr. Dane, and your  
12 rebuttal testimony marked as "Exhibits 23A and  
13 23B, "A" being redacted and "B" being  
14 confidential. Are those the sets of testimony  
15 that you filed?

16 A (Simek) Yes.

17 Q Do you have any changes to that testimony?

18 A (Simek) I do not.

19 Q And do you today adopt that testimony, those  
20 exhibits, as your sworn testimony?

21 A (Simek) I do.

22 Q Mr. Dane, the same series of questions for you.  
23 Your name and your employer please.

24 A (Dane) My name is Daniel S. Dane. I'm a Vice

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 President with Concentric Energy Advisors.

2 Q And you were hired by the Company to provide  
3 assistance in this matter, is that correct?

4 A (Dane) Yes. That's correct.

5 Q And in a sentence or two, what was the  
6 assignment for you to -- how you were to help  
7 the Company in this matter?

8 A (Dane) My assignment was to work with Mr. Simek  
9 to develop the revenue requirement and to write  
10 testimony in support of that analysis.

11 Q And the testimony that you assisted with was  
12 what I just described as the initial testimony  
13 of -- I'm sorry, the exhibit of your initial  
14 testimony, Mr. Simek, was number "3", not  
15 number "7". Number 7 is your testimony with  
16 Mr. Therrien. So, it's 3 that is your  
17 testimony with Mr. Dane. But, otherwise,  
18 that's the same.

19 Mr. Dane, your testimony was with Mr.  
20 Simek initially, and then you also were with  
21 his testimony in the rebuttal matter, is that  
22 correct?

23 A (Dane) Yes. That's correct.

24 Q And I can -- as I said before, that it's marked



[WITNESS PANEL: Simek|Dane]

1 as "Exhibits 3" and "23A" and "23B". Do you  
2 have any changes to that testimony?

3 A (Dane) No, I don't.

4 Q And do you adopt that testimony today as your  
5 sworn testimony?

6 A (Dane) I do.

7 MR. SHEEHAN: Thank you, sir. I have  
8 no further questions.

9 CHAIRMAN HONIGBERG: Mr. Buckley, do  
10 you have any questions?

11 MR. BUCKLEY: No questions, Mr.  
12 Chair.

13 CHAIRMAN HONIGBERG: All right. Mr.  
14 Dexter.

15 MR. DEXTER: Thank you, Mr. Chairman.

16 **CROSS-EXAMINATION**

17 BY MR. DEXTER:

18 Q So, I have questions today in three categories.  
19 The first of which is rate base. And the  
20 subcategory is the issue of the lead-lag study.  
21 So, I would like you, if you would, either one  
22 of you can answer any of these questions as you  
23 feel free, to describe in general purposes --  
24 describe in general terms the purpose of a

[WITNESS PANEL: Simek|Dane]

1 lead-lag study please?

2 A (Dane) In general terms, a lead-lag study is  
3 designed to measure the timing between when a  
4 company incurs expenses or pays for those  
5 expenses and incurs them, versus the time when  
6 it provides service and recovers cash from  
7 customers for providing that service.

8 Q And then what happens with the results of the  
9 lead-lag study?

10 A (Dane) Generally, the results of the lead-lag  
11 study are used to develop a lead-lag factor  
12 that is then applied to expenses within the  
13 revenue requirement to develop an amount to be  
14 included in rate base for cash working capital.

15 Q And in previous years, isn't it correct that,  
16 rather than do a lead-lag study, that the  
17 Company would use what's conventionally known  
18 as the "45 day formula"?

19 A (Simek) That had been done previously, yes.

20 Q And is this the first time a lead-lag study has  
21 been submitted for EnergyNorth, to your  
22 knowledge?

23 A (Simek) To my knowledge, yes.

24 Q Okay. So, I want to get into the specifics.

[WITNESS PANEL: Simek|Dane]

1           There's one item in the lead-lag study I'd like  
2           to examine, and that's property taxes. And to  
3           do that, I'd like to direct your attention to  
4           Bates 389 and 390 in the initial filing. That  
5           falls under the Testimony of Simek  
6           Lead-lead-lag. And maybe that hasn't -- maybe  
7           that wasn't identified earlier by counsel, I'm  
8           not sure.

9   A       (Simek) Yes. I didn't bring that lead-lag  
10         study with me.

11                         CHAIRMAN HONIGBERG: We have extras.  
12                                 *[Mr. Mullen handing document to*  
13                                 *the witness panel.]*

14   **BY THE WITNESS:**

15   A       I'm sorry, which Bates page?

16   BY MR. DEXTER:

17   Q       So, I was on Bates 389 and 390.

18                         MR. SHEEHAN: Mr. Chairman, it would  
19           be appropriate for me to qualify that  
20           testimony. There was a third that Mr. Simek  
21           filed that I didn't pick up initially.

22                         CHAIRMAN HONIGBERG: Sure. Why not.

23                         **DIRECT EXAMINATION (resumed)**

24   BY MR. SHEEHAN:

[WITNESS PANEL: Simek|Dane]

1 Q Mr. Simek, you also filed testimony, which has  
2 been marked as "Exhibit 12", that's been just  
3 put in front of you as the lead-lag testimony.  
4 The same questions I asked you before, --

5 CHAIRMAN HONIGBERG: Mr. Sheehan, on  
6 the list, it looks like "9". "Direct Testimony  
7 David B. Simek Lead-Lag" is "9".

8 MR. SHEEHAN: I'm sorry. Correct.

9 CHAIRMAN HONIGBERG: Mr. Simek was  
10 busy. So, he's got a lot of pieces of  
11 testimony it would seem.

12 BY MR. SHEEHAN:

13 Q Number 9 is labeled in our draft exhibit list  
14 as "Direct Testimony Simek Lead-Lag". The same  
15 questions. Any changes to that testimony that  
16 you're aware need to be made?

17 A (Simek) No.

18 Q And do you adopt that testimony today?

19 A (Simek) I do.

20 Q And while we're at it, you do have testimony,  
21 which has been marked as "Exhibit 12", which is  
22 on the tariff changes that were filed. Do you  
23 recall that testimony?

24 A (Simek) I do.

[WITNESS PANEL: Simek|Dane]

1 Q And do you know if there are any changes that  
2 need to be made to that testimony today?

3 A (Simek) I do not.

4 Q And do you adopt that testimony here this  
5 morning?

6 A (Simek) I do.

7 MR. SHEEHAN: Thank you. Thank you,  
8 Chairman.

9 CHAIRMAN HONIGBERG: Back to you, Mr.  
10 Dexter.

11 MR. DEXTER: Thank you.

12 **CROSS-EXAMINATION (resumed)**

13 BY MR. DEXTER:

14 Q So, do you have Bates 389 and 390 in front of  
15 you?

16 A (Simek) I do.

17 Q Now, could you tell me the purpose of this  
18 schedule please?

19 A (Simek) Sure. The purpose of this schedule was  
20 to calculate the lag days for property taxes  
21 over the test year period.

22 Q Okay. So, is this a list of all the property  
23 tax bills that the Company pays?

24 A (Simek) I believe so, yes.

[WITNESS PANEL: Simek|Dane]

1 Q Okay. And I just want to go through a couple  
2 of lines, just to highlight what this schedule  
3 does. So, I'd like to direct your attention to  
4 Line 9. It's labeled "Town of Bedford". And  
5 the columns aren't -- don't have numbers on  
6 them, so I'll refer to them by title. Could  
7 you tell me what the columns that say "Tax  
8 Period Start", "Tax Period End" and "Midpoint  
9 of Tax Period" are intended to represent?

10 A (Simek) Yes. "Tax Period Start" was meant to  
11 represent the period that -- the beginning of  
12 the period for this tax bill. And the "Tax  
13 Period End" date is the end date for that bill.  
14 And then the "Midpoint", of course, is meant to  
15 represent the midpoint of between the two.

16 Q Okay. So, it looks like this tax bill was for  
17 a six-month period, is that fair?

18 A (Simek) Yes.

19 Q And the midpoint was July 1st?

20 A (Simek) Correct.

21 Q Okay. The next column says "Payment Date",  
22 indicates that this bill was paid on  
23 "June 24th", is that correct?

24 A (Simek) Yes.

[WITNESS PANEL: Simek|Dane]

1 Q Okay. And now I want to jump over about five  
2 columns -- about four columns to the one  
3 labeled "Total Lead/Lag Days". And isn't it  
4 correct that on Line 9 the total lead-lag days  
5 for this bill is "7.5 days"?

6 A (Simek) Yes.

7 Q Okay. And, so, is that simply saying that the  
8 midpoint of this tax service period was  
9 July 1st. You had paid this bill -- Liberty  
10 had paid this bill on June 24th, so that it was  
11 paid seven days in advance of the midpoint of  
12 the service period? Seven and a half days?

13 A (Simek) I believe so, yes.

14 Q Okay. So, that indicates that -- okay. And we  
15 can go through one more of these just for  
16 example purposes. I'd like to go to Line 31,  
17 which is "Goffstown" -- I'm sorry, Line 32,  
18 which is "Goffstown".

19 A (Simek) Okay.

20 Q And again, the three dates we have, could you  
21 explain the three dates in the earlier columns,  
22 and then what the midpoint of the service  
23 period represents?

24 A (Simek) Yes. The Tax Period Start date, which

[WITNESS PANEL: Simek|Dane]

1 is "October 1st of '16", is meant to represent  
2 the period -- the start date for this tax bill.  
3 And "March 31st, '17" is meant to represent the  
4 end date for the bill.

5 Q And December 31st is the midpoint?

6 A (Simek) Correct.

7 Q So, again, the bill covers a six-month period,  
8 basically?

9 A (Simek) Correct.

10 Q Okay. And this bill was paid, as indicated, on  
11 "November 28th, 2016", is that correct?

12 A (Simek) Yes.

13 Q And again, jumping over to four or five columns  
14 to the right, the total lead-lag days would  
15 indicate that this bill was paid -- that the  
16 total lead-lag days is "33" days, is that  
17 correct?

18 A (Simek) Yes.

19 Q And going back to the dates, that would just  
20 simply indicate that this bill was paid on  
21 November 28th, and the midpoint of the service  
22 period was 33 days later than that,  
23 December 31st, is that correct?

