STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

March 21, 2018 - 10:05 a.m. **DAY 3**
Concord, New Hampshire

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
Jody Carmody, Clerk *(after 3:54 p.m.)*

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. *(at 2:07 p.m.)*
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

I N D E X

E X H I B I T S

P R O C E E D I N G

CHAIRMAN HONIGBERG: Good morning, everyone. We're here to resume the hearing in DG 17-048. I know some witnesses are prepositioned.

But, before we do that, let's talk about Liberty's filing yesterday, I guess, of an objection to some Staff testimony that was filed on March 16th.

Mr. Dexter, I assume you've seen the objection?

MR. DEXTER: Yes, I have.

CHAIRMAN HONIGBERG: Anything you want to say in response?

MR. DEXTER: Yes. Staff opposes the objection.

CHAIRMAN HONIGBERG: Kind of goes without saying.

MR. DEXTER: For a couple of reasons, which I can expand upon.

CHAIRMAN HONIGBERG: Why don't you expand upon them.

MR. DEXTER: So, Staff filed this testimony really for two purposes. One was to clarify the record. And I'd like to divide my comments into two sections. One is the supplemental contains an updated revenue requirement, and it also contains a calculation of the impacts of the Tax Reduction Act.

So, dealing with the revenue requirement, all the supplemental testimony does is put into words and numbers all the issue-narrowing that's taken place since the Staff's testimony was filed back in November. Back in November, Staff had recommended a $4.0 million revenue requirement. Since then, the Company filed rebuttal testimony, and then, subsequent to that, the Company and the OCA entered into a Settlement. And subsequent to the Settlement, the Staff agreed to accept the Settlement ROE, 9.5 -- 9.4 percent and the associated weighted average cost of capital.

All the supplemental testimony does is take those issues that were narrowed, most significantly, the 9.4 return on equity, and calculates them. And it comes to a revenue deficiency of $5.7 million.

It answers the question that

Commissioner Bailey asked Witness Mullen last week, and Mr. Mullen gave the correct answer. That Staff's position, reflecting the return on equity, would be about $5.7 million.

So, there's nothing new in the supplemental testimony. There's no surprises. It was provided simply to provide a trail to clear up the record for the Commission, so that they could see what the Staff position was in light of our agreement to the 9.4 return on equity.

There were a few minor corrections that were included, which the witnesses can go through today, but there's nothing significant.

I will say that one of the things that the supplemental testimony does, if you look at Page 4, is that it lists issue-by-issue the various issues that Staff has had in this case. And there's been testimony from the Company that the Settlement that they reached with the Consumer Advocate's Office took into account all of Staff's issues by making certain allowances that fed into the $10.4 million

Settlement revenue requirement.

And, as pointed out by questioning by Commissioner Bailey, the $4 million in allowances that are built into the Settlement Agreement, the difference between the Company's original position of 14 million and their Settlement position of 10 million, that $4 million difference was made up about half by the return on equity settlement. And, so, that left $2 million left over for the other issues. This gives Staff's position on all those other issues.

And the Company's witnesses have said several times that they structured the Settlement in such a way, and the Settlement is written in such a way, that it goes issue-by-issue to address the issues that Staff raised.

Now, tomorrow Mr. Frink will talk about these variance allowances and various issues, but that's for tomorrow. But, in terms of the supplemental testimony, this lays it out dollar-by-dollar what those issues are.

So, in a nutshell, it was put in to

make the record clearer. So, that was part one.

Part two is the Tax Act. So, the supplemental testimony does include a calculation of the effect of the Tax Reduction Act from Staff's viewpoint. There are two particular issues that Staff takes with the calculation of the Tax Act effect that's built into the Settlement. And we can go through those today with the witnesses, as we plan to.

But this was the first opportunity. Staff did not see -- let me back up. The Company filed their case back in May. The Staff filed testimony in November. The Company filed rebuttal in January of this year. None of those testimonies address the impact of the Tax Act. The first that the Staff saw a calculation of the impact of the Tax Act, other than in settlement, was in the actual Settlement that was filed. So, this is our first opportunity to critique the calculation in the Settlement Agreement that deals with the Tax Act. And we have real issues with it.

CHAIRMAN HONIGBERG: Okay. Let me

stop you.

MR. DEXTER: Sure.

CHAIRMAN HONIGBERG: Mr. Sheehan, had Mr. Dexter just put these two witnesses on and started asking them the questions in the supplemental testimony here, what would your objection have been?

MR. SHEEHAN: I don't know, because I don't know what the questions would have been.

CHAIRMAN HONIGBERG: Yes, you do.

MR. SHEEHAN: Well, generally, --

CHAIRMAN HONIGBERG: You have them in front of you. What would they have been?

MR. SHEEHAN: Generally speaking, they probably could have answered most of the questions that were asked in this written testimony.

Our objection, to a large degree, is to the process. Having filed testimony in the middle of a hearing, it just up-ends the practice here, the rules here. And it's the unknown of "what is the calculation that they have now?"

CHAIRMAN HONIGBERG: Do you need a

technical session?

MR. SHEEHAN: I don't think it's appropriate to do that now. We're in a hearing.

CHAIRMAN HONIGBERG: Mr. Sheehan, if they had been asked the questions on the stand that were premised with "Well, you've seen the Settlement. You've heard some testimony. Have any of your positions changed?" They would have said "Yes, some of our positions have changed." "Well, tell me, how have your positions changed on the following issues?"

That's largely what this is. And you would have been sitting there feverishly taking notes on the answers in preparation for cross-examination.

MR. SHEEHAN: And perhaps objecting to a question or two, if I thought it was outside of what an appropriate question would be.

CHAIRMAN HONIGBERG: Okay. Are there questions you object to?

MR. SHEEHAN: The Tax Act questions. We have no notice of what their Tax Act analysis would have been. They knew what our tax analysis was weeks ago. We discussed it. And now they've come up with a new proposal that we've never seen before in this written testimony.

And if they had come up with it on the stand, I would object that that was without notice, without an opportunity to discover what their tax calculations were.

CHAIRMAN HONIGBERG: When should they have filed testimony on the tax questions?

MR. SHEEHAN: The direction in 18-001 was to try to include the tax issues in this docket, if we could. When we failed to reach a settlement with Staff, they lost their opportunity to have input on that issue.

What's in front of you now is our proposal. You certainly don't have to accept it. You could certainly look at our proposal, listen to Staff's critique of our proposal and say "This isn't ready for prime time. We're going to remove it from this case and send it back to 18-001." That's how I think this should have gone.

CHAIRMAN HONIGBERG: So, you'd be okay, with no objection, if we rejected your tax calculations and made -- direct that a reserve of the difference between 35 and 21 and just sort it out in another docket, rather than resolving it here?

MR. SHEEHAN: That's what 001 sets up.

CHAIRMAN HONIGBERG: And you'd prefer that to try to resolve it here? I'm surprised. And I'm wondering whether -- how many days you would need to sort that out with these witnesses to see if we can roll that issue in. Because -- I'm going to split it the way Mr. Dexter did, and it sounds like you do as well. There's the tax questions and there's the other questions. I don't sense that you have objections or you would have had objections had the questions been asked live regarding the other issues.

MR. SHEEHAN: Largely, I tend to agree with you.

CHAIRMAN HONIGBERG: So, if we want to split out the tax issues, how much time do you need?

MR. SHEEHAN: I don't know, honestly. I am not the tax person. I can tell you, we've had weekly calls nationwide on the tax conversation. And it's a moving target. There's lots of questions, lots of issues, and, internally, we still haven't resolved it.

What we proposed here was what we think is a really good estimate of the tax impact. It was an effort to get this money back to customers starting May 1 sooner, and that's what we proposed.

CHAIRMAN HONIGBERG: I mean, we'll get it back to them sooner, if we make you do a reserve of the difference between 35 and 21, without any of the offsets that I'm fairly certain the Tax Act provides. But, if that information can't get litigated and a record can't be made, you know, we'll do what other states have done, which is just tell you to not collect and reserve the difference.

MR. SHEEHAN: There's already a procedure in place. We're supposed to make a filing by April 1 of proposals, and the

Commission is going to act based on those proposals for all the companies that are not in rate cases. And we would just be in the soup with all those other matters.

At the end of the day, it's a pass-through for us, obviously. We'll collect, you know, we'll be paying less tax, and we have to make an adjustment so the right number gets to the customers.

CHAIRMAN HONIGBERG: No, but, you know, utilities are not just treating this as a pass-through. In most instances, they're identifying other things that can be done with money that comes into their hands that would be good and valuable things.

And we heard from a different utility regarding their vegetation management. And one of the reasons why a rate increase isn't required is accounting for the changes in the tax laws. They're going to say, "well, we're going to have some more revenue. And, so, rather than return it, we're going to just apply that to the vegetation management." That was their proposal.

I will -- I expect other utilities to make similar proposals. Returning some money to ratepayers and not returning other monies to ratepayers. I don't know what you're going to be doing if you have to make a filing. But maybe now is not the time to litigate the tax issue. And we'll just, you know, we'll see your filing on April 1st, and we'll just remove that from this case. That would be a shame.

MR. SHEEHAN: I agree.

CHAIRMAN HONIGBERG: So, I'm going to ask you to consider then, while -- at your next break, having a discussion with your people about how long it would take you to develop responses or have a technical session with these witnesses about the tax issue, to understand what needs to be understood. Maybe it can't be done. But it seems like that's the only issue on which you would have an issue. That didn't come out well. That's the only set of questions which you take issue.

MR. SHEEHAN: Right. And to be clear, I believe our Tax Reform Act proposal is to return all of the extra, if you will, money to customers. You're right. Other utilities have proposed other things with the money, but that wasn't ours.

CHAIRMAN HONIGBERG: But there's a calculation in there that identifies the other aspects of the tax law, the change. The elimination of the accelerated depreciation. I've forgotten what some of the others are.

MR. SHEEHAN: Right.

CHAIRMAN HONIGBERG: I mean, the other Commissioners and I were all at an event down in Washington, D.C., where there must have been five panels talking about the Tax Act. And how it's not as simple as it seems. Don't just cut everybody back. And we understand that. So, we want to make sure that it's done thoughtfully and well.

MR. SHEEHAN: We will have that conversation. Ms. Girardi, at the end of the table, is one of the leaders of the Company nationwide in these conversations. So, we have some expertise here. But we'll see what we can do then over the lunch, I guess.

And then I do want to emphasize the

other part of our objection is the process. It's a precedent of filing testimony in the middle of a case that I'm not sure we need to go to.

CHAIRMAN HONIGBERG: I appreciate that. And I think, in certain circumstances, it might create more of a problem than it will here.

But, at the end of the day, in this proceeding, where it would be testimony responding to a partial settlement, or a settlement among less than all parties, from Staff, they're putting you on notice before they do it live, when they pretty clearly would be allowed to do it live. And, so, I think you're better off in this scenario substantively, even though there is an awkward process.

I mean, and maybe what we would like Staff to do in that circumstance is file something a few days before, that says "we'd like to file some supplemental testimony to put the parties on notice of what our position is going to be." You know, that didn't happen here, and it's water under the bridge. But I don't see how you're prejudiced in this circumstance.

MR. SHEEHAN: I understand that. And what other part that concerns me is I don't know what I don't know. I mean, we get this on Friday afternoon, we're literally at the walk-through when this came in.

CHAIRMAN HONIGBERG: I'm offering you a technical session.

MR. SHEEHAN: I understand.

CHAIRMAN HONIGBERG: I mean, if you want to take a couple hours and talk with these witnesses about the new testimony, you can do that.

MR. SHEEHAN: Could I have a minute?

(Atty. Sheehan conferring with Mr. Mullen and Mr. Hall.)

CHAIRMAN HONIGBERG: Before you answer, I'll say a couple other things. I'll remind you and everybody that there is, I think, time built into this schedule at the end. I think there's an extra day that's set aside as an overflow day. I'll also say, you have the right to recall witnesses, if there's something you need to respond to. So, in light of those reminders.

MR. SHEEHAN: And, of course, the one that concerns us most is the tax issue. And Mr. Mullen was frankly on the tentative schedule to come back and talk about the Company's tax proposal. So, it may be that our solution is to push to Monday.

But, as for now, we appreciate it, but are not going to take you up on your two-hour tech session or whatever it would have been, and we're ready to plod ahead.

CHAIRMAN HONIGBERG: Okay. Mr. Kreis, you want to say something?

MR. KREIS: I do. Thank you, Mr. Chairman. I guess what I would like to say is that my thought process, as this little procedural wrinkle came up, was pretty similar to yours. I thought "Well, nobody would really object if all of those questions were asked in live testimony and then answered by the Staff witnesses." And, you know, that it may be that there's sort of a "no harm/no foul" component to all of this.

On the other hand, I am concerned about a -- well, I'm just -- I'm concerned about lack of fidelity to the rules and normal procedures of the Commission. I don't think the Commission would let the OCA or the utility do something like this. Just, you know, without any warning and without any basis in the Commission's procedural rules or practices, just decide that we want to crystallize surrebuttal testimony in the form of a written document. I think it confers an unfair advantage to allow testimony to be prefiled, because it allows for a degree of coherence and thoughtfulness that you don't ordinarily achieve in live testimony on the stand, at least mortal human beings don't.

You characterized the Settlement earlier as having been entered into by "less than all the parties".

CHAIRMAN HONIGBERG: Oh, you're going -- you're right. The parties, in fact, have settled.

MR. KREIS: Correct.

CHAIRMAN HONIGBERG: Staff is not technically a party. I understand your position on that.

MR. KREIS: And, so, the reason for clarifying that particular issue is, that I think, frankly, this is a little bit of a sharp litigating tactical move. And the Staff's job in a proceeding like this is really to help you to make the best decision you can in evaluating the terms that "the parties" have presented to you as a settlement.

And I'm just uncomfortable with the way this particular aspect of the case has developed. And I want to make sure that the Commission understands that I concur with the Company's objections. And depending on how the case plays out, but I don't know, maybe it will make a difference, maybe it won't.

CHAIRMAN HONIGBERG: I do think that the utilities, the OCA, and the intervenors are not Staff. Staff, as you know, and as Mr. Sheehan knows and Mr. Mullen knows, and number of other people know, is and can be in the room with Commissioners during deliberations. They have a role to play in making sure that the record is complete, making sure that the Commissioners have access to the information that they needed as they're deliberating. Oh, Mr. Chattopadhyay would know this as well. There's a lot of people in the room who are familiar with this process.

That's not the case everywhere. Well, what's not the case everywhere is that the Staff generally puts its positions on the record in this Commission, and they have done so here in a way that gives "the parties" notice of what they have said and are planning on saying before they say it, which is to their advantage, the parties, because they do have some time to prepare.

I'm not saying that this is the best practice, to file without notice and without having it contemplated in the procedural schedule. And you, yourself, used the phrase "no harm/no foul". Prejudice is important. Due process, we're trying to achieve due process, not prejudice people's rights to make their cases, and impeach other witnesses or undercut cases made that are opposed to theirs.

I don't see the prejudice here. I don't see any lack of process. If someone disagrees with that, I want to hear about it. Because that's not, you know, colloquially, if we get reversed, I don't want to get reversed on a process situation. And I don't think we have a process problem here.

If someone disagrees with that, I want to know about it.

MR. SHEEHAN: As I said, I cannot articulate one now. If I can, I will immediately and raise that issue with the Commission.

CHAIRMAN HONIGBERG: Mr. Kreis.

MR. KREIS: Ditto. And I would also point out that I will consider, at the end of this case, making a motion to designate Staff advocates. Because I'm a little concerned about how contentious this case has become, and it's an odd dynamic where, essentially, you have all the parties in the case litigating against a nonparty.

That said, I truly appreciate and

share your view, that the way this whole process is set up really tends to promote due process and provide parties with laudable opportunities to really critically examine the advice that in another utility regulatory jurisdiction would be delivered behind closed doors to you folks up on the Bench.

CHAIRMAN HONIGBERG: You put it better than I did. Thank you.

All right. Is there anything else we want to talk about before, I guess, Mr. Dexter begins with the witnesses?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. Mr. Patnaude, would you swear the witnesses in please.

(Whereupon ***Jayson P. Laflamme*** and ***Donna H. Mullinax*** were duly sworn by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Dexter.

MR. DEXTER: Before proceeding with the witnesses, I would like to identify a couple of exhibits. I'm going to be referring to the witnesses' prefiled testimony, which was marked as "Exhibit 17". This was filed back on November 30th, 2017.

I'd also like to have marked as "Exhibit 52" the supplemental testimony that was filed by these witnesses -- I'm sorry. I'd like to have marked as "Exhibit 52" a supplement to the testimony that was filed on November 30th, 2017. This is in the docket as Tab 25. And what this was intended to do, Exhibit 17 had over 250 pages or so. And in those 250 pages were two pages that had confidential information.

CHAIRMAN HONIGBERG: Just as you try to orient what filing this is, "Tab 25" doesn't help the Commissioners because of the way -- our files aren't kept the way the public docket is.

MR. DEXTER: Okay. Fair enough.

CHAIRMAN HONIGBERG: So, we're going to need a little bit more help finding what it is you're referring to.

MR. DEXTER: Sure. Back in November, we filed over 200 pages of testimony and exhibits, and in that there were two pages that had some confidential payroll information. What I did, in an attempt to make things simpler, was to take those two confidential pages out and file them as a supplement. So, it also went in on November 30th. It's a three-page document, with a cover letter.

And it's self-explanatory. It just says that it has two or three pages of confidential information involving payroll information. And as I said, it was filed back on November 30th, 2017.

CHAIRMAN HONIGBERG: So, it's "17" and "52"?

MR. DEXTER: Yes.

(The document, as described, was herewith marked as **Exhibit 52** for identification.)

CHAIRMAN HONIGBERG: What about what you filed the other day?

MR. DEXTER: That would be the next exhibit.

CHAIRMAN HONIGBERG: All right.

MR. DEXTER: So, I would ask that that be "Exhibit 53". And that would be the

Supplemental Testimony of Jayson P. Laflamme and Donna H. Mullinax", filed March 16th, 2018.

(The document, as described, was herewith marked as **Exhibit 53** for identification.)

MR. DEXTER: And what's being distributed now is a document that I would request be marked as "Exhibit 54". It's a three-page document. It contains some minor corrections to the supplemental testimony filed on March 16th. It has to do with the calculation of the step adjustment.

(The document, as described, was herewith marked as **Exhibit 54** for identification.)

MR. SHEEHAN: If I may, Mr. Chairman?

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: The supplement, which has been marked as "52", that was filed in November, is clearly labeled "confidential". And I would like to make a formal motion that that be treated as confidential, because it contains Company payroll information.

CHAIRMAN HONIGBERG: I assume there's

no objection to that?

MR. DEXTER: No objection.

MR. KREIS: None.

CHAIRMAN HONIGBERG: All right. So, to the extent questions get asked about that, if there's a call for answers that would reveal confidential information, you'll just have to be sensitive to that, and we'll make sure that the transcript is separated appropriately.

MR. DEXTER: Thank you.

JAYSON P. LAFLAMME, SWORN

DONNA H. MULLINAX, SWORN

DIRECT EXAMINATION

BY MR. DEXTER:

Q Now, I'd like to ask each of the witnesses to identify themselves for the record please, starting with Jayson Laflamme.

A (Laflamme) My name is Jayson P. Laflamme. I'm the Assistant Director of the Gas & Water Division of the New Hampshire Public Utilities Commission.

A (Mullinax) And I'm Donna Mullinax. I'm a consultant to Staff. And I'm with Blue Ridge Consulting Services.

Q And is it correct that you prepared the documents that I just marked for identification in this case?

A (Mullinax) Yes.

A (Laflamme) Yes.

Q And I guess taking them one-by-one, Exhibit 17 is a series of questions and answers and exhibits, and understanding that these were prepared back in November, and the case has progressed, if I were to ask you the questions that are contained in Exhibit 17, would your answers be the same as those contained therein?

A (Mullinax) Yes.

A (Laflamme) Yes.

Q And moving then to Exhibit 52, which is the -- I'm sorry, Exhibit 53, which is the testimony you filed on March 16th, also contains a series of questions and answers and schedules and exhibits. Were those prepared by you and under your direct supervision as well?

A (Mullinax) Yes.

A (Laflamme) Yes.

Q And again, except for Exhibit 54, which we'll get to, do you have any corrections that you'd

like to make to Exhibit 53 at this time?
A (Mullinax) None, other than Exhibit 54.
Q And, so, if I were to ask you the questions contained in Exhibit 53, would your answers be the same as those contained therein?
A (Mullinax) Yes.
A (Laflamme) Yes.
Q Now, Exhibit 54, in fact, is a correction to some of the information contained in Exhibit 53, is that correct?
A (Mullinax) That's correct.
Q And would you please explain the nature of Exhibit 54 and the corrections that are made?
A (Mullinax) Yes. The correction relates to the step increase that was shown on Staff Schedule 4. And what this ended up doing was it took the Manchester and Concord legal fees and degradation fees that were originally recommended be removed out of the revenue requirements and placed into the step increase. Staff ended up taking the full amount into the step increase, instead of the amortized portion of that. So, that's the piece -- one piece of it.

And then the other piece is, as we were reviewing the updates to the step increase to reflect the change in the tax law, we realized that the pre-tax weighted average cost of capital hadn't been updated to reflect the new tax rate change. So, we made that correction.

Q And was the net of those two changes an increase or a decrease to the recommended step adjustment?

A (Mullinax) It was a decrease to Staff's recommended adjustment that is within Exhibit 53.

Q Do you recall the nature of the -- the extent of the decrease? And, if so, can you state what that is?

A (Mullinax) Staff's number originally in Exhibit 53 was a step increase of 4,469,212. The revision takes that to 4,141,304. So, about a $300,000 reduction.

Q And it's correct, is it not, that Exhibit 53 contains a calculation of the proposed impact of the recent Tax Reduction Act on the Company's proposed revenue -- on Staff's proposed revenue requirement in this case, is that right?

A (Mullinax) 53, yes, it does.

Q And could you point to the page where that calculation is shown?

A (Mullinax) It would be within Supplemental JPL/DHM-01, Page 5, also referred to as "Bates 022". And what this particular schedule does is it takes a look at the method that was within the Settlement Agreement that the Company was proposing. Then, it takes that same methodology in Column B, and applies it to the numbers that were within the Company's rebuttal testimony. And, then, if you look at Columns D and E, that reflects what Staff believes would be the appropriate way to calculate the tax change effect.

So, the Settlement Agreement is recommending a rate reduction of 1.694. Then, they've also included the effects of the excess deferred income taxes, which took it to 2.394 in the Settlement Agreement.

Q Let me just interrupt for a second, Ms. Mullinax. So, the two numbers that you just referenced are in Column A, Lines 11 and

12, is that correct?

A (Mullinax) That is correct.

Q Okay. So, go ahead with your explanation please.

A (Mullinax) Column B reflects the numbers that the Company provided -- or, the rebuttal, the Company's rebuttal position, using their proposed methodology. And that would end up resulting in a 2.2, or it's almost a $2.3 million rate reduction. And as you can see in that one, there is no, on Line 12, reflecting the excess deferred income taxes, because that was not within the rebuttal.

Then, just for information purposes, what we ended up doing in Column C was use that same methodology proposed by the Company and applied that to Staff's recommended position. And that would show a rate reduction of 1.02 million.

Q And where is that shown?

A (Mullinax) That would be in Column C, on Line 11. And, again, this would be just using the Company's proposed methodology, with Staff's recommended revenue deficiency. And the reason that's a smaller number, obviously, is because Staff is recommending a lower revenue deficiency.

Then, if you take Columns D and E, that reflects the methodology that Staff recommends should be applied in calculating the change in the tax rate. And this is reflected within a methodology that FERC had adopted in the Tax Act of 1986, and it's the FERC Order 475. And what this actually ends up doing is it takes the composite income taxes and does a ratio of the new and the old rates and comes up with that adjustment.

The difference between Staff's approach, recommended approach, and the Company's approach is that the Company's methodology only focuses on the revenue increase, the deficiency, just what they would expect if their rebuttal is adopted, just that revenue increase. Where what FERC and what Staff is proposing, it looks at all of the income taxes. It takes the increase in revenues, plus the income taxes that would be in the operating income. So, it's looking at the composite income taxes. It's looking at all of the income taxes. Because what the Company would have within the operating income would also need to be adjusted to reflect the new tax law, not just the increase. And that's really the main difference between the Company's proposed methodology, that focuses on the revenue deficiency only, and Staff and FERC's recommendation that focuses on the composite income taxes.

Q And just to be clear, when you say "FERC's recommendation", you're referring back to 1986?

A (Mullinax) I'm referring back to FERC Order 475. And it has been adopted by a number of other utilities. I've seen it in Black Hills Energy, in Nebraska, it was adopted. And I believe Northern adopted it in Maine recently in the order that was issued up there as well.

Q And when you say "adopted", you're referring to the current Tax Reduction Act that's been --

A (Mullinax) Yes. Yes. Using this methodology, and applying it to the most recent tax change act.

Q Before we get into other differences between the two calculations, I'd just like you to go back to Bates 022 and point out where Staff's recommended number is on this page, so we can compare it to the numbers you were just pointing out before?

A (Mullinax) It's in Column E. Line Number 21 shows a revenue reduction of 2.7 million, using Staff's -- Staff's position. Now, I would also note that Column D is taking the Company's rebuttal position and applying this methodology, and the reduction would be 3.183 million.

Q And, again, the reason Staff's number is lower is because the revenue deficiency is lower?

A (Mullinax) Correct.

Q Okay. Now, I understand that there's another difference in methodology between what you're calling the "Staff/FERC method" and the "Company method", and that shows up on Line 12, is that true?

A (Mullinax) That is correct. Yes.

Q Can you explain the significance of Line 12 and how this figure is treated in the two different methodologies?

A (Mullinax) Yes. The 700,000 that Staff has included in there reflects the excess deferred income taxes amortized over 39.05 years. And the reason I know that is because that was within the Settlement Agreement on Exhibit E. That's all I know. Staff has not seen how that number was derived or any calculations on that one. So, we really can't comment on whether or not that's the right number.

So, setting that aside, that that number really probably needs to be vetted, there's also a fundamental difference in approaching dealing with the deferred income tax -- accumulated deferred income tax. In that, and this actually was recognized by FERC, is that the -- putting it in simple terms, what typically happens in the first year of a Tax Act change is there is a calculation, and it is recognized that the deferred income taxes -- accumulated deferred income taxes needs to be adjusted.

But there is also an offsetting regulatory liability which reflects that reduction and how it would be returned to ratepayers. What happens is that regulatory liability, what is to be refunded to ratepayers, and the accumulated deferred income taxes that is adjusted, offset each other. So, there's really no impact initially associated with that change in the Tax Act on the accumulated deferred income taxes.

So, that's a big piece of why Staff is not recommending an adjustment at this particular point in time, is because the offset -- they offset each other.

Now, those balances change over time. And it would be something that would need to be considered in a future rate case as those balances are amortized. FERC also recognized this, and they decided not to make any type of change to the accumulated deferred income tax balances, mainly because of this offset.

And also, there's other issues that feed into that as well that really need to be fully understood before that particular piece is reflected in any type of a refund or having those dollars used in other ways.

Q Thank you. I just want to ask you about one other issue that's come up during the hearings.

I know you weren't here, but there's been a fair amount of questioning back and forth on the treatment of prepayments in this case, their inclusion in rate base, as well as inclusion of the underlying expenses in the Company's lead-lag study.

Are you generally familiar with that issue?

A (Mullinax) Yes.

Q And do you recall a section of the Company's rebuttal testimony filed back in January, where it said essentially that Staff's position had some theoretical merit, but it failed on the practical level, because it would result in essentially a complete elimination of any allowance for working capital in this case.

Do you recall that testimony?

A (Mullinax) I do recall that.

Q Do you agree with that assessment, that Staff's position would essentially result in no working capital allowance for the Company?

A (Mullinax) No. I don't agree with that.

Q And could you explain why not?

A (Mullinax) Yes. If you'll take a look at the direct testimony of Jayson and myself, on Bates number 045.

Q That's Exhibit 17?

A (Mullinax) Exhibit 17.

Q And what is this schedule that we're looking at?

A (Mullinax) What this schedule is is it is taking the Company's application, and their revisions that were known at the time Staff filed its testimony, and applying Staff's various adjustments to come up with Staff's recommended revenue deficiency. Now, there are a number of line items that get eventually to that revenue deficiency; the rate base, the rate of return, the operating income, and then the tax gross-up before we get there.

What I'd like you to focus on is Lines 5, 6, and 7. Five (5), 6, and 7 reflects what are typically considered the "working capital components". As you can see by this, "Materials and Supplies" is in there. In Column D, on Line 5, Staff was recommending removing 3.66 million out of "Materials and Supplies". And what that reflects is the fuel-related materials and supplies that Staff didn't think it was appropriate to be recovered through a distribution rate case. And through the settlement process, it was determined that they should be recovered through the cost of gas.

So, in essence, the Company will continue to have that 3.66, or whatever the actual number would be on a monthly basis. So, that's not being denied to them.

If you take Line Number 6, in Column D, Staff is recommending removing the 2.7 million. And this is the property taxes and other miscellaneous O&M items that are in the prepaid. Staff is recommending that those be excluded.

And then, if you look at the "Cash Working Capital", Staff is actually recommending that cash working capital be increased by $108,000.

So, if you move to E, these are what Staff is saying should be in working capital. You can see the 3.17 for materials and supplies, on Line 5. You can see the cash working capital number on Line 7 of 2.76. And if you add those two together, that's 5.93 million. And then, because the materials and supplies will be recovered through the cost of gas, that takes it to 9.59 million, which, in essence, Staff is recommending that the Company recover it through working capital.

If you did that same math looking at the Company's rebuttal position, it's about 12 million. So, really, in essence, from a working capital standpoint, the Company wants 12; Staff is recommending about 9.6 million.

So, by no means are we saying that working capital should be zero.

Q Thank you. And one other topic I wanted to bring up that came up last week, and that had to do with the use of year-end customer counts in the calculation of revenues for the revenue deficiency calculation.

Mr. Laflamme, you were in the room, I think, when we questioned Staff witness -- Company witnesses on this issue, were you not?

A (Laflamme) Yes.

Q Do you recall when I posed the hypothetical about a customer who was -- would have been hypothetically added to the Company's system on July 1st, during the test year? And I asked the Company's witnesses whether a full year's worth of revenues from that customer would be reflected in the revenue calculation. Do you recall that?

A (Laflamme) Yes.

Q And do you recall the witness's answer?

A (Laflamme) It would be the -- the revenues that would be reflected would be just from the time that that they came on as a customer till the end of the year. So, it would be a partial year.

Q So, in my hypothetical, it would have been six months, July through December?

A (Laflamme) Right.

Q And then I subsequently asked the witness whether or not the plant associated with hooking up that customer, which, in my hypothetical, would have consisted of a meter, a service, and possibly a main extension, whether that would be included in the rate base calculation. Do you recall that question and answer?

A (Laflamme) Yes.
Q And let me ask you the question. What would be reflected in the rate base calculation related to that hypothetical customer? Would it be a full investment amount or a partial investment amount?
A (Laflamme) A full investment amount.
Q And why would it be a full investment amount?
A (Laflamme) Because what's reflected in the Company's rate base is the year-end fixed plant, and not a test year average.
Q In other words, we use -- the Company used and Staff has used a year-end rate base, rather than an average rate base?
A (Laflamme) That is correct.
Q Just a year-end rate base.

MR. DEXTER: Thank you. That's all the questions I have for these witnesses.

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: Could we take a couple minutes to discuss the tax testimony we just heard?