24 A (Simek) Yes.



[WITNESS PANEL: Simek|Dane]

1 Q Okay. So, I'm not going to go through every  
2 line in the schedule, but I just wanted to do  
3 that for demonstration purposes. And, so, is  
4 it fair to say then that all the numbers under  
5 the column "Total Lead/Lag Days" that are  
6 positive numbers, like the "7.5" related to the  
7 Town of Bedford and like the "33" days related  
8 to the Town of Goffstown, is it correct to say  
9 that those all indicate a situation where the  
10 Company paid their bill in advance of receiving  
11 the service for that bill?

12 A (Simek) Paid that bill in advance of receiving  
13 service?

14 Q In advance of the midpoint of the service  
15 period?

16 A (Simek) Yes.

17 Q Okay. And, so, conversely, I only see a few  
18 negative numbers on this page, in that column  
19 "Total Lead/Lag Days". And I'd like to jump  
20 down to Line 22, "City of Concord", there's a  
21 figure of "96.5" days in parentheses. Do you  
22 see that?

23 A (Simek) Yes.

24 Q Without going through all the dates like I did

[WITNESS PANEL: Simek|Dane]

1 earlier, would that simply indicate that this  
2 is a situation where the Company paid that tax  
3 bill after the midpoint of the service period?

4 A (Simek) Yes.

5 Q Okay. And if one were to go through all the  
6 algebra, and count up all the bills for all the  
7 towns for all the payments, is the result of  
8 all that shown on Bates 380, that, on a  
9 weighted average basis, the property tax bills  
10 were paid 10.15 days in advance of the midpoint  
11 of the service periods, on a weighted average  
12 basis?

13 A (Simek) Yes, on Bates Page 390. I believe you  
14 said "380".

15 Q I'm sorry, 390, correct. Okay. And, so, I  
16 would like just to follow this analysis forward  
17 to see where that -- how that 10.5 [10.15?]  
18 figure factors into the ultimate result of the  
19 lead-lag study. And, so, I'd like to go to  
20 Bates 365 please.

21 A (Simek) Okay.

22 Q Could you describe what's on Bates 365?

23 A (Simek) Yes. This is a summary for the O&M  
24 expenses and taxes other than income tax that

[WITNESS PANEL: Simek|Dane]

1 are showing the working capital requirement  
2 based on the revenue lag of "56.08", compared  
3 to each of these expenses, expense lag.

4 Q Okay. And the bottom line of this exhibit is  
5 in the lower right-hand corner, where it  
6 indicates that you've got a \$2,789,000 working  
7 capital requirement, is that correct?

8 A (Simek) Yes.

9 Q And we'll go through this later, but that  
10 ultimately gets added to rate base on your rate  
11 base schedule, is that correct?

12 A (Simek) Not exactly.

13 Q Okay. Well, why don't we -- we'll hold off on  
14 that. I'll follow up on that later. Unless  
15 there's something you wanted to add? I didn't  
16 mean to cut you off.

17 A (Simek) No.

18 Q Okay. So, getting the back to the property tax  
19 element, I see that property taxes are shown on  
20 Line 10. Do you see that?

21 A (Simek) Yes.

22 Q And you see the "10.5" figure that we had just  
23 went through the development of, appears under  
24 the column marked "Expense Lag", is that

[WITNESS PANEL: Simek|Dane]

1 correct?

2 A (Simek) Yes.

3 Q "10.15". And again, without going through all  
4 the math, though you would agree that that  
5 factor -- that that 10.15 figure factors into  
6 the net lead-lag days of 26.53 days, correct?

7 A (Simek) Yes.

8 Q Okay. Now, I just want to look quickly at  
9 Line 2, for example, which is "Payroll". Now,  
10 the figure for payroll for the expense lag is  
11 "43.49" days in parentheses. Do you agree?

12 A (Simek) Yes.

13 Q And whereas we said that the property tax  
14 figure, which was positive, indicated that the  
15 property taxes' bills were paid in advance of  
16 the midpoint of the service period, would you  
17 likewise agree that this negative number  
18 indicates that payroll is paid after the  
19 midpoint of the service period?

20 A (Simek) Subject to check, yes.

21 Q Okay. All right. So, then I do want to  
22 continue with the analysis of what happens to  
23 the 2,789,336. And to do that, I'd like to  
24 turn to Bates Page 070.

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 A (Dane) Could you repeat the page please.

2 Q Bates Page 070. And this is -- I'm referring  
3 to your original calculation of the revenue  
4 requirement, which I believe is "Exhibit 3".  
5 Do you have that in front of you?

6 A (Dane) Yes, we do.

7 Q Sorry. I actually wanted to go to Bates 072,  
8 excuse me. And isn't it correct that, on Bates  
9 072, this is a schedule where the Company  
10 applies the 26.53 net lead-lag days from Bates  
11 365 --

12 CHAIRMAN HONIGBERG: Mr. Dexter?

13 MR. DEXTER: Yes.

14 CHAIRMAN HONIGBERG: We don't know  
15 what you're looking at.

16 MR. DEXTER: Sorry.

17 CHAIRMAN HONIGBERG: We're on Bates  
18 Page 072 from Volume 1 of the original filing,  
19 and we're not, I suspect, looking at the same  
20 thing you are.

21 MR. DEXTER: All right. I think you  
22 are. Is the schedule -- the first Line 1 say  
23 "O&M Expenses" in bold?

24 CHAIRMAN HONIGBERG: No. Off the

1 record.

2 [Brief off-the-record discussion  
3 ensued.]

4 CHAIRMAN HONIGBERG: Back on the  
5 record. Mr. Dexter, you may proceed.

6 MR. DEXTER: Thank you.

7 BY MR. DEXTER:

8 Q So, before the break, we were talking about  
9 Bates Page 072 in your original testimony,  
10 which calculated the revenue deficiency in this  
11 case. Could you explain to me what happens on  
12 Bates Page 072 please?

13 A (Dane) Yes. On Bates Page 072, which is the  
14 cash working capital calculation for  
15 EnergyNorth, we take the O&M expenses from our  
16 revenue requirement analysis, make adjustments  
17 for depreciation, deferred taxes, and other  
18 adjustments we made in our analysis. And then  
19 we use the cash working capital required days  
20 that were calculated in the lead-lag study to  
21 determine daily factor to apply to those  
22 expenses to calculate the cash working capital  
23 requirement for purposes of rate base.

24 Q Okay. And the "7.27 percent" figure that shows

[WITNESS PANEL: Simek|Dane]

1 up on Page 8 -- on Line 8, that's simply 26.53  
2 days divided by 365 days in a year, is that  
3 right?

4 A (Dane) I believe that's correct, yes.

5 Q Okay. And so, then, if we turn to Page 70,  
6 just to complete this loop, we see, on Line 9,  
7 that this 2,635,000 day [dollar?] figure gets  
8 added into rate base, correct?

9 A (Dane) That's correct. The cash working  
10 capital required on Bates 072 is carried  
11 forward to the rate base summary on Bates Page  
12 070.

13 Q And again, that's to allow a compensation of  
14 the Company for the use of the money for all  
15 those payments and receipts that we talked  
16 about in our very first question, when you  
17 described the purpose of a lead-lag study,  
18 correct?

19 A (Dane) Generally, yes.

20 Q Okay. So, if we stay on Page 70 for a minute,  
21 and we go to Line 6, there's an item called  
22 "Prepayments". Do you see that?

23 A (Dane) Yes.

24 Q And prepayments adds to rate base, if I'm

[WITNESS PANEL: Simek|Dane]

1 reading this right, 2,705,000, rounded, to rate  
2 base, would you agree?

3 A (Dane) Prepayments is a component of rate base.  
4 And, yes, we have it here at 2,704,000.

5 Q Okay. And if we turn one page forward to Bates  
6 071, Lines 9 and 10 provide a breakdown of  
7 those prepayments. Is that correct?

8 A (Dane) That's correct. Consistent with the New  
9 Hampshire filing requirements, we've calculated  
10 a five-quarter average for prepayments, and  
11 calculated that five-quarter average on Bates  
12 071. And that's the figure that carries  
13 forward to the rate base calculation.

14 Q And what's the purpose of including prepayments  
15 in rate base?

16 A (Dane) The purpose of including prepayments in  
17 rate base is to capture funds that the Company  
18 puts forward in advance of receiving the  
19 service underlying that payment.

20 Q So, how does that differ from what was done in  
21 the lead-lag study with respect to property  
22 taxes that we just went through?

23 A (Dane) For purposes of this calculation, it  
24 differs from a timing perspective, in that



[WITNESS PANEL: Simek|Dane]

1 we've used a five-quarter balance here, and  
2 versus the lead-lag study, which analyzes the  
3 cash payments made during the test year, 2016.  
4 So, that's from a mathematical difference how  
5 those differ.

6 Q And you would agree that property tax makes up  
7 the large percentage of the prepayments that  
8 are shown on Page 71, would you not?

9 A (Dane) Generally, yes. I don't have the  
10 percentage here in front of me. But it is the  
11 largest portion of the prepayments.

12 Q Okay. The other portion of prepayments, do you  
13 know what makes that up? The figure is  
14 "273,561".

15 A (Dane) I can speak generally to what would be  
16 in there. I'm not -- I don't recall the  
17 specific invoices or expenses the Company would  
18 be paying here. These are other expenses of  
19 the Company that are paid in advance of the  
20 Company receiving the underlying service.

21 Q And those expenses would be booked to O&M  
22 accounts, is that correct?

23 A (Simek) Yes.

24 Q Okay. And jumping back to Bates 365, which was

[WITNESS PANEL: Simek|Dane]

1 from the lead-lag study, do you see that?

2 A (Simek) Yes.

3 Q Would you agree that those other prepaid items  
4 that you don't know exactly what they were are  
5 likely or would definitely fall under this  
6 category of "Non-Labor O&M"? Would they be  
7 non-payroll related expenses?

8 A (Simek) Yes.

9 Q Okay.

10 A (Dane) I would just add to that, that I think  
11 generically it would be the same types of  
12 things, but they may not be on a  
13 dollar-for-dollar basis, as we discussed.  
14 There's some timing differences. And I believe  
15 Mr. Simek used some sampling in his analysis.  
16 So, it wouldn't necessarily be that the same  
17 dollars would show up in the studies.

18 Q But the intent of the lead-lag study was to  
19 capture all the Company's expenses in those  
20 three categories that you laid out on Bates  
21 365, is it not? O&M, income taxes, and taxes  
22 other than income?