CHAIRMAN HONIGBERG: Sure. Let's take ten.

MR. SHEEHAN: Thank you.

CHAIRMAN HONIGBERG: Off the record.

[Brief off-the-record discussion ensued.]

CHAIRMAN HONIGBERG: We're going to take a 30-minute break.

(Recess taken at 10:53 a.m. and the hearing resumed at 11:40 a.m.)

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: I think I have some good news for you.

I do have some questions for this panel unrelated to the tax issue, which I don't want to forget to do.

But what we propose -- and I discussed it with Staff and the OCA, I think everyone is onboard, and I hope I say it right. In our Settlement Agreement, we propose a revenue requirement, and we have done the tax calculation to reduce that $10 million by an additional two, whatever the number was. We propose that that's the number that carries for this proceeding. That hopefully you adopt our

10 million revenue requirement and accept the tax reduction that gets flowed through customers beginning May 1.

Partly because of the timing of the tax issue, Staff didn't have a chance to vet our number well, we obviously haven't had a chance to vet theirs. So, this would be with the understanding that this issue still gets discussed in 18-001. Whatever comes out of that docket would end up being a true-up of what we're proposing you approve here.

So, again, if it turns out we're not quite returning enough to customers, there's a true-up later this year and we make that adjustment. So, it's basically without prejudice to whatever comes through 18-001.

And that's -- and if that is acceptable to the Commission, then we don't have to decide what the right tax treatment is today.

CHAIRMAN HONIGBERG: Mr. Dexter or Mr. Kreis, did he say it right?

MR. DEXTER: I think so. And I just -- I'm kind of a numbers guy. So, I'm looking at the Settlement, and I'm looking at Bates 023, and I see a number of "2,394,065". And my understanding of the way Mr. Sheehan presented it, is that's the number that will get calculated into any revenue deficiency that ultimately gets calculated or ruled upon in this case. And then the true-up will happen through the generic case, 18-001. So, Staff is acceptable to that.

CHAIRMAN HONIGBERG: That's -- sure. Go ahead.

CMSR. BAILEY: So, Mr. Sheehan, in that case -- well, is that correct? Because as I understand it, the way that the Staff, if we adjusted the $10.3 million revenue requirement to a lower number, then -- and your methodology was correct, then customers would be overcredited. And, so, we would have to get money from them after that.

MR. SHEEHAN: That's certainly a wrinkle. And what I proposed is you don't have a tax number from either party to another number other than the 10.3, and I think we just heard Ms. Mullinax apply their calculation to our rebuttal number, which isn't before you in their number. So, there's no in between revenue requirement here with the tax calculation associated with it.

CMSR. BAILEY: Could we use this methodology and apply it to whatever revenue requirement number we come up with if it's different than 10.3? Would that be an acceptable solution? I mean, it's pretty simple math. I can figure it out.

MR. SHEEHAN: Subject to being kicked, I think we could. Then, it becomes a timing issue. If you issue an order that approves $9.8 million as a revenue requirement, we'd have to do the math and get it in rates. You know, where you have that scramble between order and rates going into effect May 1 problem. It's not a huge problem, but it is a problem.

And I'm sure there -- with the understanding that, whatever you do with taxes is subject to 18-001, speaking off the top of my head, you could come up with a reasonable number, based on what the rest of your order is. And it's got some risk to it, of course, but --

CMSR. BAILEY: Okay. Thank you. How about Staff? Do you have an opinion on that idea?

MR. DEXTER: I like the Company's proposal, fixing the number, so we all know what it is, and then it gets -- and then it gets adjusted. I think it's easier. But I guess I don't have a strong preference.

CHAIRMAN HONIGBERG: But I think the issue, Mr. Dexter, is that number is a calculated number after the revenue deficiency is calculated.

MR. DEXTER: Right.

CHAIRMAN HONIGBERG: So, --

MR. DEXTER: Well, Staff doesn't agree with the method.

CMSR. BAILEY: Right.

CHAIRMAN HONIGBERG: Right.

MR. DEXTER: So, I guess, you know, one way would be to present it is to say "Let's take Staff's method and fix that." It's all going to be subject to reconciliation in

18-001. I guess I'd rather not put either method forward, because that's going to be the subject of 18-001.

CHAIRMAN HONIGBERG: I think the principle, however, articulated by both of you is fix the number in this proceeding, --

MR. DEXTER: Right.

CHAIRMAN HONIGBERG: -- and it will be reconciled up or down following whatever the result of 18-001 is. Is that right?

MR. DEXTER: Right.

CHAIRMAN HONIGBERG: I see a nodding head from Mr. Sheehan. Mr. Kreis, anything you want to --

MR. KREIS: I guess there are sort of slightly competing imperatives from the ratepayer standpoint. On the one hand, I like the fact that subject to really figuring this out in 18-001, where including, you know, real -- we're giving effect to the Tax Act now in a real and palpable way that benefits ratepayers, --

[Court reporter interruption.]

MR. KREIS: All right. Let me start

over.

There are competing imperatives here from the standpoint of residential customers. On the one hand, we like the fact that there will be immediate and palpable effect given to the tax reform in the result of this rate proceeding. And I agree that it will be useful to defer to Docket 18-001 the determination of what the real right answer is.

I'm just a little worried about the possibility of having to overcorrect here and have customers owe the Company money as a result of what happens in the later docket. That's the concern that Commissioner Bailey raised. So, I want to minimize that risk, if we can.

CHAIRMAN HONIGBERG: Okay.

MR. SHEEHAN: And there's one other administrative piece of that. EnergyNorth is required to make a filing by April 1 in 18-001. And since we will not have a revenue requirement upon which to base that, until you issue an order in this case, we would ask that you basically treat what we've already filed maybe as that filing, or give us until after the rate case is concluded to make the 18-001 filing.

And I can certainly make that a formal request.

CHAIRMAN HONIGBERG: I think you're going to need to make a request in 18-001. I don't think there's any magic to April 1 specifically, other than we needed to give everybody some time, but get it done early in the year. If you need -- if you want to wait until after the order is issued, I don't think that will be a problem. But make the request in 18-001.

MR. SHEEHAN: And especially since, if something along the lines of what we're talking about is approved, customers will be seeing some relief in the meantime.

CHAIRMAN HONIGBERG: That is -- I agree with that. Thank you.

So, are you ready to ask questions of the panel?

[No verbal response.]

CHAIRMAN HONIGBERG: You may proceed.

MR. SHEEHAN: Thank you. I'd like to get a few pieces of paper in front of you, the same with the Commissioners, and that is Bates 108 from your initial testimony, and two pieces from the Company's initial filing. And we'll bring copies up for you. I don't suspect you have it. And that is the attachments to the Simek/Dane permanent rates filing, at 42-43 and 70 to 73.

These are just a couple of schedules I'll be referring to.

CHAIRMAN HONIGBERG: Just so we know we're on the right page, what's at the top of 108 from the witnesses?

MR. SHEEHAN: This is the excerpt from the treatise that Ms. Mullinax had in her filing.

CHAIRMAN HONIGBERG: Okay. Let's go off the record.

[Brief off-the-record discussion ensued.]

CROSS-EXAMINATION

BY MR. SHEEHAN:

Q Okay. So, starting with the treatise that you attached to your testimony, Bates 108. And I'm looking at the paragraph immediately under the heading "5.03", the first sentence, it reads that -- well, we can all read it, but prepayments are a component of working capital, and they can be generally included in rate base if it has not been recognized elsewhere, such as in cash working capital.

My question is that prepayments first are a recognized element of rate base and utility ratemaking, is that correct?

A (Mullinax) Prepayments, yes, have been considered a part of working capital. It's what goes into the prepayments, though, that I think is in question here. What I've seen in some other jurisdictions is the prepayments typically only include things like insurance that are typically paid early, and then they're -- and they reflect the actual insurance that would be in place over that next year.

I have not seen property taxes and other traditional O&M expenses in a prepaid account.

Q But that's not what your testimony was. The point of your testimony was is that it was double counted, correct?

A (Mullinax) The concern that we had was that, because the prepayments -- the components that are within prepayments, which are your property taxes and some of your other O&M expenses, are being recovered or through the cash working capital, and they are fully reflected within the lead-lag study. And then also we were concerned that the property taxes that are actually being adjusted, the *pro forma* property taxes actually already reflect an increase based on the current property bills.

So, there was multiple pieces working in there. So, when you say a "double count", not necessarily saying it's a dollar-for-dollar. But what we're saying is that the Company is getting recovery for property taxes and other operating expenses through the lead-lag study and the cash working capital, through what they have got within the operating expenses, and then they're also requesting it as part of working capital. So, it was those kind of three things that kind of resulted in what we felt like was double counting to a certain extent.

Q Going to, and taking that answer, but looking at the first sentence of the page we're looking at, that treatise suggests you can do one or the other, but not both. Have prepayments, include the prepayment costs in the cash working capital, but you shouldn't do both. Is that a fair statement?

A (Mullinax) Yes. I think that's a fair statement. Because, in essence, what this is saying is that it shouldn't be in both places. So, the property taxes, you know, would be pulled out of the lead-lag study, you know, if you were going to say "I would prefer to have it in cash working capital."

I think where we picked up on this was that, looking at the lead-lag study and the components that feed in there, the updated *pro forma* property taxes are a component of that lead-lag study. So, just having it in both places doesn't, to my experience, just doesn't really reflect the appropriate way to do it.

And also, I would also like to point out, too, that this was in both the Unitil and North Electric cases. And then, when Unitil ended up filing their gas case, they did remove the prepays from their rate base.

Q I have lost the -- pardon me one minute. So, the prepayments that the Company included, and it's one of the schedules in front of you and I'm tracking it down, was approximately $2.7 million, is that correct?

A (Mullinax) That's what this schedule says, yes, Bates number 071. And that's the five-quarter average.

Q And that is Line 10, on the far right?

A (Mullinax) No. It would be actually, I believe, Line 11.

Q I'm sorry. Yes, Line 11.

A (Mullinax) Yes. Eleven (11) is the total of the prepays, which would be the other O&M expenses of 273,000, and then the prepaid property taxes are about 2.4 million.

Q Okay. And going up to the prior page, the elements of rate base, that 2.7 million is on Line 6?

A (Mullinax) What schedule are you looking at?

Q Bates 070.
A (Mullinax) Oh. Okay.
Q Yes?
A (Mullinax) The 13-month average, yes, is 2.7 million.
Q And this schedule shows that the Company included that 2.7 million in its calculation of rate base?
A (Mullinax) Yes.
Q And two lines down, Line 9, is "Cash Working Capital", it shows that the Company included $2.6 million in rate base?
A (Mullinax) Correct.
Q And Staff's recommendation is to remove that $2.7 million of prepayments, or to remove the property tax portion of that?
A (Mullinax) Correct.
Q Which would be a $2.4 million removal. Do I have that right? Or are we going to take all of the prepayments out?
A (Mullinax) I think we were recommending to take out all of the 2.7.
Q Okay. So, in your testimony just an hour ago, you were saying how you weren't recommending to

remove all of the cash working capital. In dollar amounts, by removing the 2.7 prepayments, it has the same effect as removing 2.6 in cash working capital as relates to the total rate base?

A (Mullinax) No. That's not correct. I was talking about working capital. And I believe that the rebuttal testimony refers to "working capital", and cash working capital is only a piece of the total working capital. And that would include materials and supplies that would be recovered through the GCA, the prepayments and the cash working capital. So, my testimony was, no, there's still working capital in there that would be included within rate base.

Q Understood. But I'm just saying the dollar amounts -- I'll move on. The cash working capital that's shown on Line 9 is, if you were to go to Bates 042 and 043, specifically 043, but it's a tabulation of everything that's on 042 and 043, you can find -- start with the "Total Expenses" on Line 89 of about $59 million. Do you see that line?

A (Mullinax) Yes.

Q And that's the starting point for calculating the cash working capital?
A (Mullinax) No. Depreciation would have to be backed out of that number.
Q Exactly. So, you start there, you back out depreciation, and you end up with a number of about $35 million for the cash working capital calculation, which I believe is on -- we're on Page 72, Line 6. So, that $36 million is the 50 something million, backing out depreciation and some other items listed here on Page 72, to get to a $36 million figure, which is used for calculating the cash working capital. Is that correct?
A (Mullinax) Yes.
Q Okay. So, that $36 million includes many more items than just the prepayments, the cost of the prepayments?
A (Mullinax) Correct.
Q And those are all the long list that we just looked up at Page 42 and 43, all those various categories?
A (Mullinax) Correct.
Q If you were to remove the prepayments from that

cash working capital calculation, you would have much less of an effect than removing $2.7 million, correct? Much less effect on the cash working capital?

A (Mullinax) Well, the prepayments are not in the cash working capital. The property taxes are what's in the cash working capital.

Q Okay.

A (Mullinax) So, you can't really say that you're going to pull out the prepayments. Our concern is what's in rate base, not what's in cash working capital.

Q The items included in the prepayments are not, if you were to pull them out of the -- they are included in that $36 million figure, correct?

A (Mullinax) The 36 million does include property taxes and some of the other expenses, yes.

Q And if you were to pull them out of that $36 million, and then finish the calculation of cash working capital, would it eliminate that $2.6 million we see here or would you just reduce it by some amount? And I'm not going to ask you for the amount.

A (Mullinax) Are you asking, if we pull out all

the property taxes?
Q Yes.
A (Mullinax) Well, the property taxes, I think, are about 9 million or nine and -- yes, about 9.3 million that are within the operating expenses, and then the prepaid piece is about 2.4 million.
Q Correct.
A (Mullinax) So, I'm not sure what --
Q Okay. And this is the shortcoming of having an English major asking these kind of questions. The point I'm trying to make, and I think it's been made before, I just want you to confirm, is that, if you were just to remove the prepayments that has an immediate $2.7 million effect on rate base, correct?
A (Mullinax) Correct. And that's what Staff believes is the appropriate way to do it.
Q If you were to remove the elements of prepayments that are included in the cash working capital calculation, it will have less of an effect on rate base, correct?
A (Mullinax) I guess I'm hung up, because there's no prepayments in cash working capital. So,

that's kind of what I'm hung up on. And maybe it's semantics. But are you just saying, if we take out 2.7 million out of the cash working capital number, is that less of an impact?

Q If you pulled out the elements of the prepayments from the cash working capital calculation?

A (Mullinax) Okay. Well, the elements that are in the prepayments would be property taxes, about 9 million.

Q Right.

A (Mullinax) So, you know, when you're dealing with 9 million, versus 2.7 million, you just have to really kind of run the numbers, because it also has other impacts in how the lead-lag study and what that, you know, what the required days, what that calculation is. So, there's a lot of moving pieces in there.

Q So, it could? And it may effect the --

A (Mullinax) It could. It could, or maybe not. It could go the other way. It just kind of depends on how it's looked at in the lead-lag study. And as you've been talking about, how it's in the operating expenses that the

required days are applied to.
Q And, so, I think a prior witness said "it's not a dollar-for-dollar comparison, if you remove prepayments versus remove elements of prepayments that are in cash working capital"?
A (Mullinax) And I don't think Staff ever really said that. Our concern was is that just that the prepayments were included in rate base, and also reflected in cash working capital, and also reflected in the expenses that are being recovered through rates. So, it's just there's -- they're being recovered in three different ways, and we just didn't think that was appropriate.
Q And the starting point of this was a treatise that said "It's okay to have one or the other, but not both"?
A (Mullinax) I think what it's, in essence, saying is that, if we go back to it, is that "prepayments are a component of working capital" and "represent an investment of funds". And I think it's that "investment of funds" is very significant there, because, when you're dealing with rate base, that's the

number that you get the return on investment.
So, it's whether or not rate base is appropriately set prior to applying the return.
Q And the rest of that sentence is "is generally included in rate base if that investment has not been recognized elsewhere". And I simplified that to "you can recognize it one place or the other, but not both."
A (Mullinax) I think that's correct. But I think it would be -- it would be a good idea to have an understanding on where it should be reflected, you know. And maybe, you know, something could come through the Commission that "this is the best way to handle that", that way all the utilities are doing it the same way.
Q A couple easy ones. In your overall calculation of reductions to our requested revenue requirement, you included zero dollars for the Training Center, is that correct?
A (Mullinax) That was the number that we were provided when we ran the revenue requirements, yes.