23 A (Simek) Correct.

24 Q Okay. All right. That's all I have on

[WITNESS PANEL: Simek|Dane]

1           prepayments. So, I'm going to move to -- from  
2           rate base to revenues. And I just want you to  
3           sort of establish the obvious for me. But you  
4           would agree, wouldn't you, that a revenue  
5           figure is sort of a starting point in  
6           calculating a company's revenue deficiency?  
7           It's one of the key factors, would you agree?

8   A       (Dane) Generally, yes. The revenues are an  
9           input to the calculation of the Company's  
10          deficiency.

11   Q       And if I were to turn to Bates 40 in your  
12          initial prefiled testimony, we would see that,  
13          I think, at Line 4, I believe. Would you  
14          agree?

15   A       (Dane) Yes. Here we've taken test year revenue  
16          on Line 4, and made some adjustments to remove  
17          cost of gas and LDAC revenues, as well as made  
18          some additional known and measurable  
19          adjustments, in order to calculate the  
20          utility's net income over the various periods  
21          or bases of our calculations, so the test year,  
22          the adjusted test year, and then the adjustment  
23          with the proposed increase.

24   Q       Okay. And the adjustments that you mention --

[WITNESS PANEL: Simek|Dane]

1 let me phrase that again. So, the column  
2 that's marked "Known and Measurable  
3 Adjustments", are those adjustments made to  
4 actual test year revenues?

5 A (Dane) Those adjustments are within our  
6 schedules, and the starting point is test year  
7 revenue. And then we make certain adjustments  
8 to come up with that known and measurable --  
9 or, the adjusted amount that reflects those  
10 known and measurable adjustments.

11 Q Okay. And those adjustments are detailed on  
12 Bates 047, correct?

13 A (Dane) Yes. That's correct.

14 Q Okay. And we don't have to go through all of  
15 them, but could you just tell me the general  
16 purpose of making these adjustments to test  
17 year revenue?

18 A (Dane) Yes. Generally, the purpose was to  
19 establish an appropriate baseline to factor  
20 into the revenues that are --

21 *[Court reporter interruption.]*

22 **CONTINUED BY THE WITNESS:**

23 A (Dane) Oh, I'll repeat. So, the purpose here  
24 was to establish an appropriate baseline for

[WITNESS PANEL: Simek|Dane]

1 revenues that are input to our revenue  
2 requirement calculation.

3 BY MR. DEXTER:

4 Q So, would you agree that the idea is to develop  
5 a base revenue figure that's perhaps more  
6 representative of what's going to happen going  
7 forward than just strictly using the per books  
8 revenues?

9 A (Dane) Yes. That's part of the analysis. And  
10 the analysis is also to synchronize the  
11 revenues with the expenses. So that we're  
12 looking at revenues and expenses on a  
13 comparable basis.

14 Q So, which of those adjustments synchronizes  
15 revenues and expenses? I'm on Page 47 where  
16 all the adjustments are listed.

17 A (Dane) Sure. And when I say "synchronize", I'm  
18 speaking more generically of developing an  
19 appropriate baseline, so that we can be looking  
20 at revenues and expenses on a comparable basis  
21 for purposes of developing a deficiency. And  
22 that's what the nine or so adjustments on Bates  
23 Page 047 are intended to do.

24 Q Okay. So, are you familiar with the \$929,000

[WITNESS PANEL: Simek|Dane]

1 adjustment that Staff made in its testimony to  
2 test year revenues? And I can refer you to  
3 Mr. Laflamme and Ms. Mullinax's initial  
4 testimony, at Bates 063, if that helps.

5 A (Dane) Yes. I'm aware of that, that Staff  
6 proposed the adjustment in that schedule.

7 Q For those keeping score, if we were to go to  
8 Bates 063, that adjustment appears in Line 1,  
9 Column B, is that correct?

10 A (Dane) Yes. That's correct.

11 Q And would you agree that Column B -- the  
12 footnote to Column B references Staff --  
13 Company's "Response to Staff Request 8-17", is  
14 that correct?

15 A (Dane) Yes. That's correct.

16 MR. DEXTER: Okay. And I've asked  
17 that Response 8-17 be marked as "Exhibit 40" in  
18 this proceeding, and it's been handed out to  
19 the parties.

20 BY MR. DEXTER:

21 Q Do you have that in front of you?

22 A (Dane) Yes, I do.

23 Q And I know neither of your names is on this  
24 response, but if you could please at this time

[WITNESS PANEL: Simek|Dane]

1 indicate what's presented on Page 2 of that  
2 exhibit please?

3 A (Dane) And just to be clear, I can't speak to  
4 the calculations within this schedule, but I  
5 can speak generically to what it represents.  
6 And on the title to this schedule, on  
7 Attachment Staff 8-17, it says "Adjustment to  
8 Pro-Forma Test Year Revenues for Year-End Bill  
9 Count".

10 Q Okay. And, so, what would that accomplish?

11 A (Dane) My understanding of this schedule is  
12 that it is intended to respond to Staff's  
13 request for a calculation of EnergyNorth's pro  
14 forma test year revenues based on its actual  
15 customer count as of 12/31/2016.

16 Q Okay. Would you agree that over recent years  
17 EnergyNorth has added customers each year?

18 A (Simek) Yes.

19 Q And if a customer were added during the test  
20 year, and plant was expended to serve that  
21 customer, such as a meter and a service and  
22 possibly a main, is it correct that under the  
23 revenue calculations that the Company provided  
24 on Bates 040, as adjusted on Bates 047, that

[WITNESS PANEL: Simek|Dane]

1 the revenues from that customer added during  
2 the year would not be captured in the figure  
3 that the Company used?

4 A (Dane) I don't know that to be correct is.

5 Q Mr. Simek?

6 A (Simek) Could you repeat the question please?

7 Q Sure. Sure. If a customer were added to the  
8 Company's system in the middle of the year,  
9 middle of the test year, and -- well, I guess  
10 I'll just state it that way, and revenues were  
11 received from July through the end of the year,  
12 would those revenues be reflected in the  
13 revenue figure that was used as the basis for  
14 the revenue deficiency calculation as shown on  
15 Bates 040?

16 A (Simek) Yes.

17 Q And how would that be? How would they show up?

18 A (Simek) They would just show up in general  
19 revenues on the GL.

20 Q Okay. But, for this six-month -- so, they  
21 would show up in Line 1, Column 1, is what  
22 you're saying, as I understand it, on Bates  
23 040, the \$119 million figure that's there?

24 A (Simek) Just let me verify it. Yes, I believe



[WITNESS PANEL: Simek|Dane]

1 so.

2 Q Okay. But there would be no revenue for that  
3 hypothetical customer reflected in that figure  
4 for the months January through June, would you  
5 agree?

6 A (Simek) Yes.

7 Q Okay. Now, the plant that was used to serve  
8 this hypothetical customer, for instance, a  
9 meter, a service, and possibly a main  
10 extension, would that show up in the rate base  
11 that's used to calculate the revenue  
12 requirement in this case, assuming that  
13 investment was closed in July, when the  
14 Company [customer?] took service?

15 A (Simek) Yes.

16 Q And if we could flip to Bates 073 please for a  
17 minute, it's a rate base schedule. Would that  
18 plant show up under Line 3, "Net Utility  
19 Plant"?

20 I'm sorry, I jumped to a Keene schedule.  
21 My mistake. Should be Bates 070. I apologize.  
22 Would that plant used to serve that  
23 hypothetical customer show up under Line 3, on  
24 Bates 070, 319 million net plant?

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 A (Simek) Yes.

2 Q And that would show up at full amount of the  
3 plant, would it not, not a prorated amount?

4 A (Dane) It's the amount as of the end of the  
5 year net of a depreciation allowance.

6 Q Okay. Would you agree that the step adjustment  
7 that the Company requested approval for in this  
8 case would allow for the inclusion of plant in  
9 rate base beyond the test year?

10 A (Dane) Yes. The purpose of the step adjustment  
11 is to allow for the inclusion of rate base,  
12 again net of a depreciation allowance, beyond  
13 12/31/16, which was the end of our test year.

14 Q Okay. Would you also agree that the adjustment  
15 that the Company made for payroll in this case  
16 is intended to reflect costs that occur beyond  
17 the test year in this case?

18 A (Dane) I would say, generally, the payroll  
19 adjustment was to reflect the employee  
20 complement as of through 2017. So, generally,  
21 as you state it, I would agree with that  
22 response.

23 Q Through 2017, one year after the test year,  
24 correct?

[WITNESS PANEL: Simek|Dane]

1 A (Dane) Yes. That would be correct.

2 Q And would you agree that the pension and  
3 benefit adjustment that was proposed by the  
4 Company is intended to reflect pension and  
5 benefits incurred up to one year beyond the  
6 test year as well?

7 A (Dane) I believe that's correct. The pension  
8 and benefit adjustment was intended to reflect  
9 the most recent actuarial analyses available.

10 Q And would you also agree that the adjustment  
11 for property taxes was intended to reflect  
12 actual property taxes incurred beyond the test  
13 year?

14 A (Dane) Yes. We reflected the most recent  
15 property tax invoices. So, to the extent that  
16 those had come in after the test year, we would  
17 capture those in the analysis.

18 Q And would you likewise agree that the  
19 adjustment for the Public Utilities Commission  
20 assessment was intended to reflect expenses  
21 beyond the test year?

22 A (Dane) Again, that's intended to reflect the  
23 most recently available invoice. And I don't  
24 recall when that was issued. But, if it was

[WITNESS PANEL: Simek|Dane]

1 after the test year, then, yes.

2 Q Mr. Simek, I saw you nodding. Do you know if  
3 the PUC assessment adjusts the expense beyond  
4 the test year?

5 A (Simek) Again, it would just be based on what  
6 the latest bill was based on.

7 Q Okay. Fair enough. Well, that's all I had on  
8 revenues.

9 I'd like to ask you some questions about  
10 some O&M expenses that are reflected in the  
11 initial filing. And I've broken them down into  
12 three increases. One of them has to do with  
13 payroll and related benefits. I'm sorry, three  
14 of them have to do with payroll.

15 And the first one has to do with the issue  
16 of payroll related to payroll vacancies. And  
17 to start the discussion, I'd like to refer you  
18 to Bates 048, which was the payroll adjustment  
19 that was submitted when this case was filed.