Q And that was my question. That's not a number that you calculated, that came from Mr. Iqbal?

A (Mullinax) That's correct.

Q And the same --

A (Mullinax) I mean, we took the components and ran the numbers, but, yes.

Q And the same question with iNATGAS. There was an adjustment for iNATGAS, but the actual reasoning and math behind that was based on the testimony of Mr. Frink?

A (Mullinax) Correct.

Q And there were some questions, when you were not here, about severance. You asked for an adjustment in some severance pay for those employees who indicated they were resignations. Is that a fair characterization of --

A (Mullinax) Yes. The information that we were provided by the Company listed several positions and the reason severance was paid. And there were several of them, and again, we're getting into confidential stuff, so I will avoid that, but several of those positions, the information provided by the Company simply said "resignations".

Q And if I were to tell you that those were what a witness called "forced resignations", in which the employee was offered to resign or be fired, and, in return, the Company obtained a release, would that change your treatment of whether -- of these resignations?

A (Mullinax) I'm not sure ratepayers should be paying for that. If you've got an employee that is not performing, and they're -- the Company has laid the groundwork to be able to terminate that employee because of performance issues, then that seems to me to -- why would you pay severance?

Q Avoid a lawsuit perhaps, even a baseless one.

A (Mullinax) I mean, that's a possibility. But, again, that's information that were not provided. The information we were provided simply said "these employees were paid severance because of resignations."

Q The last thing I'd like to cover with you is the treatment of the legal fees and degradation fees related to the litigation. And I'd like you to turn to Page 26 of your original testimony, Lines 1 through 5.

A (Mullinax) I'm there.
Q And I notice you've just had a chance to review that?
A (Mullinax) Yes.
Q And the last sentence is "Staff does not oppose recovery of these 2017 costs through the Company's proposed Step Increase." Correct?
A (Mullinax) That's correct. And that is one of the changes that we put within the supplemental testimony that was filed.
Q I'm sorry, I missed that?
A (Mullinax) We took these, the degradation fees and the legal fees, and had moved them over to the step increase, which was in the supplemental filing.
Q Okay. And your -- and this is Bates 029, for clarity. The Company's rebuttal testimony treated these fees as you recommended in your testimony that I just read, correct?
A (Mullinax) Yes.
Q And the Settlement Agreement also treats them in that fashion, correct?
A (Mullinax) That's correct. And the supplemental testimony also reflects that as

well. With the exception of that we did, with the most recent update, we realized that we moved the total legal fees and the total degradation fees into the step adjustment. And it should have just been the amortized amount that was within the Company's original proposal. The Company originally had legal fees for three years and the degradation fees for twenty years. So, that piece right there was moved over in the supplemental, I think it's on Schedule 4. And this is one of the corrections that we ended up making in the supplemental, because we did end up grossing it up inappropriately, and we did remove that as one of our corrections.

Q Grossed it up inappropriately when?

A (Mullinax) The original filing within --

Q So, this is a change to your original filing, not -- a substantive change to your original filing?

A (Mullinax) It's in the supplemental. It is addressed in the supplemental. One of the pages that we've got in the supplemental testimony lists several corrections that Staff made to supplement to the -- to our original testimony. I think if you go to Page -- in the supplemental, starting on Page 7, Bates number 009.

What that shows, when it's talking about the Schedule 3, these are the different things that Staff has -- changes that Staff has made to the revenue requirements calculation. And one of those was to move, and that's on Page 10, starting on Line 13, and that was to move these legal and degradation fees that were incurred past the end of the test year out of the revenue requirements and into the step increase. And, so, we did do that. And then -- but we again made the correction that was handed out today, where we changed that number just to reflect the annual amortized amount.

And again, this was in the Company's rebuttal. So, what we're, in essence, doing here is we're adopting the Company's rebuttal to move these fees out of the revenue requirements into the step increase.

Q Was it the intent to adopt the Company's rebuttal?

A (Mullinax) In this particular item, yes.

Q If you look at the Exhibit 54, which is what was handed to us today, on the very first page, which is marked Bates 011, the first redline change, Lines 10 and 11, says "the fee amounts were changed to appropriately reflect the amortized portion instead of the full amount". Isn't that a change from the testimony, the rebuttal testimony and the Settlement Agreement, and the supplemental testimony in front of you?

A (Mullinax) I didn't see any numbers in any place, because it was kind of a black box. So, it was really kind of hard to tell if it's just, you know, the Company originally proposed just the amortized piece, not the full amount. So, I didn't really see any numbers that it was real clear exactly what the number was.

Q We're looking at the Settlement Agreement, Bates 018. If you look at the box towards the bottom, Lines -- looks like in the 40s -- 61 and 62, it does have the amounts of the legal fees and degradation fees for 2017, referencing your testimony, correct?

A (Mullinax) Yes. Yes.

Q So, again, was it your intent in what you filed today to adopt or confirm this, how the Settlement Agreement treats these fees?

A (Mullinax) You're getting into the Settlement Agreement issues, and that's not really something that, you know, that I'm really addressing is --

Q Okay. How we treat it in our rebuttal testimony then?

A (Mullinax) I guess, is the real question whether or not we're showing just the amortized amount versus the full amount being recovered in the step increase? Is that where you're going?

Q What we're -- what's troubling or confusing us what was handed out today seems to be different from your original testimony, which we adopted in the Settlement Agreement, and our rebuttal and the Settlement, and which was filed Friday. If there was no intent to do anything differently, I can certainly argue to the Commission that the numbers as we characterize them in the Settlement Agreement are exactly what Staff wanted us to do. If you're proposing some change to that, with this language that I just read, I'd like to know that? That's what we don't understand.

(Witnesses conferring.)

BY THE WITNESS:

A (Mullinax) If we go back to the original adjustment, and that would be Adjustment 12, what we removed from the revenue requirements was the amortized portion. So, I guess what we were thinking was, since that's what came out, that amortized portion would be what would flow through the step increase.

BY MR. SHEEHAN:

Q So, the question was, is this a change from what was stated in your testimony that I read at the outset of this?

A (Mullinax) A change to which testimony?

Q The paragraph I read on Bates Page 026, where it made no reference to the amortized portion.

A (Mullinax) The original supplemental that we filed did move the full amount over. But, as we went back and looked at it, we realized that the adjustment that we made in Adjustment Number 12 really only took out of the revenue requirements piece the amortized. So, our thinking was is that that amortized piece that was removed out of the revenue requirements would be what would be moved into the step increase, not the full amount.

Q Which is a change from what was testified to early in the case and relied on since then, as I have outlined a couple times?

(Witnesses conferring.)

BY THE WITNESS:

A (Mullinax) If it's not amortized, it's actually going to be overcollected.

BY MR. SHEEHAN:

Q That wasn't the question, ma'am.

A (Mullinax) Yes. When you say "a change", I guess I'm trying to figure out exactly, are you saying that, in our direct testimony -- I'm trying to figure out what change we're talking about.

Q You changed the numbers -- you reduced your recommendation on the step this morning, correct, by several hundred thousand dollars?

A (Mullinax) Yes. We recalculated the step adjustment, right, to reflect what was in the revenue requirements on Adjustment 12, just to move that over to the step increase. I think it's -- we're probably dealing more with semantics. Because what, you know, what Staff's thinking was is that this is the number that you're requesting recovery through general rates. And we're saying "Well, this is out of test year, so, therefore, it doesn't belong in there." But we do understand that these are expenses that were legitimately incurred, and, therefore, should be moved into the step increase.

So, we just simply took out the same numbers that we had in the revenue requirements general rate case, which were amortized, and moved those over to the step increase.

So, it comes down to, I guess, whether -- we were just trying to move the same set of numbers, is what I'm saying.

Q Okay. And --

A (Mullinax) And, so, yes. What we handed out today is a different set of numbers, because we realized that the step increase reflected the full amount, and not what our intent was, was just to remove the portion that was in the general rate case portion.

MR. SHEEHAN: Thank you, ma'am. I have nothing further.

CHAIRMAN HONIGBERG: Mr. Kreis, do you have any questions?

MR. KREIS: I do not, Mr. Chairman.

CHAIRMAN HONIGBERG: Commissioner Bailey.

BY CMSR. BAILEY:

Q Ms. Mullinax, can you go through that again? And show me the schedules (a), you know, the first time that you made the adjustment, and then the next time that you tried to correct something?

A (Mullinax) Sure. If you'll take a look at supplemental, and it's on -- the original Bates is 045. And then, if you look at the handout from this morning. And then I also recommend that you take a look at Attachment -- I mean, sorry, Adjustment 12. And you can look at the supplemental, that would be fine, because it

didn't change.
Q And that's on Page 4?
A (Mullinax) Adjustment 12 --
Q So, on Page 4, Adjustment 12 was removed in your supplemental testimony. But it was originally, I think, "$11,695"?
A (Mullinax) Are you -- you're looking at the "Adjustment 12 Removal of Out of Test Year Legal Fees and Degradation Fees"?
Q Yes. On Page 4, in your supplemental testimony, Exhibit 53. And there's a dash there. Oh, sorry. I wrote in the margin. It was originally "$66,806". Does that sound more like it?
A (Mullinax) Yeah. That's actually -- the numbers in that "Adjustment" column right there, as I was looking at this this morning, those numbers actually aren't working quite the way they should be working in that "Adjustment" column. But the final column, Column (C), reflects the step adjustment.
Q Column (C) on what schedule on what page?
A (Mullinax) The step adjustment page.
Q Okay.

A (Mullinax) On --
Q That's --
A (Mullinax) That's --
Q Bates Page 045 of the supplemental?
A (Mullinax) Yes. It would be 045 of the supplemental, yes.
Q Okay.
A (Mullinax) And the corrected amounts, you see the Company's proposal on Line 47, shows 4.317 million.
Q Wait a minute.
CHAIRMAN HONIGBERG: There is no Line 47.
BY CMSR. BAILEY:
Q There is no Line 47 on my page.
A (Mullinax) Oh, we're looking at the corrected.
Q Oh. Okay. So, the Company proposal of $4.3 million, tell me what that means, what figure that number represents?
A (Mullinax) That is the Company -- number that the Company had within their rebuttal testimony on what the step increase would be.
Q The total amount?
A (Mullinax) The total amount.

Q Okay. Okay.
A (Mullinax) Okay? If you'll go up to Line --
Q Well, before I move on, the next column shows that the Company agreed in their rebuttal testimony to an adjusted amount of $66,000?
A (Mullinax) No.
Q Okay.
A (Mullinax) No. What this one is is this reflects a couple changes that were made in the supplemental.
Q In your supplemental?
A (Mullinax) Yes.
Q Okay.
A (Mullinax) Okay? If we take it kind of one step at a time, when we're talking about the fees and the degradation, the supplemental that was filed, see we've got Line 28 that says the "Amortization Period"?
Q Uh-huh.
A (Mullinax) That was not in what we initially filed in our supplemental. We had the full 172,000 that's shown on Line 27, the "Total Legal Fees".
Q Line 27, in the correction?

A (Mullinax) In the correction, yes.
Q Was "172,517"?
A (Mullinax) Right. Right.
Q Oh, I see that. And that's on Line 27 in the supplemental. Okay.
A (Mullinax) So, what we added in the correction was Line 28, which is the "Amortization Period", which reflects what was in the -- what we took out of the revenue requirements piece. And that was -- it turned into 57,000. So, the 57,000 is what Staff recommended being removed from the rate case portion, and because that's what was removed from the rate case portion, that would be what would be added to the step increase.
So, what this particular adjustment did, in what was handed out today, is simply take the 172,000, divided by the amortization period, and changed it to 57,000. Again, it was to reflect what was taken out of the revenue requirements.
Q Okay. And in your original filing, original original, to which the Company made adjustments in its rebuttal, what was that amount? What

was the amount that you originally said should be removed and the Company agreed with you and removed?

A (Mullinax) It was the 172,000.

Q Okay. So, in the original filing, you said "remove 172,000". The Company agreed and took that out and put it in the step?

A (Mullinax) No. No. No. In the revenue requirements piece, we said "remove 57,000" out of the revenue requirements" --

Q In the original part?

A (Mullinax) -- "and put in 172,000."

Q Okay.

A (Mullinax) We misspoke.

Q Okay.

A (Mullinax) It shouldn't be adding 172,000, since that's the full amount, not the amortized amount.

Q Okay.

A (Mullinax) So, we were just trying to match what we took out of the revenue requirements to what we put into the step increase.

Q Okay. I think I understand it. Did the Company follow your directions and do both of

those changes in its rebuttal?
A (Mullinax) Let me make sure I'm looking at rebuttal and not settlement.
Q Because we -- I mean, the Settlement liquidates everything, but you don't really know what they did in the Settlement.
A (Mullinax) Well, but I think the schedule that was handed out to us was the one out of the Settlement.
Q Oh. Well, then we can look at the Settlement.
A (Mullinax) Yes. But, yes, you're correct.
Q They did both. So, they made the same mistake that you made, and now you're trying to correct that?
A (Mullinax) Yes.
Q Okay. Thank you. All right. Can we -- can we look at your -- I guess we might as well use the supplemental testimony on Page 4, and go through each one of the adjustments that you want to make. Sorry, Bates Page 006.
A (Mullinax) Okay.
Q All right. So, the first adjustment is to "Cash Working Capital". Explain that to me as if I knew nothing about any regulatory

accounting.

A (Mullinax) Okay. What cash working capital is, it's the cash that the investors have put into the Company to be able to pay bills. And the way cash working capital is calculated, it's based off of a lead-lag study, is how much, you know, how soon you pay the bills, versus how soon customers pay. So, the cash working capital is just a component. It's really pretty much just a formula. Where you're taking your total expenses, less depreciation and some other things, like deferred taxes, and just applying this lead-lag number to it.

So, it's just a formula that any time you make any changes to anything that affects any of the operating expenses, cash working capital needs to be updated as a flow-through item. So, that's what you're seeing there is the change that we have for cash working capital, is just simply a flow-through of the methodology that Staff and the Company agree to.

Q All right. So, what this chart says is that there should be "$99,530" in cash working capital?

A (Mullinax) No.

Q I mean, sorry, of cash working capital in rate base?

A (Mullinax) No. What this shows is these are the adjustments that Staff is proposing. We're proposing increasing the working capital rate base item by 99,000. So, these right here are just the adjustments. And then, once you look at these, calculate the revenue deficiency for these adjustments, we're recommending a total number of adjustments, again, at the 9.4 percent return on equity of 7.9 million. So, that 7.9 million would be the amount that would be reduced from the Company's requested rate base rebuttal number of 13.6.

Q All right. Let --

A (Mullinax) Okay.

Q Slow down. Slow down. Because I want to go through this really step-by-step, so I understand it.

A (Mullinax) Okay.

Q So, you're proposing to increase the cash working capital by $99,530, and that's because?

A (Mullinax) Because there were some other adjustments that we ended up making that actually ended up increasing the operating income, decreased the expenses to a certain extent. So, this is just a true-up number, a flow-through number. If we go through, like, one of the bigger ones --
Q Well, I just want to understand the table before we go through the bigger ones, because we're going to go through every single one, --
A (Mullinax) Sure.
Q -- because I don't get this.
A (Mullinax) Okay.
Q So, because operating expenses, you made adjustments for operating expenses, you reduced their operating expenses, is that what you said, and their cash working capital went up?
A (Mullinax) Cash working capital is a rate base item.
Q Right.
A (Mullinax) But it's calculated looking at the operating expenses. So, any time you make any changes to any of the components that are in an operating expense, cash working capital would

need to be adjusted.
Q And when operating expenses go down, cash working capital goes up?
A (Mullinax) No. It gets -- yes.
Q Explain that to me, because -- explain that to me please.
A (Mullinax) Let's see if I can find a schedule. Okay. If you wouldn't mind taking a look at the schedule on Bates number 027.
Q And we're still in the supplemental, right?
A (Mullinax) Yes. We can stay in the supplemental.
Q Okay.
A (Mullinax) So, what this particular schedule does, and again, the methodology, the Company and Staff agree on the methodology to calculate cash working capital. It's just a matter of what numbers you use. So, you can see in the Column (A), these would be the numbers that the Company has put forth, and this would match their operating expenses in their rebuttal testimony. Column (B) reflects the various adjustments that are within the supplemental testimony. So, you can see, on Line 6, the

A&G, we're proposing reducing the A&G by 440,000. You can see, on Line 9, they were taking the taxes, and we've reduced that by 56,000.
Q And does that have to do with -- does that have to do with the Tax Act change?
A (Mullinax) No. Nothing to do about that at all.
Q Okay.
A (Mullinax) What that is is in each of the adjustments that we put forth, there is a tax component to it. And we calculated that based on the current, or the tax rate that was in effect in 2017. So, we've tried to isolate anything related to the tax change.
Then, you can also see that there are other changes made below to income taxes and the interest synchronization. And interest synchronization again is one of those flow through items.
So, as you get through all of that, you can see that we have actually increased the distribution expenses by 1.3. So, I may have misspoke earlier when I told -- because I was

thinking "operating income", and I think you might have been talking "operating expenses". In accounting -- the accountant in me sometimes gets the terminology from, you know, I was thinking "operating income".

So, in this particular case, distribution expenses, once all of Staff's adjustments have flowed through here, actually have increased by 1.3 million. And because those expenses have increased, --

Q Oh. Then cash working capital --

A (Mullinax) Cash working capital would increase.

Q -- increases.

A (Mullinax) So, yes, you were absolutely correct. And I understand your confusion now. But I was thinking "operating income" instead of "operating expenses". So, I apologize for making that more confusing than it needed to be.

Q All right. While we're on this page, and we're going back to the other table in a minute, but what is -- I don't understand "interest synchronization"?

A (Mullinax) There is a rate base -- any time you change a rate base number, there is a interest component that goes along with that, because you take the rate base, times your return on equity, to get what your income -- your required income --

Q What your revenue requirement is?

A (Mullinax) Well, not -- that's one of the first steps that you get in there.

Q Yes.

A (Mullinax) So, you have the return requirement, which is based on rate base, times that return on equity. Okay?

Q Yes.

A (Mullinax) Then, what you end up doing, just taking that a little bit further, then you look and say "what is the operating income?" And that's the revenue minus expenses. That difference becomes the deficiency. Okay?

So, now, going back to the interest synchronization, because, if you're making a change to rate base, you've got to be able to reflect the additional income that would be coming to the Company based on that return. So, what interest synchronization, in essence, does is it looks at the interest tax calculation of that additional income.

So, what this is is it's a standard adjustment that's made in just about every rate case I've ever seen, where it's just one of those flow-through type items, that reflects changes in rate base, and it also reflects whatever the short-term -- and it's based on the short-term debt component. So, it's just a standard formula that's applied.

Q So, it synchronizes additional taxes that are required when the revenue requirement is increased or when they're going to collect more revenue as a result of a rate case?

A (Mullinax) Just the rate base component of that.

Q Okay.

A (Mullinax) Okay? I think what you're referring to is the gross-up. Once you get to the -- how much cash is needed, the revenue requirement, at the bottom, then that actually has to be grossed up. Because if you end up saying -- say you're going to end up needing an extra million dollars. Well, you might actually get more than a million dollars, because you're going to have to pay taxes on that one. So, that's what the revenue conversion factor is down at the bottom.

The interest synchronization is somewhat related to that. It's just looking at the rate base and the change in rate base. And it's just -- it's just one of those synchronization things that the revenue requirement models need to do.

Q Okay. And is there an adjustment for interest synchronization?

A (Mullinax) Yes.

Q Okay. Yes. Oh, that's Adjustment 15?

A (Mullinax) Yes.

Q So, go back to the table on Page 4.

A (Mullinax) Yes.

Q And your adjustment is to decrease the amount of revenue requirement by $69,850 because of interest synchronization?

A (Mullinax) Yes. Because we're recommending that the rate base be reduced.

Q The rate base be reduced by --

A (Mullinax) By 9 million, 9.1 million.

Q Okay. All right. Okay. So, I understand how this table works. I see you're making -- well, are the adjustments -- there are adjustments in the "Rate Base" column. And those are numbers that you want -- that you're recommending we reduce the rate base by, right?

A (Mullinax) If it's a negative number, that would be a reduction --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (Mullinax) If it's a negative number, it would reduce rate base. If it's a positive number, it would increase rate base, in this particular table.

BY CMSR. BAILEY:

Q Okay. And, so, all the numbers in parentheses are negative?

A (Mullinax) Yes.

Q Okay. And then the second column changes operating income, you would recommend an adjustment in operating income? In that column, is that what that's showing?

A (Mullinax) Okay. Operating income, the way we're preferring to this is revenue minus expenses, and it also reflects the income tax component. So, don't think of it as a revenue. It's not. It's net operating income, kind of from an accounting standpoint.

Q That must be why I can't understand it. Okay. So, does the final column relate to the -- relate the two other columns?

A (Mullinax) Yes, it does. What it does is the revenue deficiency calculates what the actual impact would be to the revenue requirements.

Q Okay. So, if you add $99,530 to rate base, because cash working capital needs to be increased, that would increase the revenue requirement by $11,252?

A (Mullinax) Yes.

Q Huh. Okay. And if you decrease the rate base by 2.7 million, it will decrease the revenue requirement by 305,000?

A (Mullinax) Yes.

Q Oh. Okay. That's helpful. Okay. Let's -- can you go over the prepayments again?

A (Mullinax) The prepayments, we're recommending taking out the 2.7 million. And what that represents is the property taxes and other operating expenses that Staff believes should not be included within rate base, because they're being recovered from other areas.

Q And I can't find it, but on one of the pages that you went through, one of the tables that you went through with Mr. Sheehan, it looked to me like maybe 2.4 million was the number that should come out. Do you know what I'm thinking about? Let see if I wrote it down in my notes.

A (Mullinax) That number hasn't changed, so -- okay. I think, if you go to Bates number 028, it's Adjustment Number 2.

Q Yes.

A (Mullinax) Okay.

Q I think this might be the one.

A (Mullinax) Okay. The 2.4 million is the property taxes, and then the other prepaid is 273,000.

Q And the other prepaid taxes is things like insurance?

A (Mullinax) I didn't see anything related to insurance in there. We got a list of the items in there. And I think we actually provided a list within the direct testimony. And they appear to be just other operating expense items.

Q Things that they just paid early?

A (Mullinax) That's what it appeared to be.

Q Okay. And there's nothing wrong with paying something early, to ensure that it's paid on time. Correct?

A (Mullinax) Oh, absolutely not. I think that's good, sound business practice.

Q Okay.

A (Mullinax) But the question is, is how should that be treated in a ratemaking session, as far as the rate base component? And it all goes back to how rates are set. The methodology that's used in setting rates.

Q Okay.

A (Mullinax) Because there's a lot of things that are actually disallowed, that you would never see in any of your revenue requirements.

Q Okay. So, they prepaid 2.4 million in property taxes. And that just means they paid them before they were due. Right?

A (Mullinax) The reason I hesitate on that one is because I believe here property taxes are paid

twice a year.
Q Okay.
A (Mullinax) So, I think there's some nuance in there, too.
Q And they're due twice a year, right?
A (Mullinax) Yes. They're due twice a year. So -- but, yes. In essence that these would be things that would we prepaid.
A (Laflamme) Yes. The property tax year goes from April 1st to March 31st. Their bills are issued usually in June and in November/December. So, when they -- so, they pay like the -- when the second issue bills are issued in November, they usually have a deadline of 30 days, but -- to pay. But, if you go -- if you're comparing the actual tax year to when the amount is due, they're paying the bill on time, but there may be some prepayment with regard to the period of time that the property taxes cover.
Q Do you consider the payment that they make in June a prepayment?
A (Laflamme) That probably has a prepayment element in it, yes.

Q Because they pay more than what is due?
A (Laflamme) Because that would be essentially from April -- April, May, June, July, August, September. And, so, they would be paying -- the amount that they pay in June would be prepaying July, August, and September, essentially.
Q Even though they're required to pay it in June?
A (Laflamme) Correct.
Q Are you saying they pay it before they recover from -- no, that's the lead-lag study. Are you saying that they --
BY CHAIRMAN HONIGBERG:
Q It's the question that she stopped herself from asking. The premise is that they're paying the money before they've collected that money from the ratepayers. And that's what goes into the lead-lag study. And that's what cash working capital is about, correct? Or, reversed. The lead-lag study is about what the cash working capital is about, right?
A (Laflamme) Yes.
BY CMSR. BAILEY:
Q Oh. Okay. So, they're claiming a prepayment

in rate base of the taxes, and they're also claiming recovery in the lead-lag study for what you just went through, where they pay it in June, and part of it's for payment April, May, and part of it is for July, August, September. So, they're counting it twice.

A (Mullinax) Yes.

Q I got that.

A (Mullinax) That's correct.

Q And, so, how did you figure out it was $2.7 million?

A (Mullinax) The $2.7 million is the number that the Company included within their original filing -- well, this is actually rebuttal. But this is what they had in their filing.

Q For what?

A (Mullinax) For prepayments. This is a rate base item that was in the Company's filing.

Q Okay.

A (Mullinax) And then, as we've started digging into it to try to understand what it is, that's when we started looking at what is included in the lead-lag study for the cash working capital. And part of that goes to -- I believe, correct me if I'm wrong here, but, in the past, the cash working capitals have been -- I guess the days was set at 45, and then the Commission started requiring the lead-lag study. So, as we started looking at what goes into the lead-lag study, that's when we realized that property taxes appear to be in there, in both the cash working capital and within the prepaid.

So, it's a little bit different than what it had been in the past, because that 45 days was kind of a black box. We didn't really know what was in it.

CHAIRMAN HONIGBERG: Okay. Now is as good a time as any to take a lunch break. We'll be back before two o'clock.

(Lunch recess taken 12:48 p.m. and the hearing resumed at 2:07 p.m.)

CHAIRMAN HONIGBERG: Anything we need to do before Commissioner Bailey resumes questioning?

[No verbal response.]

CHAIRMAN HONIGBERG: Commissioner

Bailey.

CMSR. BAILEY: Thank you. Good afternoon.

BY CMSR. BAILEY:

Q All right. Back to that table we were looking at. It's Bates Page 006, right. All right. So, you've increased the cash working capital by $99,000. That's above the 2.7 million that you originally agreed upon in cash working capital, roughly?

A (Mullinax) Yes.

Q And that is -- I'm sorry if we went over this before. But that's because why? What's the 99,000 increase about? Is that moving the prepayments?

A (Mullinax) No. The cash working capital was the changes that we made to the other operating income items.

Q Okay. All right. And, then you're removing the prepayments included in cash working capital, and that's 2.7 million. But your original total amount of cash working capital, and I understand you're removing 2.7 million from rate base for prepayments, but it's also somewhat coincidental that the amount of cash working capital that you were originally allowing in rate base was 2.7 million.

A (Mullinax) It's just a coincidence, yes.

Q Okay. So, is it true that those two cancel each other out then, if you -- cash working capital is a number in rate base, right?

A (Mullinax) Both prepays and cash working capital, yes, are a component of the working capital --

Q Okay.

[Court reporter interruption.]

BY THE WITNESS:

A (Mullinax) Cash working capital and prepays are both working capital components in rate base.

BY CMSR. BAILEY:

Q And the Company's criticism in the rebuttal testimony is, I think, if you take 2.7 million of prepays out of rate base, it's the same as eliminating the cash working capital. Do you have anything to say about that?

A (Mullinax) Well, it shouldn't have been in there to begin with. So, I guess the way we're approaching it is it's coincidental that it happens to be the same number. And that prepaid should have never been in there. And therefore, if it shouldn't have been in there, you're not really taking -- it's not really, you know, one-for-one.

Q Okay.

A (Mullinax) It's just not a component that belongs in rate base.

Q Okay. It just happens to be one-for-one --

A (Mullinax) It just happens to be, yes. And it's just pure coincidence, if you take the thousand different numbers that add up to it.

Q Okay.

CHAIRMAN HONIGBERG: I'll ask both of you to let each other finish. Because Mr. Patnaude is good, but he can only do one of you at a time.

BY CMSR. BAILEY:

Q Okay. On the adjustment "materials and supplies", is that number the Company agreed to put in the cost of gas, is that right?

A (Mullinax) Correct.

Q The whole number?

A (Mullinax) Well, I believe, and again this goes, I believe, to the Settlement, is that it's going to be done on a monthly basis based on actual. So, it may not be that exact amount, because this amount would be the number that was in the test year.

Q Okay.

A (Mullinax) So, what they would end up doing is that the materials and supplies, the fuel component that's in those materials and supplies, would be based on actual on a monthly basis. So, it may or not be the exact same. This just happens to be the number that was at the end of the year of the test year. But the Company would be getting full recovery on that amount.

Q I'm trying to figure out how to ask a question about the adjustment to the revenue deficiency. If you take the $3.6 million out of rate base, the revenue deficiency is $414,000 less than it would have been. Is that right?

A (Mullinax) It reduces the revenue deficiency, yes.

Q Okay. And the Company agrees with that adjustment?

A (Mullinax) It's my understanding, yes, that that was part of the Settlement Agreement.
Q Yes. Oh, but because you're comparing your number to the rebuttal testimony number, because you don't really know what the number in the Settlement is based on, that's why it's included here?
A (Mullinax) Yes. Because this is based on rebuttal, because the Settlement was a black box.
Q Yes.
A (Mullinax) And we didn't know what the numbers, you know, how they were --
Q Okay. All right. I understand. Then, the next number, the "removing the Concord Training Center", we're going to talk to Mr. Frink about, right? He just -- or, more Mr. Iqbal?
A (Mullinax) Yes.
Q Okay. And that's just a number that he gave you?
A (Mullinax) Yes. What that is is that's removing the Training Center that was put in the plant in service, the accumulated depreciation, and then also anything associated

with the rent, and they're operating expenses. So, basically, it just takes everything out associated with the Training Center as if it didn't exist.

Q What do you mean by "rent"?

A (Mullinax) They're getting a component from Granite State for use of the facilities, a rent payment.

Q Okay. So, you're taking that?

A (Mullinax) It's only fair, yes.

Q Yes. Okay. Okay. "Modify Recovery Period of Theoretical Reserve Imbalance"?

A (Mullinax) Mr. Iqbal will handle that one as well.

Q The "Staff Audit Issue 17 Non-Recurring Expense", what's that about?

A (Laflamme) The Audit Staff, when it issued its audit report, identified a payment of $42,592 paid to Sussex Economic Advisors for a supply line analysis, pipeline analysis. But, as what turned out, that particular project was canceled. And, so, the Audit Staff labeled that payment as a non-recurring expense, and recommended that it be completely removed from the test year. What the Staff's proposal is, that that expense should be amortized over a period of three years.

Q All right. "Payroll Taxes, Benefits for Vacancies - Corrected", explain that one.

A (Mullinax) The initial adjustment was based on three data points that we got from the Company. The Company's original filing for payroll taxes, in it -- it was calculated based on each and every position as if it was fulfilled. When we did some discovery on that, we found out 33 of those positions were vacant. So, since the test year was made up of 100 percent, we were looking "well, wait a minute, they don't have a full complement of employees." So, the 100 percent seemed a little bit high.

We did some further discovery. And during that process, that number changed. And the three data points that we had basically was 33, and I think there was some corrections that the Company ended up making to their schedules. We had three at the beginning of the year, and four, I believe, at the end of the year. So, thinking that they will never have 100 percent full complement. There will always be vacancies at some point in time during the year as people come and go. We made an adjustment to take out 3.5 average positions. So, that's what the basis of the adjustment originally was.