20 A (Dane) Okay. We're there.

21 Q And I understand that this schedule has been  
22 updated. But, at least as far as the initial  
23 filing go, if I were to look down at Line 27, I  
24 see a line for "Vacancies". And if I go to

[WITNESS PANEL: Simek|Dane]

1 Column 2, "Employees", I see a figure of "33".

2 Do you agree with that?

3 A (Dane) Yes.

4 Q And what was the purpose of including the 33  
5 vacancies and the related numbers to the right  
6 in this adjustment?

7 A (Dane) The purpose was to calculate a labor  
8 expense that's based on the full amount of  
9 employees that the Company has analyzed that it  
10 needs in order to provide service during the  
11 rate year.

12 Q Okay. And I would like to direct your  
13 attention to the document I marked as "Exhibit  
14 41". This is the Company's response to Staff  
15 Tech 3-13. And would you agree that, if you  
16 flip to Page 2, this response indicates that  
17 there were three vacancies on the payroll on  
18 January 1st, 2016?

19 A (Dane) Yes.

20 Q And if you flip to Page 3 of this exhibit,  
21 would you agree that the exhibit shows that  
22 there were four vacancies as of November 1st,  
23 2017?

24 A (Dane) Yes. That's correct.

[WITNESS PANEL: Simek|Dane]

1 Q Okay. So, if I could turn to your rebuttal  
2 testimony, and I'm sorry, I don't recall the  
3 exhibit number of your rebuttal testimony filed  
4 on January 25th, 2018. I'd like to go to Pages  
5 15 and 16 please.

6 MR. SHEEHAN: Sorry, Paul. Where are  
7 you?

8 MR. DEXTER: I'm in the Simek/Dane  
9 rebuttal.

10 MR. SHEEHAN: Okay.

11 MR. SPEIDEL: I believe it may be  
12 number 23, Mr. Dexter.

13 MR. DEXTER: That's fine. And I'm  
14 looking at the -- it doesn't matter whether we  
15 look at the -- the information I'm going to ask  
16 about is not confidential, so...

17 BY MR. DEXTER:

18 Q And would you agree that the last -- well, if  
19 you could read into the record for me your  
20 answer starting on Page 15, Line 20, 21, and  
21 then carrying over to the next page please,  
22 rather than me trying to summarize it.

23 A (Dane) Okay. And this is a response to a  
24 question asking "Do you agree with that

[WITNESS PANEL: Simek|Dane]

1 adjustment?" And this is an adjustment that  
2 Staff proposed to reflect a number of vacancies  
3 or to reduce the revenue requirement for a  
4 number of vacancies. And the response is:  
5 "No. The provision of reliable distribution  
6 service requires a full complement of  
7 employees. If the Company is operating with a  
8 less than full complement of employees, the  
9 excess work would either be completed by other  
10 employees (and thus increase overtime costs)  
11 and/or by incremental temporary/contract labor.  
12 While Staff is correct that vacancies entail  
13 lower direct labor costs, Staff does not  
14 recognize that the decrease would be offset by  
15 other cost increases."

16 Q So, in the event that there were vacancies  
17 during the test period, you would agree then,  
18 based on this statement, that the cost of  
19 service presented in this case would include  
20 either overtime or temporary labor costs to  
21 cover those vacancies, would you not?

22 A (Dane) I would not agree as it relates to  
23 overtime. And the reason for that is that the  
24 Company developed an analysis based on the full

[WITNESS PANEL: Simek|Dane]

1 complement of employees for 2017, and that  
2 included an analysis of the overtime required,  
3 and that overtime analysis was based on that  
4 full complement of employees.

5 Q So, your payroll adjustment -- I'm sorry, I  
6 didn't understand that. Are you saying that  
7 your payroll adjustment includes overtime or  
8 excludes overtime?

9 A (Dane) It includes the Company's estimate of  
10 overtime, again, based on that full complement  
11 of employees.

12 Q Okay. If there was contract labor, temporary  
13 contract labor used to do the work that used to  
14 cover vacancies during the test year, would  
15 those costs fall into the general cost of  
16 service revenue requirement calculation in the  
17 test year?

18 A (Dane) Generally, yes. We did not adjust  
19 contract labor from what was included in the  
20 historical test year.

21 Q Okay. And we went through three data points  
22 earlier indicating numbers of vacancies; there  
23 were 33, three, and four, if I remember. Do  
24 you know if the 33 is more representative of



[WITNESS PANEL: Simek|Dane]

1 vacancies that would occur at any given time?  
2 Or is the three or the four more representative  
3 of vacancies that would occur at any time? Or  
4 neither? Maybe there's another number that you  
5 know that's more representative?

6 A (Simek) I'm not aware of what that  
7 representative number would be.

8 Q Okay. So, again, I'd like to refer to an  
9 adjustment that Staff made, and it appears at  
10 the testimony of Laflamme and Mullinax, at  
11 Bates 065, and it has to do with severance pay.  
12 If we could turn to that please. And would you  
13 agree that the purpose of this schedule --

14 MR. DEXTER: And I'll point out for  
15 the record that there is a confidential and a  
16 redacted version of this. And I'm just looking  
17 at the redacted version. I don't need to  
18 reference any of the confidential information  
19 in Footnote 2.

20 CHAIRMAN HONIGBERG: I'm sorry, Mr.  
21 Dexter. What page again?

22 MR. DEXTER: I'm in Mullinax --  
23 Laflamme/Mullinax testimony, at Bates 065.

24 BY MR. DEXTER:

[WITNESS PANEL: Simek|Dane]

1 Q Would you agree that the adjustment that Staff  
2 proposed to remove -- is to remove -- the  
3 purpose of the adjustment Staff proposed was to  
4 remove severance payroll and related payroll  
5 taxes on employees that had resigned?

6 A (Dane) If I could just refer to Staff's  
7 testimony, just to make sure I can --

8 Q Sure.

9 CHAIRMAN HONIGBERG: Off the record  
10 while he's doing that.

11 *[Brief off-the-record discussion*  
12 *ensued.]*

13 CHAIRMAN HONIGBERG: We'll go back on  
14 the record.

15 BY MR. DEXTER:

16 Q So, is my characterization of Staff's testimony  
17 that the adjustment was to remove payroll and  
18 related payroll taxes on severance pay for  
19 employees that resigned? Is that your  
20 understanding that's what the adjustment does?

21 A (Dane) I think that was the intent of the  
22 adjustment. And in making that adjustment,  
23 Staff stated that the adjustment was for  
24 employees that resigned voluntarily.

[WITNESS PANEL: Simek|Dane]

1 Q Resigned voluntarily. Sure. And would you  
2 agree that that adjustment roughly equals  
3 \$87,000, as shown on Bates 065, Line 4?

4 A (Dane) As Staff has calculated it, yes.

5 Q Right. Could you tell me why the Company would  
6 pay severance pay? What the purpose of it is?

7 A (Simek) Yes. The Company would not pay  
8 severance pay to anyone who has left the  
9 Company voluntarily. That has not happened,  
10 nor will it happen in the future. So, it's  
11 solely only for pay for employees who were let  
12 go by the Company, whether it be from a layoff  
13 or, you know, for cancellation of the job  
14 itself, or maybe performance-based.

15 But the purpose of a severance pay is, of  
16 course, to give the former employee a little  
17 incentive and pay to be able to get their feet  
18 back on the water and -- feet back on the  
19 ground and be able to begin their new career  
20 search.

21 MR. DEXTER: Okay. Mr. Chairman, I  
22 need to do some follow-up questions on this,  
23 but I will have to reference the confidential  
24 information on Bates 065. I didn't think I was

[WITNESS PANEL: Simek|Dane]

1 going to have to.

2 Maybe this would be an appropriate  
3 break, and I can confer with the analyst that  
4 worked on this adjustment, and we'll pick it up  
5 after a break?

6 CHAIRMAN HONIGBERG: Fair enough.  
7 We'll try and keep this break closer to five  
8 minutes.

9 *(Recess taken at 11:06 a.m.*  
10 *and the hearing resumed at*  
11 *11:15 a.m.)*

12 CHAIRMAN HONIGBERG: Mr. Dexter,  
13 whenever you're ready.

14 MR. DEXTER: Thank you, Mr. Chairman.  
15 Just before the break, the witnesses gave a  
16 answer that essentially said that "Liberty  
17 doesn't make severance payments for employees  
18 that resign", if I understood the answer  
19 correctly. And I want to submit a data request  
20 from this case and ask some follow-up on that  
21 subject. I'll pass it around now.

22 *[Mr. Iqbal distributing*  
23 *documents.]*

24 MR. DEXTER: I guess this will be

[WITNESS PANEL: Simek|Dane]

1 "Exhibit 43". And it's Staff Data -- Liberty's  
2 response to Staff Data Request 8-23. There's a  
3 confidential version and a redacted version.  
4 I'm going to work with the redacted version.

5 CHAIRMAN HONIGBERG: "Forty-two".

6 MR. DEXTER: "Forty-two", right.

7 (The document, as described, was  
8 herewith marked as **Exhibit 42**  
9 for identification.)

10 BY MR. DEXTER:

11 Q Do you have the document that I just marked --  
12 asked marked for identification purposes as  
13 "Exhibit 42" in front of you?

14 A (Simek) I do.

15 Q And would you agree that this response  
16 indicates, in Paragraph (b) in the "Response"  
17 area, that "Severance payments were made  
18 throughout 2016 for employee resignations and  
19 layoffs"?

20 A (Simek) It does. One thing I want to clarify,  
21 though, is that the statement that I made  
22 earlier was that "the Company had never made  
23 severance payments to people for voluntary  
24 resignations." These very well may have been

[WITNESS PANEL: Simek|Dane]

1 forced resignations.

2 Q And without getting into this, and before I ask  
3 that question, I'd just like to direct your  
4 attention to the second page of this exhibit.  
5 And you would agree that it indicates that  
6 there were four resignations --

7 A (Simek) Correct.

8 Q -- during the test year, correct?

9 A (Simek) Yes.

10 Q Okay. And without getting into the specifics  
11 of the cases involved, could you explain what  
12 would be a situation where an employee would  
13 voluntarily resign versus being "forced to  
14 resign", I think is how you put it?

15 A (Simek) Sure. In general, I don't work in the  
16 Human Resources Department, but, in general, I  
17 would envision someone who voluntarily resigns  
18 as someone who quit the Company, and someone  
19 who has a forced resignation could very well be  
20 a reason based on performance, where they were  
21 let go by the Company.

22 Q And again, you would -- I think you indicated  
23 that all of these resignations listed on Page 2  
24 of Exhibit 42 would be what you described as

[WITNESS PANEL: Simek|Dane]

1 "forced resignations"?

2 A (Simek) To the best of my knowledge.

3 Q Okay. And the third payroll adjustment that  
4 Staff made that I'd like to ask some questions  
5 about has to do with incentive compensation.  
6 And I'd like to direct your attention to the  
7 Laflamme/Mullinax original testimony, at Bates  
8 060 please.

9 And isn't it correct that in your rebuttal  
10 testimony you disagreed with the  
11 appropriateness of this adjustment?

12 A (Dane) Yes. That's correct.

13 Q Okay. And could you, before we get into why  
14 you disagreed, could you explain the  
15 adjustment, as you understand it?

16 A (Dane) My understanding is that Staff analyzed  
17 the Company's Incentive Compensation Programs.  
18 And it was Staff's determination, based on that  
19 analysis, that certain of the factors in that  
20 program were, as Staff stated, directed toward  
21 shareholder benefit. And thus Staff's  
22 assertion was that those portions of the  
23 Incentive Comp. Program should be removed from  
24 the cost of service.

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 Q And the dollar impact of that is roughly  
2 \$52,000, and is shown on Bates 060 of the  
3 Mullinax/Laflamme testimony, is that right?

4 A (Dane) That was Staff's analysis, yes.

5 Q Okay. So, again, I want to turn to some of the  
6 detail behind this adjustment. And for that,  
7 we need to go to Bates 027 in the  
8 Laflamme/Mullinax testimony. And there's a  
9 chart towards the bottom of the page I'd like  
10 to direct your attention to.

11 And in the chart, would you agree that the  
12 chart correctly recreates the targets in this  
13 Perform Share Unit Plan that Staff said were  
14 directed toward shareholder benefits?

15 A (Simek) Subject to check, yes.

16 Q And I'm sorry, I should have pointed you to the  
17 column at the right-hand side of the chart  
18 that's entitled "Shareholder Focused".

19 A (Simek) Yes.

20 A (Dane) Well, I would just add, I don't know  
21 that, if that's Staff's characterization. That  
22 my assumption is that that's Staff's  
23 characterization of the focus of those portions  
24 of the plan.



[WITNESS PANEL: Simek|Dane]

1 Q Fair enough. I would agree with that. Would  
2 you agree that the first one that, in Staff's  
3 view, was shareholder focused is called "net  
4 income"? There aren't line numbers on this  
5 chart, but it's the second line in the chart.

6 A (Dane) Yes. It says "Deliver Targeted State  
7 Net Income".

8 Q And would you agree that -- would you agree  
9 that the next one is return on equity?

10 A (Dane) Yes. It says "Deliver Targeted State  
11 ROE".

12 Q And would you agree that the next one is an  
13 acronym, "EBITDA"? And could you tell us what  
14 you understand "EBITDA" to mean?

15 A (Dane) Yes. As generally used, "EBITDA" is  
16 "earnings before interest, taxes, depreciation,  
17 and amortization".

18 Q Okay. And then further down the chart, would  
19 you agree that the last item that Staff  
20 contends is "shareholder focused" is related to  
21 profit?

22 A (Dane) It appears so. It says "Deliver  
23 Targeted Growth in Regional Operating Profit".

24 Q Okay. Would you agree that all these factors

[WITNESS PANEL: Simek|Dane]

1 or criteria have one common element, which is  
2 net income?

3 A (Dane) I would more likely characterize it as  
4 they involve income or inputs to income from  
5 the profit and loss statement. And I'm  
6 specifically thinking of EBITDA in that  
7 qualification.

8 Q And the "E" in "EBITDA" is "earnings" you said,  
9 right?

10 A (Dane) Yes. That's correct.

11 Q And you would distinguish earnings from income,  
12 is that what you're saying?

13 A (Dane) Well, EBITDA starts with earnings, but  
14 then builds back up to an EBITDA number that  
15 reflects the other portions of that acronym.

16 Q Right. But you would agree that income is an  
17 element in EBITDA, would you not?

18 A (Dane) Yes.

19 Q Okay. If a utility company were to reduce  
20 expenses related to billing and handling  
21 customer complaints in a given year, what would  
22 be the effect of such a reduction on either net  
23 income, return on equity, EBITDA, or regional  
24 profits, all other things being equal?

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 A (Dane) All else equal, generally reducing an  
2 expense would lead to an increase in income.

3 Q And similarly, if a utility were to reduce tree  
4 trimming, I guess this would be more  
5 appropriate for an electric utility, an expense  
6 like tree trimming or line maintenance, what  
7 would be the impact on those items?

8 A (Dane) The impact on income?

9 Q On net income, return on equity, EBITDA, and  
10 regional profits?

11 A (Dane) Again, all else equal, I would expect a  
12 reduction in expense to result in an increase  
13 to net income.

14 Q And isn't it correct that dividends are paid  
15 out of income?

16 A (Dane) Yes. Generally, that's correct.

17 Q And isn't it correct that dividends are paid to  
18 shareholders?

19 A (Dane) Generally, yes.

20 Q Okay. And I have one more adjustment that was  
21 proposed by the Laflamme/Mullinax panel that  
22 I'd like to talk about, and that has to do with  
23 a invoice that was paid for a consultant  
24 related to a pipeline project. In order to do

[WITNESS PANEL: Simek|Dane]

1 that, we need to turn to Bates Page 020 in the  
2 Laflamme/Mullinax testimony.

3 Sorry, I have the wrong reference there.  
4 Just give me a moment please. It's actually  
5 Bates Page 057. My apologies.

6 And would you agree that Staff's  
7 adjustment in this case was intended to spread  
8 the costs of an invoice paid for analysis of  
9 the Northeast delivery pipeline over a  
10 three-year period?

11 A (Dane) Yes. I believe that is correct.

12 Q And the Company's position was to include this  
13 figure, as it was incurred in the test year, in  
14 full in the revenue deficiency. Would you  
15 agree with that?

16 A (Dane) Yes. It was included in the test year.

17 Q And the amount of this invoice is roughly  
18 \$43,000, is that correct, as shown on Bates  
19 057?

20 A (Dane) Yes. That's correct.

21 Q And would you agree that the impact of Staff's  
22 adjustment, which was to spread this cost over  
23 three years, versus the Company's proposal to  
24 collect it in full, is \$28,000, as shown in

[WITNESS PANEL: Simek|Dane]

1 Column B on Bates 057?

2 A (Dane) Yes. That's the impact that Staff has  
3 calculated.

4 Q Okay. Could you explain what this invoice was  
5 for? What services were performed?

6 A (Simek) Just based on a description of the  
7 invoice, it sounds like it was an outside  
8 consultant who was hired to perform some  
9 analysis that the Company had requested them to  
10 do.

11 Q Do you agree with Staff's characterization on  
12 Bates 057 that it had to do with the "NED  
13 Supply Pipeline Capacity Analysis"?

14 A (Simek) Subject to check, yes.

15 Q And could you tell us what the "NED Supply  
16 Pipeline" was or is?

17 A (Simek) It was a proposed project that is no  
18 longer viable.

19 Q Okay. What was it -- what did the project  
20 involve?

21 A (Simek) Bringing natural gas into New  
22 Hampshire. It was a pipeline project.

23 Q And isn't it correct that Liberty signed a  
24 precedent agreement for firm transportation on

[WITNESS PANEL: Simek|Dane]

1 this proposed pipeline?

2 A (Simek) I believe so, yes.

3 Q Okay. Can you point to any other similar  
4 projects that occurred during the test year?

5 And by "similar projects", instances where the  
6 Company signed a precedent agreement for firm  
7 transportation on an interstate pipeline?

8 A (Simek) Not off the top of my head, no.

9 Q Can you recall any similar situations in recent  
10 memory, say, five years back or so?

11 A (Simek) It's not really my area of expertise,  
12 but, no.

13 Q Do you know when the last time Liberty signed a  
14 precedent agreement or an actual agreement for  
15 firm transportation on an interstate pipeline  
16 was?

17 A (Simek) I do not.

18 Q Are you familiar with the Granite Bridge  
19 Project?

20 A (Simek) I am.

21 Q Are there similar analyses being done on the  
22 Granite Bridge Project?

23 A (Simek) I would assume so.

24 Q Do you know how those are being accounted for?

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 A (Simek) I do not.

2 Q Do you know if any costs associated with the  
3 Granite Bridge Project are included in this  
4 rate case, in this revenue deficiency?

5 A (Simek) I can say there are none.

6 Q And would that be because they were incurred  
7 after this case or are they being handled  
8 differently from an accounting perspective, or  
9 some other reason?

10 A (Simek) I don't know how they're being handled  
11 right now from an accounting perspective. I  
12 say that because the costs have been incurred  
13 after this test year.

14 MR. DEXTER: Okay. That's all the  
15 questions I have for this panel.

16 CHAIRMAN HONIGBERG: Commissioner  
17 Bailey.

18 CMSR. BAILEY: Good morning.

19 WITNESS SIMEK: Good morning.

20 WITNESS DANE: Good morning.

21 BY CMSR. BAILEY:

22 Q Can we go back to Bates Page 070 in the  
23 testimony labeled "Simek/Dane Permanent  
24 Rates"?

[WITNESS PANEL: Simek|Dane]

1 A (Dane) Okay. We're there.

2 Q Okay. And this is a calculation of rate base?

3 A (Dane) That's correct.

4 Q So, you start with your plant balance and you  
5 remove depreciation, and that's your net plant.  
6 And that's what you earn a return on equity on,  
7 right?

8 A (Dane) That's a portion of it.

9 Q So, you earn a return on equity on prepayments  
10 and cash working capital?

11 A (Dane) The Company factors these into the rate  
12 base, and then nets out deferred tax liability.  
13 So, the net of that forms the rate base on  
14 which the return is calculated.

15 Q So, why is it appropriate to earn a rate of  
16 return on cash working capital and prepayments?

17 A (Dane) Generally, those are funds that the  
18 Company has had to put forward before it incurs  
19 the expense. And, so, those are funds that are  
20 tied up generically during that period. And,  
21 so, it's a general regulatory practice to  
22 include some allowance in rate base for those  
23 types of expense incurrences.