The Company, during rebuttal, updated some of their numbers. And since the testimony reflected that position at that particular point in time, one of the things that they also updated was one of their allocator factors. And whenever we did the calculation, we were using one of the original allocators, not the updated allocator.

Q And what was the allocator allocating?

A (Mullinax) It was allocating some of the EnergyNorth costs, some of the burdens associated with EnergyNorth. Typically, what happens with payroll is there are certain burdens that are applied to payroll.

Q Overhead?

A (Mullinax) Overheads, yes.

Q Okay.

A (Mullinax) And we just ended up picking up -- I think we ended up using 72.8 percent, and their update was 71.4. So, what that correction is, it's the same concept, we just corrected that particular allocator. So, there was a slight -- slight change.

Q Okay. And you started the conversation we just had with "the Company had 33 vacancies", and then it went to "3" and "4" at the beginning and end of the year. Can you explain the difference between "33" and "3" or "4"?

A (Mullinax) I wish we could. But we really never fully understood a lot of the way the schedules were being presented.

Jayson, do you have something to add?

A (Laflamme) Essentially, the schedule that was presented in the original testimony, which reflected 33 vacancies, turned out to be a, as I recall, a preliminary budget schedule that was given to the managers of EnergyNorth. During discovery, I think it was realized by the Company that that wasn't the most accurate data that we were dealing with. So, the Company ended up revamping the schedules to provide what they felt was more accurate data for their 2017 salaries. And that's where the four vacancies, I think it was four vacancies, towards the end of 2017 came from.

Q So, you think --

A (Laflamme) So, originally, we were -- I think we were working with data that wasn't very accurate, and then the Company provided more accurate data.

Q Okay. So, you think then that the Company only had three or four vacancies over the test year?

A (Mullinax) I don't think we could really answer that one. But the approach that we took was the number of vacancies that they had at the beginning of the test year, and then the number of vacancies that up to the point of when we were getting ready to file testimony. So, that was just an average. You know, the three at the beginning and four at the end, because really we didn't have a better data point to look at, you know, to actually make an adjustment from.

Q Okay. So, it seems like you are recommending that we disallow all of the positions that they had open for the test year?

A (Mullinax) No. We're only suggesting that you remove three and a half positions.

Q Right. But, if they had three missing in the beginning and four missing at the end, that sounds like between three and four to me?

A (Mullinax) Well, the three and a half, you have 3.5 positions. So, what the assumption that we made there was that, throughout the test year, they're not going to be 100 percent. So, at any given point in time, there will be vacancies. So, we were using the 3.5 positions more like as a proxy, thinking that, on a given average throughout the year, there is at least three and a half positions that are open.

Q I understand. Okay. And what about their argument that, if they have those positions open, they have to pay overtime to fill in the gaps?

A (Mullinax) Well, I guess they could either pay overtime or hire outside contractors to come in. And it's my understanding that no adjustment was made for the outside contractors. So, what they, in essence, have is a *pro forma* at 100 percent for employees.

And then, if you're getting -- you're already getting 100 percent. Then, if you're going to add overtime on top of that and then outside contractors, it just seems like the whole employee/contractor complement is higher than it should be in the test year.

And one of the things that we also did is we looked at it from the standpoint of "how would this compare if the Company had just simply taken their test year payrolls, and then, you know, increased it by the known and measurable salary increases?" Just to try to get a feel for -- and that's a way a lot of utilities will do it, is they'll take test year and make adjustments for known and measurable. And frequently, that's like union contracts that are approved or known management wage increases, merit increases. And then, if there is changes in the number of employees, you know, occasionally that they will make changes in there.

So, we did a comparison between, if they had taken test year, with those known and measurables, versus the process that they used, actually, it would have been a higher number than what we're taking out.

Did I say that right? For example, if we ended up using the known and measurable off the test year, --

Q The known and measurable what?

A (Mullinax) That would be, like, the union increases.

Q Okay.

A (Mullinax) You know, or merit increases.

Q Uh-huh.

A (Mullinax) That would have been an adjustment of $383,000.

Q That would have -- sorry. That would have increased the payroll expense by 383,000?

A (Mullinax) It would have actually been a reduction. Let me double-check that, though. But the point is, is our adjustment actually is half of that. I may have said that backwards. Let me go back and double-check.

Q Are you saying, if you use the actual number of employees that were employed during the test year, and you added the known and measurable salary increases for the following year, the payroll number would have -- the total payroll number would have been lower than you eliminating three and a half positions from the test year?

A (Mullinax) Not the positions, the total payroll. Like, if they had just taken total payroll, say, for management, and multiplied that by the known and measurable increase. So, it would be working off of a total number, as opposed to the individual positions costed out.

Q Okay.

A (Mullinax) Okay. We performed a comparison, and I'm sorry, if you want to refer to it, but I can read it to you.

Q No. Tell me what it is.

A (Mullinax) It's actually in our direct, on Bates number 022.

CHAIRMAN HONIGBERG: If you're going to read, just read slowly.

WITNESS MULLINAX: I'll read slowly.

BY THE WITNESS:

A (Mullinax) "Staff performed a comparison between the Company's individual position full complement method and a simple calculation of applying the average wage and salary increase of 2.7 percent to the test year wages and salaries expense. The different methodologies result in a difference of 383,000. Staff's adjustment recognizes that the Company planned to increase its headcount, but also take into account that the Company will not have a full complement of employees throughout the entire year. Using the Staff's average vacancy methodology results in an adjustment to wages and salaries of approximately half of the simple wage increase methodology".

BY CMSR. BAILEY:

Q Okay. Thanks. Okay, the next adjustment is "LTIP (PSU) Related to Shareholder Goals". Can you go over that one?

A (Mullinax) The Company has three different, I guess, bonus pools. They have got one for Short-Term Incentive Comp and they have got one for Discretionary Shared Bonus Pool. And these are the ones that are paid to the employees.

Then, they have also got another program, the Performance Share Unit Plan that is paid to the senior management. And what we did is we looked at the different goals for each of these plans to see how the -- how employees are being rewarded.

The Short-Term Incentive Plan and Discretionary Shared Bonus Pools, most of them are reflected in a balance scorecard, where they're balancing the interests. And actually, we've got a scorecard in the direct testimony, on Page -- Page 22, Bates 025.

So, the Short-Term Incentive Program, it's a short-term bonus plan, and about 80 percent of it is based on this balance scorecard and then it's about 20 percent of it based on individual performance. And we felt like the way the scorecard was weighted, that it fairly weighted the different stakeholders. And the stakeholders would be -- they call it "People", "Stakeholders", and "Business Processes". But I guess it's -- really what that comes down to is balancing the interests between the ratepayer and the shareholder. So, we felt like the Short-Term Incentive Comp. Plan, we were comfortable with that one.

The Discretionary Shared Bonus Pool is

paid to non-union employees that don't participate in the Short-Term Incentive Plan. And it's also paid to union employees. And, again, is says that it's -- the parts of it are the performance measured against the scorecard and individual performance. So, again, we felt like that one was okay.

Q Which one was that one?

A (Mullinax) This one would be the Discretionary Shared Bonus pool.

Q Okay.

A (Mullinax) Those two are okay. And then, we started looking at the Performance Share Unit Plan. It's also referred to as the "PSU Plan". And this is a long-term incentive plan that is applicable to director level and higher positions. The award is a performance share that's based on the market value of the stock at the end of the year.

So, the next thing we wanted to look at was "how would a director level position be awarded this particular bonus plan?" And it's split between what they call "Efficiency", for 85 percent; "Safety", 10 percent; and "Customer

Satisfaction", 5 percent. And this is discussed on Bates number 026 of our direct testimony.

As we started looking into what makes up these different areas, we were very comfortable with safety. Safety should be very high on people's list to, you know, perform it, because a good safety record deserves a good bonus payout. Customer satisfaction again is something that's very important.

But, when we started looking at the efficiency piece, and again, if you'll go back to the balance scorecard on Page 025, you'll notice about, I guess, a third of the way down, where it says "Efficiency", "Efficiency - Create Cost of Capital Efficiency", it's "Deliver a Targeted State Net Income", "Deliver a Targeted State ROE", "Deliver Earnings before Income Taxes". And they're also talking about "Growth in Regional Operating Profits".

So, as we started looking at these, what we felt like that these were particular goals that were more focused towards shareholder benefit, as opposed to ratepayer benefit. And that we felt like it was appropriate that, for a portion of the Performance Share Units, remember also that what is rewarded is also based on the market value of the stock. And these particular goals were again focused on shareholder benefit things. We felt like this portion should come out.

So, of the efficiency goals, we believe 75 percent of them are shareholder-focused. And again, the efficiency goals represented 85 percent of the total, with the other two being customer satisfaction and safety. We felt like 63.75 percent of the costs associated with these Performance Share Units should be paid by the shareholders, in other words, not included in rates. And that's what this particular adjustment reflects.

Q And is that because they're already rewarded through the scorecard on the same category, for efficiency?

A (Mullinax) Well, these efficiencies came right off the scorecard.

Q Does the scorecard -- is the scorecard used for the PSU bonus?

A (Mullinax) Just the efficiency piece.
Q Okay.
A (Mullinax) And that makes up 85 percent of it.
CMSR. GIAIMO: Can I?
BY CMSR. GIAIMO:
Q Is there an industry standard here or is this an observation you have from your experience? Why the "63.75 percent"?
A (Mullinax) The "63.75" is actually a calculation. The efficiency, again, if you go back to how the PSU -- the performance criteria, 85 percent of it was efficiency-related from the scorecard; 10 percent was safety; and customer satisfaction was 5. So, that makes up 100 percent. Mathematically, if you say 85 percent of the goal is efficiency, and we've gone through and we've looked and we've identified specific ones that were shareholder-focused. And we found out that, of that 85 percent, 75 percent of them were shareholder-focused.
So, it's simply 75 times 85 percent. And that's how we came up with the 63.75 percent.

CMSR. GIAIMO: Thank you.

BY CMSR. BAILEY:

Q And why did the Company -- they just didn't agree, because they're going to pay those bonuses, they didn't agree to that adjustment? Did they respond in their rebuttal testimony?

A (Mullinax) They did respond in the rebuttal. And I believe part of what they were coming from was that the LTIP is part of a total compensation package, and that it's necessary to attain and attract employees.

Q Okay. And you don't necessarily disagree with that, you just think that the shareholders should pay for the part that is benefiting the shareholders?

A (Mullinax) Correct. Particularly since, you know, the actual payout itself is based on the market share of the stock. And my concern is is that there can be competing interests between shareholders and ratepayers.

One thing that I actually observed in a case once was that a particular utility ended up reducing their vegetation management, therefore it ended up increasing their operating income. Well, that was something that benefited the shareholders, but it had a significant detriment on outages.

So, it's just -- there's kind of a balance there that needs to be met. And that's what we were trying to recognize here, is finding that balance between what's appropriately borne by the shareholders and what should be part of the cost of service of rates. And this is one that we felt like, since most of these goals -- well, the goals that we took out did reflect items that were direct shareholder benefit, and the fact that the actual reward itself was based on the market value of the stock.

Q Okay. All right. The next one is "iNATGAS Minimum Annual Transportation Quantity Adjustment", and you deleted that adjustment.

A (Mullinax) This was an oversight on the Company's part. I think they just missed a digit on their number, and they corrected it in rebuttal.

Q Oh, I remember that. Okay. "Modify Employee Pensions and Benefits", also deleted.

A (Mullinax) That was one that, in rebuttal, the -- the basis of this adjustment was to make sure that this particular item reflected the most recent actuarial study. And the rebuttal updated it based on the actuarial study. So, we felt like this adjustment was no longer needed.

Q "Adjust Revenue to Year-End Customer Count". I think I understand this, but let's go through it anyway.

A (Laflamme) This is -- this is an adjustment to record the customer growth that was experienced by the Company during the test year. Staff felt that, since the Company recognizes its plant in service in rate base at the year-end amount, that they also should recognize revenue based on the number of customers that they have at the end of the year as well.

Q And the Company disagrees with that principle, but do they disagree with your calculation of that number, do you know?

A (Laflamme) I don't believe so, because Staff asked the Company to calculate the year-end -- the revenue amount based on the year-end customer count, and that was in Staff Data

Request 8-17, which has been included -- was included in our original testimony, on Bates 215 and 216. And Staff based its adjustment on the calculation that was provided by the Company.

Q Okay. And the "Legal Fees and the Degradation Fees", that's what they agreed to move in their rebuttal testimony into the step adjustment, but there was some correction that you made this morning, is that right?

A (Mullinax) That's correct. As we were looking at the step adjustment, what the Company did is they took the full amount, instead of just the amortized amount. The adjustment that we're reflecting here that was deleted, because the Company accepted it, was one where we were looking at the amortized amount.

In other words, the legal fees, in total, that we recommended being taken out was 172,000. But, once you amortize that, it turns out to be about 57,000, $57,000 adjustment. If you look at the degradation fees, the total was 186,000, and our adjustment took out 9,000. Okay? So, this is what was coming out of base rates.

What our intention was is that we'll take it out of base rates, allow it in the step adjustment. And where the disconnect got was in our testimony, was that instead of taking the amortized amount, we took the full amount. Looking at it, the reason that is a mistake is because, if that becomes part of the step increase, and the step increase is part of the base revenues, that means that they would get full recovery every year into the next rate case. So, instead of, you know, getting the 57,000 for the next three, four years, they would be getting the full amount of 172,000 every single year. So, in essence, they would be recovering 172,000 times four, four times as much, you know, depending on when the next rate case came in.

So that was what our original intention was, is that we would take this particular amortized amount, and just move that one year's recovery into the step increase, not the full amount. Because, again, we were concerned, and actually we didn't even realize that there was a disagreement until we started looking at it during this hearing, that there was a disagreement in the numbers that were used.

But, again, we just felt like the step increase, you shouldn't recover 100 percent for year one, year two, year three, year four. You should only be recovering what came out of the base revenues, because that was what our intention was.

Q I want to look at the update that you gave us today. So, this update, it reduced your adjustment -- no.

A (Mullinax) It did --

Q What I want to try to understand is, the difference between your original filing, which you thought the Company accepted, and the Company would have accepted it because they were going to get the full amount every year from now on?

A (Mullinax) Uh-huh.

Q So, you're backing off of that now in the Exhibit 54?

A (Mullinax) You're correct. But the exhibit that you're looking at here, Bates number 045, actually does have several other things going on in this as well. It does reflect the change in the tax rates.

Q Okay.

A (Mullinax) So, it's not -- it's not real clearcut, other than the fact that we went, if you look at the Column (D), that was what was in our direct testimony, and then Column (C) is the corrected amount. The Column (C) reflects the change in the recovery of the degradation and the legal fees, as well as the change in the tax rates. So, we went from 4 million to 4.1 million.

Q And if I wanted to add, without the tax effect, the number that you would have put in Table 2 on Page -- Bates Page 006, I would add an adjustment of $57,506 to "Operating Income"? Which column would I put it in?

A (Mullinax) Actually, if you take Column (D), and you see there's the "3.8 million" on Line 18, so it's -- and that's one that's in the block?

Q Yes.

A (Mullinax) Okay. Then, you would take that, and you would add in the difference between the 172 and 57. So, whatever that difference would be. Then, you would also -- you see the 57 is coming from Column (C)?

Q Yes.

A (Mullinax) We put in 172, it should have been 57. So, you've got to take out the 172,000, and put in the 57,000. And then, if you go down and look at Column -- I mean, I'm sorry, Line 39, we mistakenly put in the 186, and it should have been 9,000. So, the difference in that.

So, if you make those two adjustments there and flow that down to the step adjustment at the bottom -- well, I don't mean to complicate this a little bit, but, during rebuttal, the Company did point out that we didn't apply a tax adjustment to this, that was not appropriate. So, as you can see, in Column (C), if you're looking at Lines 41 and Lines 40 -- I'm sorry, 44, you can see where we took out the tax piece in there.