24 A (Simek) If I could add to that please?



[WITNESS PANEL: Simek|Dane]

1 Q Sure.

2 A (Simek) The Company did point out that there is  
3 validity in Staff's approach that there is a  
4 double-count between -- a potential theoretical  
5 double-count between having both prepayments in  
6 the cash working capital calculation and in the  
7 regular rate base. What we disagreed with  
8 Staff was that it was a one-for-one agreement.

9 So, we did take that into account in our  
10 negotiations in this Agreement with the OCA,  
11 that we believed that there was some validity  
12 to their point that it was some sort of a  
13 double-count.

14 Q Are you -- can you speak to the overall revenue  
15 requirement that was agreed upon in the  
16 Settlement?

17 A (Simek) The 10.3 million?

18 Q Yes. Well, and I have a question about that.  
19 And maybe, if you can't answer it --

20 A (Simek) If I can, I will.

21 Q Okay. So, the Company's original request for a  
22 revenue requirement was 14 and a half million.  
23 And you -- right, about?

24 A (Simek) Correct. Yes.

[WITNESS PANEL: Simek|Dane]

1 Q And you agreed to a return on equity of  
2 9.4 percent?

3 A (Simek) Correct.

4 Q So, if nothing else changed, what would the  
5 revenue requirement have been?

6 A (Simek) I believe it had a 1.7 -- \$1.6 or  
7 \$1.7 million impact based on the change in ROE.

8 Q Okay. So, that would get the revenue  
9 requirement down to about 12.8 million?

10 A (Simek) Correct.

11 Q All right. And, so, the difference between the  
12 12.8 million and the 10.3 million, two and a  
13 half million dollars, includes all the  
14 adjustments that you agreed with, plus a  
15 settlement on iNATGAS, plus Keene -- no, not  
16 Keene. All the adjustments equate to two and a  
17 half million dollars?

18 A (Simek) All the adjustments themselves, yes.  
19 That was part of the Agreement, which reflects  
20 all issues that were brought up by both Staff  
21 and the OCA.

22 Q Okay. And do you know off the top of your head  
23 what the sum of all the adjustments that Staff  
24 would have had you make was?

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Simek|Dane]

1 A (Simek) I don't.

2 Q Okay.

3 A (Simek) Not off the top of my head.

4 Q Okay. All right. I had a question about the  
5 payroll expenses being calculated -- oh. Did  
6 you say that the payroll expenses that you used  
7 were calculated, rather than actual payroll  
8 expenses that you used in the test year,  
9 because you said it included estimated amount  
10 of overtime based on the full complement?

11 A (Dane) Correct. Well, the analysis was based  
12 on an employee-by-employee analysis of payroll,  
13 benefits, and similar type of wage and payroll  
14 expenses, based on the complement as of 2017.

15 Q And the disagreement between you and Staff is  
16 whether it was based on the complement at the  
17 end of year or what did you use?

18 A (Dane) The area of disagreement there is that  
19 Staff reflected an estimate of vacancies that  
20 the Company has, based on two points of data.  
21 One was back in January 2016 and the other was  
22 in November of 2017. And, so, Staff determined  
23 that they would propose a reduction based on  
24 those, I think it was about a three and a half

[WITNESS PANEL: Simek|Dane]

1 average of vacancies.

2 Q But the way you did it, you didn't look at the  
3 payroll expenses that you actually incurred  
4 during the test year?

5 A (Dane) Well, that's the starting point. But  
6 then the Company put together an analysis of  
7 the employees that would have been with the  
8 Company in the test year, and then still in  
9 2017, as well as additional positions that were  
10 identified. And then, based on those  
11 employees' salaries, on an  
12 individual-by-individual basis, calculated a  
13 *pro forma* rate year amount that reflects that  
14 employee-by-employee analysis.

15 So, the basis for the test year and the  
16 rate year would be similar, in that the test  
17 year is made up of each individual employee's  
18 salary, added up together to come up with an  
19 expense. We did a similar analysis for the  
20 rate year, based on that, the full complement  
21 needed in 2017.

22 Q Okay. So, in the analysis of the test year, or  
23 in the actual test year, did you include  
24 overtime for employees that had to take up the

[WITNESS PANEL: Simek|Dane]

1 slack for the people that weren't there?

2 A (Dane) I would say that that overtime is in the  
3 test year. But, when we adjusted to what I'm  
4 calling a "rate year" amount, it was based on  
5 the overtime that, based on that  
6 employee-by-employee analysis of the Company to  
7 determine what the overtime would be for 2017.

8 Q So, you actually estimated the labor costs for  
9 2017 and compared them to the actual expense  
10 from 2016?

11 A (Dane) Yes, generally, to develop the increment  
12 that the Company would need in 2017, based on  
13 its determination of an employee complement.

14 Q And that's because that's known and measurable?

15 A (Dane) Right. Because the Company knows the  
16 salaries for the employees, they know the  
17 benefit choices they have made, so they're able  
18 to determine on a full year's basis what that  
19 expense would be.

20 Q Do you have any way to know what the amount in  
21 the test year for temporary and contract labor  
22 was?

23 A (Dane) I can speak generically to what that  
24 account was, in terms of how the Company

[WITNESS PANEL: Simek|Dane]

1 accounts for its outside contractors. I don't  
2 know the increment that would be for temporary  
3 employees that may be backfilling jobs for  
4 vacancies. We do report the entire amount of  
5 that account, which includes all outside  
6 contractors. But I don't have the increment  
7 for the temporary piece.

8 Q Where in the record is the analysis of the 2017  
9 calculation of your known and measurable  
10 requirements for labor and payroll?

11 A (Dane) It's in our schedules. And I can point  
12 you to our -- the initial filing. And the  
13 schedule --

14 *[Court reporter interruption.]*

15 **CONTINUED BY THE WITNESS:**

16 A (Dane) Oh, I'm sorry. I can give you the  
17 schedule name and number for the initial  
18 filing. It would have been updated through the  
19 pendency of this case. But let me provide  
20 that.

21 BY CMSR. BAILEY:

22 Q Okay.

23 A (Dane) It's a series of schedules. And if we  
24 want to use Bates pages, it's Bates Page 048 is

[WITNESS PANEL: Simek|Dane]

1 the salary and wage expense.

2 Q Okay. Give me a second. Okay. Thank you.

3 Can you show me on this schedule where the  
4 temporary and contract labor is?

5 A (Dane) Oh, I apologize. This is our analysis  
6 of the Company's wages and salaries. So that  
7 the temporary labor incurred during the test  
8 year is included in an account on the income  
9 statement. And, so, that's a separate schedule  
10 that I can point you to.

11 Q Okay.

12 A (Dane) So, if we can turn to Bates Page 042.

13 Q All right.

14 A (Dane) And if you look at Line 59 on that Bates  
15 page, there's a line item for "Outside Services  
16 Employed".

17 Q I see it.

18 A (Dane) And I can't speak to the individual  
19 accountings within this account, but my  
20 understanding is that that would be where  
21 outside services are recorded.

22 Q Okay. Thank you.

23 A (Dane) And I'll just qualify it for clarity,  
24 that this line does not represent temporary

[WITNESS PANEL: Simek|Dane]

1 employees to backfill any job positions. To  
2 the extent that existed, it would be in this  
3 account. But it wouldn't be -- the Company  
4 also used outside services for a variety of  
5 services on an ongoing basis. So, that the  
6 thing we're talking about would be an increment  
7 within there, it wouldn't be the entire amount.

8 CMSR. BAILEY: All right. Thank you.  
9 I think that's all I have.

10 CHAIRMAN HONIGBERG: Commissioner  
11 Giaimo.

12 CMSR. GIAIMO: Good morning.

13 WITNESS DANE: Good morning.

14 WITNESS SIMEK: Good morning.

15 CMSR. GIAIMO: So, just a couple of  
16 questions.

17 BY CMSR. GIAIMO:

18 Q Bates 009 of your -- of Exhibit 23, which is  
19 your rebuttal testimony, you talk a little bit  
20 about this installing of mains in Manchester.  
21 I just want to make sure I understand this  
22 properly. So, the suggestion made by the  
23 Company is that Staff should not have removed  
24 the \$350,000 in capital investment as a result



[WITNESS PANEL: Simek|Dane]

1 of this project, because the project was not a  
2 growth project, but instead was what I would  
3 refer to as a "reliability project", it  
4 eliminates pressure losses and was done for the  
5 system as a whole. Do I have that right? Is  
6 that the situation?

7 A (Simek) I believe so, yes.

8 Q Okay. And then, with respect to this gross-up  
9 issue on the next page, Page 10. I was  
10 wondering if you could provide some  
11 elaborate -- if you can elaborate slightly on  
12 that. There's a need to factor in a gross-up  
13 factor, if you could explain why that is?

14 A (Dane) Our statement was that, in order to  
15 follow through with Staff's analysis in which  
16 it applied a tax effect to expenses that were  
17 brought into this type of adjustment, which we  
18 disagreed with, we pulled that out. And we  
19 said, if you were to include that tax effect,  
20 it would also be appropriate to include a tax  
21 gross-up on the revenues that the Company would  
22 receive for those expenses that are flowing  
23 through the step adjustment.

24 Q Okay. I think I'd like to give you an

[WITNESS PANEL: Simek|Dane]

1 opportunity to explain maybe the difference and  
2 the ramifications of the -- with the  
3 15-month -- I'm sorry, the 5-month average  
4 versus the 13-month average, how that plays  
5 itself out, and why yours is the more  
6 appropriate mechanism?

7 A (Dane) Sure. So, in rate base, there's an  
8 allowance for prepayments, and there's also an  
9 allowance for cash working capital. And  
10 prepayments, as we described, represent  
11 expenses the Company pays up front, pays ahead  
12 of time, and then they're incurred over time.  
13 The cash working capital study, also by virtue  
14 of the way it's performed, captures some amount  
15 of those expenses, too. And if you calculate a  
16 net lag, it means that the Company would  
17 theoretically be prepaying the expense as well.

18 And, so, Staff testified to that, what  
19 Staff referred to as a "double-count" in the  
20 rate base. And our rebuttal was that we agreed  
21 there's a theoretical portion of that that  
22 could be considered double-counting, but that  
23 it wasn't dollar-for-dollar, because, from a  
24 practical perspective, Staff's adjustment would

[WITNESS PANEL: Simek|Dane]

1 offset the entirety of the cash working capital  
2 allowance, as opposed to that increment which  
3 is owing to these prepayments.

4 CMSR. GIAIMO: Okay. Thank you. I'm  
5 set. Thanks.

6 BY CHAIRMAN HONIGBERG:

7 Q Mr. Simek, understanding that neither of us is  
8 an employment lawyer, the employees who are  
9 listed as "resigned", but who got severance, is  
10 it possible that those are people who were told  
11 they were losing their jobs and were given  
12 severance in exchange for signing of releases?

13 A (Simek) Absolutely, yes.

14 CHAIRMAN HONIGBERG: My other  
15 questions were answered. So, I don't have  
16 anything else.

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

19 MR. SHEEHAN: I have a short laundry  
20 list of odds and ends just to clear up, if I  
21 may.

22 **REDIRECT EXAMINATION**

23 BY MR. SHEEHAN:

24 Q One of the topics that Mr. Dexter covered were

[WITNESS PANEL: Simek|Dane]

1 revenues, and he used the example of "assume an  
2 employee starts in July" -- new customer, I'm  
3 sorry, "a customer comes on in July and you're  
4 collecting revenues from that customer". Would  
5 the calculation include a full year's revenue  
6 from that customer or only the six months that  
7 that customer was a customer for that year?

8 A (Simek) Only the six months.

9 Q And similarly, would the cost, theoretically,  
10 of the service and the meter also be the six  
11 months' worth of costs --

12 A (Simek) Yes.

13 Q -- would be included in the calculation?

14 A (Simek) Yes.

15 Q Does the step adjustment include any  
16 non-revenue producing plant additions?

17 A (Dane) No. As adjusted, it represents  
18 non-revenue generating investments.

19 A (Simek) Yes. Just for clarification, it only  
20 includes non-revenue producing projects.

21 Q Mr. Dexter then went through a whole bunch of  
22 the various adjustments related to the -- in  
23 the context of discussing the customer  
24 addition. Were any of those adjustments relate

[WITNESS PANEL: Simek|Dane]

1 to customer additions or would they be  
2 adjustments that would be, you know, in play  
3 regardless of what adjustment -- change in  
4 customer counts?

5 I didn't ask that very well. I'm getting  
6 blank stares.

7 A (Simek) Yes. Can you restate the question  
8 please?

9 Q Sometimes we lose context in our notes.  
10 Employee count, is it fair to say the  
11 disagreement here, and I think, Mr. Dane, you  
12 hit on it, is that Staff's recommendation is  
13 that we should have roughly three fewer  
14 employees in our calculation than we have?

15 A (Dane) Yes. That's correct.

16 Q It takes a lot of work to get there, but at the  
17 end of the day that seems to be the bottom-line  
18 disagreement?

19 A (Dane) Right. Except I think it was three and  
20 a half employees.

21 Q On the consultant for the NED Project, is it  
22 fair to say the Company's position on those  
23 costs is that, although this cost was  
24 particular to NED, the Company regularly hires

[WITNESS PANEL: Simek|Dane]

1 consultants for various matters over the course  
2 of a year, in this particular year it happened  
3 to be the NED consultant?

4 A (Simek) Correct.

5 Q And this year it might be a special consultant  
6 to work through the tax effect of the new law  
7 or something like that?

8 A (Simek) Correct. It's common for the Company  
9 to hire outside accountant -- outside  
10 consultants to help with different types of  
11 studies and analysis.

12 Q And, so, that's why the Company considers this  
13 particular cost to be a regular cost?

14 A (Simek) Absolutely.

15 Q All told, Mr. Dexter covered a half a dozen or  
16 so adjustments that Staff recommended and with  
17 which the Company disagreed, as we talked about  
18 this morning. Is it fair to say that all these  
19 adjustments and all these disagreements are  
20 part of what formulated ultimately the revenue  
21 requirement agreement that we have placed  
22 before the Commission?

23 A (Simek) Yes.

24 Q And absent an agreement, the Commission would

[WITNESS PANEL: Simek|Dane]

1 be deciding adjustment-by-adjustment who was  
2 right and who was wrong. And the proposal is,  
3 we've, at least as with the OCA, we've come to  
4 an agreement of how to resolve that globally?

5 A (Simek) Correct.

6 MR. SHEEHAN: That's all I have.  
7 Thank you.

8 CHAIRMAN HONIGBERG: All right.  
9 Thank you, gentlemen. I think you can return  
10 to your seats.

11 Let's go off the record.

12 *[Brief off-the-record discussion*  
13 *ensued.]*

14 (Whereupon **William J. Clark** and  
15 **Stephen R. Hall** were recalled to  
16 the witness stand, having been  
17 previously sworn.)

18 CHAIRMAN HONIGBERG: All right. Mr.  
19 Clark and Mr. Hall have returned to the witness  
20 stand to continue their testimony that was  
21 interrupted at the end of the last hearing day.  
22 They're still under oath.

23 And, Mr. Dexter, you can resume your  
24 questioning.

[WITNESS PANEL: Clark|Hall]

1 MR. DEXTER: Thank you, Mr. Chairman.  
2 Good morning.

3 WITNESS CLARK: Good morning.

4 WITNESS HALL: Good morning.

5 **WILLIAM J. CLARK, previously sworn**

6 **STEPHEN R. HALL, previously sworn**

7 **CROSS-EXAMINATION (resumed)**

8 BY MR. DEXTER:

9 Q Last time when we addressed this issue, I had  
10 asked you if a Business Case had been prepared  
11 for the iNATGAS operations. And I believe your  
12 answer was "yes", a Business Case had been  
13 prepared. Do you recall that?

14 A (Clark) I do. Correct.

15 MR. DEXTER: Okay. I'd like to take  
16 the time to introduce the Business Case that  
17 was referenced into the record at this point.  
18 And it comes in the form of an attachment to a  
19 request that was made by Liberty Consulting.  
20 And the response is titled "PB-5", and there  
21 are several attachments to it. And counsel for  
22 all parties have been alerted that this would  
23 be submitted as an exhibit.

24 *[Mr. Iqbal distributing*



[WITNESS PANEL: Clark|Hall]

1 *documents.]*

2 MR. SHEEHAN: Mr. Chairman, there may  
3 be a couple confidential pieces in one of  
4 these. And my proposal is we go through the  
5 testimony. The witnesses are attuned to it,  
6 and they won't say it without flagging it. And  
7 then, after-the-fact we can go through any  
8 necessary redactions to these documents.

9 CHAIRMAN HONIGBERG: Thank you, Mr.  
10 Sheehan. So, this is "Exhibit 43".

11 (The document, as described, was  
12 herewith marked as **Exhibit 43**  
13 for identification.)

14 BY MR. DEXTER:

15 Q So, could you turn to Page 2 of Exhibit 42  
16 please, Page 2 and 3. It's Exhibit 43. Would  
17 you agree that this was the Business Case that  
18 was submitted to senior management in  
19 connection with the iNATGAS facility?

20 A (Clark) Yes.

21 Q And is it -- are the Pages 2, 3, 4, and 5 part  
22 of the Business Case or are Pages 4 and 5  
23 something else? I understood them to be -- for  
24 it to be a four-page Business Case. Can you

[WITNESS PANEL: Clark|Hall]

1 confirm that for me?

2 A (Clark) That is correct. The Capital Project  
3 Expenditure Application gets attached to the  
4 Business Case.

5 Q Okay. Good. So, if you could turn to Page 2,  
6 and to the paragraph marked "Objective(s)".  
7 Would you agree that this Business Case says  
8 that "At the negotiated the take or pay minimum  
9 requirements it is projected that Liberty will  
10 recover its investment in 5.5 years."

11 A (Clark) I agree. That's what it says.

12 Q Okay. And similarly, under the baseline  
13 scenario we were talking about, it says "the  
14 investment will be recovered in four years",  
15 correct?

16 A (Clark) Correct.

17 Q So, what does that mean, to "recover its  
18 investment"?

19 A (Clark) My understanding in this case was the  
20 distribution revenues and rents received in  
21 total, in 5.5 years, would equal the direct  
22 cost of the investment.

23 Q Could that be -- could that be referred to as a  
24 "simple payback analysis"?

[WITNESS PANEL: Clark|Hall]

1 A (Clark) Sure.

2 Q Okay. Now, I'd like to direct your --

3 MR. DEXTER: I have two other  
4 exhibits I'd like to hand out. It's the  
5 testimony of Mr. Clark and the testimony of Mr.  
6 Hall, from Docket 14-091, which is the docket  
7 where the Commission reviewed and approved the  
8 special contract.

9 *[Mr. Iqbal distributing*  
10 *documents.]*

11 MR. DEXTER: And we'll start with Mr.  
12 Clark. So, that would be "Exhibit 44"?

13 CHAIRMAN HONIGBERG: "Forty-four".

14 MR. DEXTER: And Mr. Hall would be  
15 "45".

16 (The documents, as described,  
17 were herewith marked as  
18 **Exhibit 44** and **Exhibit 45**,  
19 respectively, for  
20 identification.)

21 CHAIRMAN HONIGBERG: Off the record.

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

24 MR. DEXTER: Forty-four (44) was a

[WITNESS PANEL: Clark|Hall]

1 redacted version.

2 CHAIRMAN HONIGBERG: Whenever you're  
3 ready, Mr. Dexter.

4 MR. DEXTER: Thank you.

5 BY MR. DEXTER:

6 Q So, if we could go to Exhibit 44, which is the  
7 Clark testimony from DG 14-091, and turn to  
8 Bates Page 017. Would you agree that the last  
9 answer on that page also represents the simple  
10 payback we just spoke about for the iNATGAS  
11 facility?

12 A (Clark) Yes.

13 Q And you would agree that the payback years that  
14 you gave are the same as what was presented in  
15 the Business Case?

16 A (Clark) Correct.

17 Q Okay. And I wanted to look at Mr. Hall's  
18 testimony from DG 14-091. This is  
19 "Exhibit 45". And I would like to look at Page  
20 5 please. And, Mr. Hall, would you agree that  
21 at Line 5 your testimony states that "As shown  
22 on the attachment, even if the revenue under  
23 the contract remains at the minimum level,  
24 there will be a cumulative net benefit starting

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}

[WITNESS PANEL: Clark|Hall]

1 in the fifth year term of the contract"?