So, it's not 100 percent clear, but it's a number we could give you very easily. This is an Excel, and it's just a matter of moving those two differences, between the 100 percent that we put in there and the amortized annual amount that should have been in there.

Q Can you tell me the numbers that you would have put in Table 2?

A (Mullinax) Yes. Table 2 is correct. There's no change in that one, because that does not reflect the step adjustment. So, the number that's in --

Q Okay.

A (Mullinax) -- Table 2 is what would be in base rates. Where we have the disconnect was what went into the step increase.

Q Thank you. And "Removing Severance Associated with Resignations", I think Mr. Sheehan covered that with you. And you -- tell me again why you think it's not reasonable to have ratepayers pay to cover their risk of a lawsuit?

A (Mullinax) The adjustment that we made was based on the information that was provided by the Company. And when we asked about those particular positions that severance was paid, we were told that it was based on either layoffs, and those we did allow, or resignations. And that was all of the information that we were provided.

Q But now that you have more information, we have more information, should we make that adjustment or should we eliminate that adjustment?

A (Mullinax) That's one that it almost depends on the circumstances. And I don't want to avoid the issue. But I think, if you look at it from the standpoint is, if there is an employee that you're trying to get rid of, and you're forcing them to resign, why would you pay them a severance?

BY CHAIRMAN HONIGBERG:

Q Do you have any experience with terminated employees and lawyers?

A (Mullinax) Unfortunately, yes. Believe me, based on what was said today, I do understand why sometimes it might make sense to pay somebody to go away.

But the question is, is whether or not the ratepayers should be paying that?

CHAIRMAN HONIGBERG: Okay.

BY CMSR. BAILEY:

Q "Amortization and Depreciation" is somebody else?

A (Mullinax) Yes.

Q "Interest Synchronization" you've already explained. And I assume that, if the Company agreed with all the adjustments that you made, they would agree with that number probably, right?

A (Mullinax) Again, that is just a flow-through calculation, yes.

Q Oh. I had -- "Impact on Staff's Recommended Cost of Capital". So, this takes -- this reduces the difference between you and the Company by $2 million, because you've agreed to the same cost of capital. Is that right?

A (Mullinax) Yes. Well, no. Again, these numbers are based on the Company's rebuttal.

Q Right.

A (Mullinax) And that was their -- the rebuttal position, their cost of capital was significantly higher than the agreed to 9.4 percent. So, what this particular number

here is, it's a reflection off of their rebuttal position.
Q Okay. Thank you. That's helpful. And then "iNATGAS" is somebody else?
A (Mullinax) Yes.
Q So, your adjustments of this almost 800 million **[**8 million**?]** don't include Concord Training Center, which is a half a million; recovery period of theoretical reserve imbalance, which is 2.5 -- 2.4 million, so let's say that's 3 million rounded; another half million for depreciation, that's 3.5; and so almost -- almost $4 million are not your adjustments. So, what you're recommending is that we reduce -- the Company's revenue requirement by $4 million, plus all the other ones that you aren't responsible for.
A (Mullinax) There are other ones that other witnesses are sponsoring, --
Q Yes.
A (Mullinax) -- the reason behind them. What we're doing here, is we're just looking at the revenue requirements impact of those recommended adjustments sponsored by other

witnesses.
Q Okay. I think I said this the other day, but I want to make sure I still have it. So, the Settlement Agreement recommends a revenue requirement of 10.3 million. And you're recommending a revenue -- I'm sorry, not a "revenue requirement". The Settlement Agreement has a revenue deficiency of 10.3 million. And you think the revenue deficiency is only 5.6 million?
A (Mullinax) 5.7, yes.
Q 5.7, yes. Okay. So, the difference between both sides is 4.6 million, between the Settlement and -- between the Settlement and the number you think is right?
A (Mullinax) If you're talking absolute dollars, but, again, the Settlement was a black box.
Q Right.
A (Mullinax) So, it -- and I know, with the give-and-take, you know, is it really 10.3? I mean, because there's -- being a black box, other than just looking at the absolute difference between the two numbers, it's really kind of hard to compare them.

CMSR. BAILEY: Okay. And let me just check my notes.

(Short pause)

CMSR. BAILEY: All right. I'm going to continue to look while Commissioner Giaimo asks questions. I think I'm finished, but I'm going to reserve, in case I forgot one. Thank you.

CHAIRMAN HONIGBERG: Commissioner Giaimo.

CMSR. GIAIMO: Good afternoon. Thank you for going through all the 15 adjustments. I think that really clarified a lot. So, thank you for doing that. I actually only have one or two questions.

BY CMSR. GIAIMO:

Q So, I've been told that, in the utility industry, bonuses are imperative in hiring and keeping qualified employees. Is that a fair statement?

A (Mullinax) I think they are a part -- well, it depends on how the compensation packages are developed. I think what we're seeing more and more in the industry is that a portion of the salaries are at risk. And there are a number of compensation studies that are done to supposedly justify the way the compensation is derived.

I personally have problems with a lot of the compensation studies, and whether or not that is actually a true reflection on whether or not that employee would continue to work there or not, getting that right.

But that is what we are seeing within the industry, is that there is typically a portion of the salary that is at risk.

Q Philosophically, do you have a -- it sounded like you have an issue with linking recovery of a bonus with the value of the stock?

A (Mullinax) Not necessarily the value of the stock, but more so what the performance criteria is. If the criteria is tied directly tied to earnings before income taxes, or it's tied to the share price of a stock, those are things that reflect shareholder benefit that could, if not, you know, really monitored, end up hurting the ratepayers.

So, it's more just finding that balance

between what is shared among the ratepayers as a cost of service, versus the reward packages. Now, there are a lot of utilities that have structured their balance scorecards where they're not so heavily weighted towards shareholder benefits. And I wouldn't have a problem with that one. I think, if there is a balance in the way the performance is measured and how things are rewarded.

But 85 percent of what we saw in the balance scorecard, in my opinion, is more focused on direct shareholder benefit. So, it's more just how they structure their performance criteria.

CMSR. GIAIMO: Thank you. That helps.

CHAIRMAN HONIGBERG: And thanks to Commissioner Bailey's questions and the patience that you showed in answering them multiple times for Mr. Sheehan and Commissioner Bailey, I don't have any other questions for this panel.

Commissioner Bailey, do you have nothing else?

CMSR. BAILEY: No. I'm good. Thank you.

CHAIRMAN HONIGBERG: All right. Mr. Dexter, do you have any further questions for the panel?

MR. DEXTER: I do have very limited redirect.

REDIRECT EXAMINATION

BY MR. DEXTER:

Q For the panel, Commissioner Bailey ended up by comparing the Settlement revenue requirement of 10.3 million to Staff's position of 5.7 million. Do you recall that?

A (Mullinax) Yes.

Q Does Staff's position include a revenue requirement for Keene?

A (Mullinax) No, it does not. This reflects only the EnergyNorth.

Q Is it your understanding that the Settlement revenue requirement includes -- the Settlement revenue requirement of 10.3 million includes a revenue deficiency related to Keene?

A (Mullinax) I believe it does, yes.

Q Okay.

A (Mullinax) I believe that part of the settlement was that Keene and EnergyNorth would be consolidated.

Q Okay. I want to turn again briefly to the question of the degradation fees and the legal fees that have been the subject of a lot of discussion today. And I'd like to direct your attention to Bates 069 in your original testimony, which is marked as "Exhibit 17". Do you have that in front of you?

A (Mullinax) I have it, yes.

Q And I'd like you also to direct your attention to the document that was marked as "Exhibit 54" today. It's a three-page document. And the page we're looking at has a Bates stamp of "045".

A (Mullinax) I have it.

Q Now, these are both intended to show the details of Staff's proposed step adjustment, correct?

A (Mullinax) Correct.

Q Okay. Now, going back to the original testimony back in November, Exhibit 17, it looks like you've included in this -- intended to include in the step adjustment, on Line 27, $172,000 in legal fees, and, on Line 35, $186,000 in degradation fees. Is that what that schedule shows?

A (Mullinax) That's what that schedule shows. But that really wasn't our intent.

Q And your intent, by submitting Exhibit 54, was to reduce those numbers that were in your original testimony to a yearly amortization, is what you described earlier, is that correct?

A (Mullinax) Correct. That way the Company wouldn't continue to recover the 172,000 and the 186,000 for year one, year two, year three. If the recover that full amount, then they're actually recovering 100 percent of these nonrecurring one-time only charges multiple times.

Q When did you discover the fact that you made an error -- I assume it's an error on Page 1 -- on Page 069, in Exhibit 17. Is that correct that it was an error?

A (Mullinax) It was, yes. It was an error.

Q And when did you discover that that error was made? And the question goes to the panel at

this point as well.
A (Laflamme) Monday.
A (Mullinax) It was on Monday, yes.
Q Monday of this week?
A (Mullinax) We starting looking at it on Monday, and then we started running the numbers. Yes.
Q Okay. And as soon as you discovered that error, your supplemental testimony had already been filed at that point, is that true?
A (Mullinax) That's true.
Q And your supplemental testimony continued the mistake, is that correct?
A (Mullinax) The --
Q In other words, it reflected the mistake?
A (Mullinax) That's correct.
Q And subsequent to filing the supplemental testimony, you discovered the error, is that right?
A (Mullinax) That's correct.
Q And as soon as you discovered the error, you submitted this correction, is that right?
A (Mullinax) That's correct.

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

CHAIRMAN HONIGBERG: All right. Well, I'll thank the witnesses. They can return to their seats.

Let's go off the record.

[Off-the-record discussion ensued.]

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

CHAIRMAN HONIGBERG: All right. Mr. Clark and Mr. Hall have returned to the witness stand. They're still under oath. They're going to be answering questions, I believe, from Mr. Speidel, is that right?

MR. SPEIDEL: Yes. Thank you, Mr. Chairman. Good afternoon, gentlemen. How is it going?

WITNESS CLARK: Good afternoon, Alex.

WITNESS HALL: It's going great.

MR. SPEIDEL: Excellent. My questions refer to your rebuttal testimony primarily, and some ancillary materials that have just been passed out in the hearing room thanks to Mr. Iqbal. Your hearing testimony that I'm referring to is Hearing Exhibit Number 24, your rebuttal testimony.

[Mr. Iqbal distributing documents.]

MR. SPEIDEL: And Mr. Iqbal has just passed out a Company response to a Staff data request that I will make some reference to in a little bit.

WILLIAM J. CLARK, previously sworn

STEPHEN R. HALL, previously sworn

CROSS-EXAMINATION *(resumed)*

BY MR. SPEIDEL:

Q But for the time being, if we could please refer to Bates Page 057, Lines 9 through 16 of your testimony. And I'll just read these into the record for the benefit of everyone today.

"Staff appears to be conflating the current efforts to convert a small portion of the Keene system" -- or, "the system to CNG with EnergyNorth's growth plans for the area, and EnergyNorth's proposal to consolidate rates. The conversion to CNG that is currently being undertaken is being done for safety and reliability reasons. This isolated conversion will avoid the need to have 24-hour coverage at the propane-air plant during the winter months. It is not being done for rate consolidation purposes, nor is it being done for growth, although the conversion may result in additional load."

And the material that I just passed out, I think you have it at your witness stand, is that correct?

A (Clark) Yes.

Q Okay. It was a response provided by Mr. Christian Brouillard in the context of the DG 16-812 Winter 2016-2017 Cost of Gas proceeding. And the response was dated November the 15th of 2016.

I think I'd like to give you just a moment to read this material over, if I may?

CHAIRMAN HONIGBERG: Off the record.

[Brief off-the-record discussion ensued.]

MR. SPEIDEL: Thank you. I would like to reserve Hearing Exhibits Number 55 for this Data Request 2-8 response from --

CHAIRMAN HONIGBERG: It's been marked. It's "55".

(The document, as described, was herewith marked as **Exhibit 55** for identification.)

MR. SPEIDEL: Thank you.

BY MR. SPEIDEL:

Q And I will address these questions to the panel at large, and whoever feels most qualified to answer may answer.

No gas system is 100 percent safe. How does Liberty determine what safety measures are reasonably justified?

A (Hall) You've got the wrong witnesses to ask that question to. We're not involved in operating the system.

Q Did Liberty consider the economics of each of the safety measures that were implemented following the December 2015 incident referred to in Hearing Exhibit 55 and the risk reduction associated with each?

A (Hall) The "economics of safety measures"?

Q Yes.

A (Hall) I don't know if the economics of safety measures were considered. Safety has an extremely high priority.

Q Okay. In addition to the 24-hour coverage, what other measures did Liberty take to prevent a similar incident from occurring?

MR. SHEEHAN: I object, for the reasons that Mr. Hall articulated. He's not person, or Clark, to be answering safety-related questions. The data response is by an engineer who had knowledge of this issue. And the Commission conducted a full investigation of this matter, and I think it was 15-517.

CHAIRMAN HONIGBERG: Mr. Speidel?

MR. SPEIDEL: I accept the objection. I'll move onto the next question.

BY MR. SPEIDEL:

Q Gentlemen, do you happen to know as to when Liberty first sought recovery of production costs through the Keene cost of gas?

A (Hall) I believe it was 2016, but I would have to check on that.

Q Does this data response, Hearing Exhibit Number

55, help to refresh your memory on that?
A (Hall) It's dated "November 15, 2016". That's what led me to my belief.
Q In DG 16-812, Staff recommended that the Commission deny Liberty's recovery of production costs through the cost of gas. And that discussion can be found within Mr. Frink's testimony as Attachment SPF-1.
A (Hall) Okay.
Q There is a section in that testimony, in that recommendation, titled "Keene Production Plant Round the Clock Staffing is Unnecessary", and I would like to read the last paragraph of that section, which is found on Bates Page 042 of Mr. Frink's testimony.

"In light of the many and significant enhancements Liberty has made to address the risk of a similar event, the incremental cost of manning the plant are not reasonable or justified. Furthermore, personnel costs should not be allowed for recovery through cost of gas rates and the matter should be addressed in a general rate case if Liberty wishes to seek recovery."

Gentlemen, does the Liberty/OCA Settlement Agreement provide for the full recovery of deferred production costs and the cost of 24-hour coverage of the Keene plant?

A (Hall) It is not clear what's fully recovered or fully provided for for recovery through the Settlement Agreement. It's a liquidated amount.

Q A "liquidated amount", what does that mean exactly?

A (Hall) It means an amount that two parties agree to in order to settle a difference of opinion.

Q So, there is no provision for the costs related to the Keene production facility being manned 24 hours a day within the terms of the Settlement Agreement? Is that what your position is?

A (Hall) Let me read the Settlement Agreement.

MR. SHEEHAN: Page 7.

WITNESS HALL: I don't know if it's in here.

[Mr. Mullen handing document to the witnesses.]

BY THE WITNESS:

A (Hall) The Settlement Agreement provides that "the emergency response costs related to the December 2015 incident and the Keene production costs should be recovered through the Keene specific cost of gas rates over five years... beginning November 1, 2018."

BY MR. SPEIDEL:

Q Okay. So, would you like to revise your first answer in any way?

A (Hall) I'd like to hear the question again.

Q Does the Liberty/OCA Settlement Agreement provide for full recovery of deferred production costs and the cost of 24-hour coverage of the Keene plant?

A (Hall) I'm pausing over the last part of your question. I believe the answer is "yes".

Q Getting back to Hearing Exhibit 55, --

A (Hall) I don't know which one that is.

Q The Staff 2-8 response that the Company provided in 2016.

A (Hall) Got it.

Q Several lines from the bottom there's a reference: "Further, as a temporary measure to improve safety and reliability, we plan to convert a portion of the high pressure system (Monadnock Marketplace) to CNG. We expect to complete this limited conversion in December/early January at which time the blower system will be placed in cold standby and the plant run on atmospherically supplied air".

A (Hall) Uh-huh.

Q When did Liberty decide to convert that small section of its Keene system to CNG?

A (Hall) Based on the context of this response, it appears that it was sometime in 2016.