2 A (Hall) Yes.

3 Q And would you describe what you mean by  
4 "cumulative net benefit" in this instance?

5 A (Hall) It means that, by year five of the  
6 contract, the amount of revenue expected to be  
7 received exceeded the total of the revenue  
8 requirement for up to that point.

9 Q So, that's a slightly different analysis than  
10 what -- or, it's a different analysis than what  
11 Mr. Clark put in his testimony, would you  
12 agree?

13 A (Hall) I'm not sure about that.

14 Q Well, Mr. Clark's analysis indicated that "the  
15 investment" would be paid back in a stated  
16 number of years, depending on the scenario.  
17 And what I understood that to mean was that the  
18 investment of 2.2 million would be recovered.  
19 Is that right, Mr. Clark?

20 A (Clark) Correct. If I could shed a little  
21 light on the analysis, at the time, our tariff  
22 did not include a DCF analysis. We were  
23 looking at this project similar to other growth  
24 projects, which, for a commercial account,

[WITNESS PANEL: Clark|Hall]

1 required a six-year payback. So, you would  
2 take direct costs of a project, if the expected  
3 revenues over six years exceeded that, you  
4 would move forward with the project.

5 Q Yes. And I wanted to get into the DCF analysis  
6 in a moment that was presented in DG 14-091.  
7 But I just wanted to go back to the analysis in  
8 Mr. Hall's testimony, and ask if he could  
9 distinguish between his analysis, which focuses  
10 on cumulative net benefits, and Mr. Clark's  
11 analysis, which focuses on recovering the  
12 Company's investment?

13 A (Hall) Sure. If I understood Mr. Clark's  
14 response, his analysis was what you referred to  
15 earlier as a "simple payback". When does the  
16 amount of revenue that you receive equal the  
17 upfront cost, the initial cost of the project,  
18 the direct cost?

19 The DCF analysis that was attached to my  
20 testimony was not just a simple payback. It  
21 looked at the revenue requirement associated  
22 with the direct cost of the project. Revenue  
23 requirement includes -- it's a year-by-year  
24 number that includes depreciation, return,

[WITNESS PANEL: Clark|Hall]

1 taxes, and so on. And that, those amounts,  
2 were compared to the anticipated revenue at  
3 three different consumption levels.

4 Q And that's shown on -- I'm sorry, were you  
5 finished? I didn't mean to cut you off.

6 A (Hall) No. I'm done.

7 Q Okay. So, that's shown on Page 7 of  
8 Exhibit 45, correct?

9 A (Hall) Yes, it is.

10 Q Okay. And there's no -- you referred to this  
11 as a "DCF analysis". "DCF" stands for  
12 "discounted cash flow", correct?

13 A (Hall) Yes. I stand corrected. This isn't a  
14 DCF analysis.

15 *[Court reporter interruption.]*

16 **CONTINUED BY THE WITNESS:**

17 A (Hall) This is not a DCF analysis. I didn't  
18 take the net present value of the stream of  
19 benefits and costs.

20 MR. DEXTER: Okay. Well, I have one  
21 more exhibit that goes to that very question.  
22 So, we may as well hand that one out as well.

23 WITNESS HALL: Okay.

24 MR. DEXTER: Sorry. That one's

[WITNESS PANEL: Clark|Hall]

1 already been put in the record. I believe  
2 that's "Exhibit 38". I just need a minute to  
3 find it myself.

4 So, I'm holding before me Staff --  
5 Liberty's response to Staff 1-1, in DG 14-091.  
6 This was made an exhibit last week. My  
7 notations indicate that it's "Exhibit 38", but  
8 I stand corrected if I'm off on the exhibit  
9 number.

10 CHAIRMAN HONIGBERG: That's what I  
11 have.

12 WITNESS HALL: I don't have that in  
13 front of me. I don't have that with me.

14 MR. DEXTER: Okay.

15 MR. SHEEHAN: Which?

16 MR. DEXTER: We marked it as  
17 "Exhibit 38".

18 MR. SHEEHAN: Yes, but what's the --

19 MR. DEXTER: Oh. Staff 1-1, and  
20 there's two attachments.

21 CHAIRMAN HONIGBERG: I think we're  
22 all with you, Mr. Dexter.

23 MR. DEXTER: Okay.

24 BY MR. DEXTER:



[WITNESS PANEL: Clark|Hall]

1 Q So, Mr. Hall, would you agree that this is the  
2 discounted cash flow analysis that you were  
3 referencing earlier from the prior docket,  
4 14-091?

5 A (Hall) Yes.

6 Q Would you agree that this was done at the  
7 request of Staff, in response to Staff Question  
8 1-1?

9 A (Hall) Yes, it was.

10 Q And could you indicate whether this was done  
11 before Staff requested it?

12 A (Hall) I don't follow you.

13 Q Was this or a similar discounted cash flow  
14 analysis for the iNATGAS project done by  
15 Liberty before Staff propounded this data  
16 request?

17 A (Hall) I don't recall.

18 Q Okay. So, could you describe the results of  
19 this analysis and what this one includes that  
20 the other schedule attached to your prefiled  
21 testimony in the prior docket did not include?  
22 I think you indicated that this has some  
23 discounting and some net present value numbers.

24 A (Hall) Sure.

[WITNESS PANEL: Clark|Hall]

1 Q And if you could explain that, I think that  
2 would be helpful.

3 A (Hall) I think the only difference between the  
4 two exhibits, 45 and what is this one, 38, is  
5 that this exhibit calculates the net present  
6 value of the stream of excess revenue or  
7 deficiency over 15 years, that appears on  
8 Line 49, another one appears on Line 54, and a  
9 third one -- well, check that. Lines 49, the  
10 lower box -- boxed in areas appear to be  
11 cumulative numbers. That net present value is  
12 the net present value of a stream of annual  
13 numbers, not cumulative numbers, of the annual  
14 revenue deficiency or excess associated with  
15 each of the three scenarios.

16 Q And what's shown on Line 50, that's labeled  
17 "NPV", and the number is 1,767,000?

18 A (Hall) That would be the discounted stream  
19 associated with the revenue excess or  
20 deficiency for each year, assuming the minimum  
21 take-or-pay level of consumption, of revenue.

22 Q And you said this analysis goes out 15 years,  
23 is that correct?

24 A (Hall) I believe it does.

[WITNESS PANEL: Clark|Hall]

1 Q Okay.

2 A (Hall) I'd have to look at the model to confirm  
3 that, but I believe it does.

4 Q Because there are 15 years shown across the  
5 various columns, correct?

6 A (Hall) That's why I believe it does.

7 Q And finally, I want to discuss one more  
8 analysis that we found on this project. And  
9 for that I'm going to go back to the response  
10 PB-5, which was Exhibit 43. And I want to look  
11 at the last portion of those attachments, which  
12 are entitled "Over Expenditure Application  
13 2016". And that begins at Bates 007 -- I'm  
14 sorry, Bates --

15 WITNESS HALL: I'd ask counsel if he  
16 could give us a copy of that as well.

17 MR. DEXTER: Bates 006.

18 *(Atty. Sheehan handing document*  
19 *to the witnesses.)*

20 BY MR. DEXTER:

21 Q And would you agree that this was an  
22 application that was submitted to senior  
23 management to seek request of some over  
24 expenditures related to this project?

[WITNESS PANEL: Clark|Hall]

1 A (Clark) Yes.

2 Q Okay. And we'll get into the specifics of the  
3 over expenditures later. But what I wanted to  
4 do was flip to the next page, which I believe  
5 is Bates 007, and focus on the box in the  
6 middle of the page that has a bold question:  
7 "What are the revised project financials as a  
8 result of this Over Expenditure? (IRR, NPV,  
9 etc.)". Do you see that?

10 A (Clark) Yes.

11 Q Okay. And the last sentence of that box reads  
12 "At the negotiated take or pay minimums the IRR  
13 reduces from 13.58 percent to 7.02 percent."  
14 Would you agree that's -- have I read that  
15 correctly?

16 A (Clark) Yes.

17 Q And could you explain what "IRR" means?

18 A (Hall) Certainly. Internal rate of return, or  
19 "IRR", is the annual return of a stream of  
20 uneven cash flows. Stated differently, if --  
21 IRR is also used as a hurdle rate in various  
22 businesses. In other words, in order for a  
23 particular business to make an investment, a  
24 project must exceed the internal rate of

[WITNESS PANEL: Clark|Hall]

1 return. Hurdle rate, there's a threshold that  
2 some businesses establish.

3 Lastly, if one uses internal rate of  
4 return as a discount rate from net present  
5 value, it is the discount rate at which net  
6 present value of a stream of cash flows equals  
7 zero.

8 Have I confused you?

9 Q This all confuses me.

10 A (Hall) Okay.

11 Q Was there an internal rate of return analysis  
12 prepared by Liberty in the 2014 timeframe, when  
13 DG 14-091 was going on?

14 A (Hall) I don't recall. Maybe Mr. Clark does.

15 A (Clark) It appears it was. My best guess was  
16 it was a National Grid model, right after the  
17 close of the transaction of EnergyNorth. And  
18 that's where the IRR came from.

19 Q Okay. But would you agree that it's a  
20 different analysis than either the simple  
21 payback we were talking about or the net  
22 present value that we were talking about, those  
23 two analyses?

24 A (Hall) It is definitely different from simple

[WITNESS PANEL: Clark|Hall]

1           payback. It's similar to a net present value  
2           analysis. Net present value analysis gives you  
3           a dollar amount. Internal rate of return gives  
4           you the rate of return at which net present  
5           value equals zero.

6    Q       Okay. So, I'm going to focus for a while on  
7           Exhibit 38, which is the net present value  
8           analysis, because that was the one that was  
9           presented to the Commission.

10   A       (Hall) Okay.

11   Q       So, would you agree --

12                   CHAIRMAN HONIGBERG: Off the record.

13                           *[Brief off-the-record discussion*  
14                           *ensued.]*

15                   CHAIRMAN HONIGBERG: All right.

16           We're going to break for lunch. We will start  
17           again at -- what is it, 20 after 12? -- 1:30.

18                           *(Whereupon the lunch recess was*  
19                           *taken at 12:20 p.m. and ends the*  
20                           *Morning Session of Day 2. The*  
21                           *hearing continues under separate*  
22                           *cover in the transcript noted as*  
23                            **"DAY 2 Afternoon Session ONLY".)**

24

{DG 17-048}[Day 2/Morning Session ONLY]{03-14-18}