Q With regards to the following two sentences in Hearing Exhibit 55, I'll ask for some context.

A (Hall) Uh-huh.

Q "This is only a temporary measure, specific to the Monadnock Marketplace segment of the high pressure system. The permanent CNG conversion of both the high pressure and low pressure systems is not expected to begin until later in 2017."

Do you have a sense of whether this permanent CNG conversion process is contemplated within the terms of the Settlement

Agreement before the Commission?

A (Hall) Not specifically. All the Settlement Agreement provides is that the Keene production costs will be recovered through the Keene specific cost of gas rates.

A (Clark) Well, I think, Alex, if you're asking whether this future facility, the site, the equipment, and the production costs would be paid for by specifically the Keene customers only, this answer would be "yes".

A (Hall) Right.

Q Would you please describe the temporary CNG conversion that Liberty was contemplating for Monadnock Marketplace, as well as the expected costs of that conversion?

A (Clark) The temporary CNG skid is there, on-site, been tested. We are still waiting a final decision from the Safety Division. I believe the last communication we had with them was in December. I believe they have all the information they need. The pipe is run, it's tested, it's ready to go. The isolation valves are in place. When that is on line, it would allow us for -- it would allow for the retirement of the blower system. If we take Monadnock Marketplace off of the blower system, the remaining customers on that high pressure line can be supplied without running the blower system.

Q What about the cost of this first phase of the conversion effort? Does the Company have a handle on what it expects to spend for that?

A (Clark) Yes. I'm not familiar with the exact cost of the conversion for the customers over there. That was done through operations. I know the pipe was a couple thousand feet to run, as far as distribution pipe. The CNG skid, the maintenance, and the fuel commodity is a pass-through cost through XNG, which is a supplier.

Q What is the cost of the land on which the CNG facility is to be located in Keene?

A (Clark) I believe it has a value in land for future use of around $400,000, a little more than that.

Q For ratemaking purposes, how is the cost of that land currently being treated?

A (Hall) It's not being recovered currently. It will be recovered through the cost of gas, because it will be considered a production cost.

Q When you say that it's "not being recovered", is it in some sort of accounting line item, some kind of sinking fund for items that are not in rate base yet?

A (Hall) My guess is -- well, I won't guess. I believe it's land-held-for-future-use. But land in and of itself generally isn't included in a utility's rate base. It's not the kind of thing that's amortized.

Q So, it's not in rate base and it's not being amortized at the present time?

A (Hall) That's my understanding.

Q Under the Liberty/OCA Settlement Agreement, how will that cost be treated? When and by how much will it be reflected in Liberty's rate base?

A (Hall) The value of the facility, including the value of the land, will be recovered as a production cost through the cost of gas, once the facility goes on line. So, it's a rate base/rate of return type of calculation.

As Mr. Clark noted, right now that facility is sitting there. We do not have the authority to put CNG into that system. We're waiting.

Q Does the section of the Keene system being converted to CNG use any of the existing distribution system, such as mains and services?

A (Clark) It would. There's new pipe on Production Avenue, and that ties into existing piping in the Marketplace.

Q Could you describe some of the planning and engineering efforts, and also procurement efforts that the Company has to engage in to get customers ready to be able to use CNG on the Keene system?

A (Clark) One more time, Alex.

Q Could you please describe some of the procurement, engineering, planning, internal corporate procedural updates that need to be done to get customers in Keene ready to accept CNG service? Could you describe some of those general efforts?

A (Clark) Sure. Some of the general efforts were done by the Customer Service Department, where they went out and took a physical inventory of the equipment that will be converted in the Marketplace. Came back, got an itemized list, sent that through the Procurement Department to find out the availability and cost of that equipment. Interviewed local plumbers and HVAC contractors that could perform the conversion, and notified the customers that the conversion would be occurring, and that we would give them notice before that conversion occurs.

Q Have you been engaged in any training or updated procedural manual development for Keene personal in preparation for the CNG conversion effort?

A (Clark) Me, personally, no.

Q This is probably a repetitive question. But do either of you gentlemen know the overall cost to the Company of converting the Monadnock Center Marketplace system to CNG, the customers?

A (Clark) I don't have a cost available to me, no.

Q Thank you for indulging that. Does Liberty agree or disagree that the Safety Division's review of its procedures and plans, such as operating and maintenance procedures, emergency procedures, installation schematics, pressure testing, public awareness plans, qualification of personnel, tank transfers, and other plans has been thorough to date, while helpful to Liberty and avoiding many other potential violations from occurring?

A (Hall) I would agree that it has been thorough. And my response is the status at this point is we're waiting.

Q Subject to check, do either of you recall that the Safety Division issued a Pipeline Safety Violation in late 2017 regarding some of the pressure testing procedures for the new CNG installation?

A (Hall) I can't respond to that. I don't know.

A (Clark) I don't know.

Q Has Liberty conducted any test to determine if the existing propane-air distribution system is capable of safely and reliably transporting natural gas?

A (Clark) I don't.

A (Hall) You've got the wrong panel.

Q Will large sections of the existing propane-air distribution system need to be replaced to achieve any significant growth in the opinion of the Company? And, if so, has Liberty identified that cost in its materials given to the Commission within this rate case?

A (Hall) We're not aware of sections of the distribution system that would need to be replaced. Certainly, to achieve growth, new distribution main and services are going to have to be added.

A (Clark) My understanding is existing low pressure piping in Keene will receive low pressure gas piping at the same pressures that is currently in the piping. The existing piping is sized, my understanding is, at 720 Btus per cubic foot. Once we introduce natural gas at 1,000 Btus per cubic foot in the same diameter pipe, that actually allows for growth without replacement of the pipe.

Q Thank you. The Liberty/OCA Settlement Agreement includes a risk-sharing mechanism. If the CNG/LNG conversion takes place and fails to provide the expected financial benefits, as determined through a discounted cash flow analysis, or DCF -- I may give a page reference. Let me just have a look here. That would be on Bates Page 012 of the Settlement Agreement, Exhibit 29. Give you a moment to have a look at that.

Can you please tell us that, for the section of the system being converted to CNG at this time, whether the cost of the land and any main or service replacements beyond those normally undertaken following the introduction of natural gas will be included in the CNG/LNG conversion costs be used in the DCF for risk-sharing?

A (Clark) Well, in Phase 1 of the growth analysis, there was a cost associated with running pipe down Production Avenue. That would be in the general rates of EnergyNorth, if this consolidation happens as a distribution rate. It's a new distribution main.

Q So, the cost of the land, and any main or service replacements beyond that normally undertaken following the introduction of natural gas, will that be put into the bucket of costs to be used in the discounted cash flow analysis? I'm referring to the discounted cash flow analysis here.

A (Hall) Bear with me a moment.

(Short pause.)

BY THE WITNESS:

A (Hall) The DCF analysis that we'll perform is included in Attachment WJC/SRH-4. Or, I should say "an example of it". And that shows that --

CHAIRMAN HONIGBERG: Mr. Hall, can you direct us to where we would find that?

WITNESS HALL: I'm sorry. It starts on Bates 079 of the Clark/Hall Rebuttal Testimony.

CONTINUED BY THE WITNESS:

A (Hall) And that shows a DCF analysis for each of the five phases. And it's based on estimated data right now.

A (Clark) That was also -- the capital cost direct of "112,500" I believe is the --

A (Hall) Right.

A (Clark) -- distribution piping only, and associated services for growth off of that pipe. It does not include land, it does not include equipment conversion costs for the customers, as those would be recovered through the cost of gas.

A (Hall) Right. And the "112,500" is for Phase 1 of 5.

CHAIRMAN HONIGBERG: Mr. Sheehan, is that information confidential? It seems to be shaded in the exhibit we're looking at.

WITNESS HALL: What's -- oh, I'm sorry.

WITNESS CLARK: I'm sorry, it was just, in what you're looking at is probably highlighted. I'm looking at it as blue, not redacted.

WITNESS HALL: I know it's confidential in this page.

MR. SHEEHAN: The confidential piece, in the box in the lower left.

WITNESS HALL: Correct.

MR. SHEEHAN: The other shading is blues and yellows in the original.

CHAIRMAN HONIGBERG: So, shaded gray is confidential, other shaded colors are for highlighting and style?

MR. SHEEHAN: Pizzazz.

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: Sorry to break the flow, Mr. Speidel.

MR. SPEIDEL: No. It's all good, Mr. Chairman.

BY MR. SPEIDEL:

Q But I will ask this. Gentlemen, are you aware that the Staff does not agree with the Company's and the OCA's conception of the land costs and the equipment costs being rolled into the cost of gas? This is sort of a "yes" or "no".

A (Hall) I don't know what Staff's position is. I may have read it, but I don't recall offhand what it is, with regard to the cost of the land.

Q How about you, Mr. Clark? Do you recall it or no?

A (Clark) I'm trying to remember what the position of Staff was on this. I guess my comment to that would be, this was a projection, and it was based on distribution revenues. And the rate case is for consolidating, and the Settlement Agreement calls for consolidating distribution rates. So, land and other costs that weren't going to be in the distribution rates were not part of the DCF analysis.

So, if, at another point in time, Staff argues that they shouldn't be recovered through the Keene cost of gas for any reason, that would be at another docket.

Q Thank you for that clarification. Turning to Bates Page 053 of the rebuttal testimony, Lines 13 through 23. There's some discussion of EnergyNorth service territories that have different cost structures, and therefore result in cost shifting. And there's reference to the systems in "Berlin and in Amherst that are physically separate from the rest of EnergyNorth's distribution system. Berlin customers are served from the PNGTS pipeline, while customers in Amherst are provided propane service from a small propane storage facility that EnergyNorth owns in Amherst." And then it goes into discussion of billing costs, cost differences, *etcetera*.

Does PNGTS capacity not used to serve Berlin provide any benefit to other Liberty customers by delivering gas to a secondary receipt or through the sale of that capacity to an asset manager or other party when not strictly necessary for load?

A (Hall) I don't know. But, if you say that's the case, I'll accept it subject to check.

Q I'm not saying. I'm asking.

A (Hall) Yeah, I don't know.

A (Clark) I believe it could. I just don't know what the capacity contracts are, if there are any on PNGTS.

Q Are you aware that in the 1960s a number of propane systems were installed by gas utilities, with the expectation that increased demand for natural gas in the area would justify an extension of the natural gas distribution system?

A (Hall) No.

A (Clark) No.

A (Hall) That was a long time ago. I would have been less than ten years old.

Q Well, some of us are historians. But just wanted to know if you know the history of your industry?

A (Clark) I know it was tried in -- or, was done in Pelham. I mean, I know that we're now serving Pelham with natural gas, and took some of those propane customers that were on a propane system and converted them to natural gas.

Q So, it seems that you are aware, Mr. Clark, that other locations besides Amherst were originally provided with propane service by gas utilities, but now they receive natural gas or have had natural gas service terminated?

A (Clark) Yes. As a general knowledge of history of the utility industry, and going back to when EnergyNorth owned propane distribution services and the natural gas company, that probably happened.

Q So, is there a certain sense that Keene would be more of a permanent installation of a satellite system than we may have found in places like Pelham, or even Amherst in the past?

A (Clark) Keene would be a more permanent system in utilizing what fuel?
Q Well, a different cost structure. It's a satellite system with a different cost structures being streamed into general rates.
A (Clark) Well, I would argue that different cost structures reflected in the cost of gas, the cost to electronically read a meter or produce a bill and answer telephone calls is similar through the Keene Division or the EnergyNorth Division.
Q Thank you.
A (Clark) The uniqueness is the production facility.

MR. SPEIDEL: Thank you, gentlemen, for your time. Staff has no further cross.

CHAIRMAN HONIGBERG: All right. We're going to take a ten-minute break.

(Recess taken at 3:35 p.m. and the hearing resumed at 3:54 p.m.)

CHAIRMAN HONIGBERG: Commissioner Bailey.

CMSR. BAILEY: Good afternoon.

WITNESS HALL: Good afternoon.

WITNESS CLARK: Good afternoon.

BY CMSR. BAILEY:

Q One of the criticisms that Staff had of your proposal to consolidate Keene was that you didn't do a business plan or a DCF analysis that showed when EnergyNorth customers would benefit if you consolidated Keene's rates.

A (Hall) Uh-huh.

Q Is there a reason why you didn't do that, other than the Commission has never required that before for a consolidation?

A (Hall) Well, that, and for rate consolidation purposes, you're right. I think, in our testimony, we cited at least three, if not four, previous cases where there were rate consolidations that were put into effect for various utilities, and there never has been a business plan required.

But the point in our testimony really went beyond that, and it spoke to the concerns Staff's expressed with a detailed business plan with respect to growing the Keene area, which we fully plan to do.

The difficulty that we have is, in order to develop a detailed business plan, a lot of thing have to come together. You need a good detailed estimate of the cost of expanding. And we're going to have five different phases, we're going to have to do a detailed estimate for each of those phases. But, in addition, you need to get customer commitment to take service. And you need to incorporate the revenue that you anticipate you'll receive from the amount of customer commitment that you get.

Without knowing how much we're going to charge customers for gas service, it really isn't possible to go out, do our marketing, get detailed customer commitment plans, and have a good feel for what the amount of revenue will be that we anticipate, because customers, in making a decision on what their heat source is going to be or their energy source, they're going to want to know "Well, when can you provide service? And how much are your rates going to be?"

So, it's almost a catch-22. We need to be able to tell them "Well, here's what the pricing is going to be", in order for them to make a decision, and "Here's when we think we can provide service."

But without -- but Staff's position is that "well, you ought to have an idea for that and develop a plan in advance." Our point is, we can't. We can't come up with that detailed estimate, simply because customers are going to want to know that information before they commit.

Q And what information are they going to need to know that you don't know today? I mean, I understand you don't know the costs. You'd have to do some work to get the costs.

A (Hall) Yes.

Q And I assume that you've done that at least for the first phase, because you're in the middle of building that.

A (Hall) No. We're not in the middle of Phase 1.

Q Okay.

A (Hall) All we're doing right now, or all we've done right now, is conversion of the Marketplace to CNG from propane-air. That's not Phase 1.

Q Okay. Is the commodity cost going to be higher for CNG than propane-air?

A (Hall) It will be comparable. In fact -- go ahead.

A (Clark) The pricing that we're seeing now for CNG, it's slightly lower than the propane-air -- the propane pricing that we have in Keene. But I would caution that that's based on very small delivery amounts of CNG. And as you purchase more CNG and/or LNG, through economies of scale, the pricing will actually be lower than what we're currently getting for CNG.

Q But then do you have to add all the production costs in for the cost of gas as well?

A (Hall) Well, the primary production costs are the costs associated with paying for the facility.

A (Clark) Yes.

A (Hall) And that is, and I don't know if it's a lease or if it's capacity payment -- it's a fixed monthly charge that we'll incur from the provider of the equipment.

A (Clark) I think to Commissioner Bailey, are you asking about when we build and own the full-scale facility for the entire Keene Division?

Q Well, --

A (Clark) That production cost, the large majority of that cost is actually the return on the equipment. There's not much production costs with labor. It's an unmanned facility. So, other than maybe an employee, the equivalent of a full-time employee, that would really -- and electrical costs.

Q Okay.

A (Hall) I'm concerned we may be talking past each other.

Q I think we are a little bit. I have two lines of questions at least that I want to cover, and you're going in both directions. And I'm trying to, in my head, put it back to together.

A (Hall) The discussion we just had was making a distinction between the cost associated with the facility that we've -- that the work that we've done thus far, in the facility that's set up and ready to go, and the latter portion that Mr. Clark just addressed was the cost associated with expanding, i.e., beginning Phase 1.

Q Okay. Do you know you're going to begin Phase 1?

A (Clark) Yes. Phase 1 will be Production Avenue. So, I guess my point was, you mentioned the "business plan". The business plan will encompass the full-scale facility, not the temporary facility.

A (Hall) Correct.

Q Okay. And if you know you're going to begin Phase 1, you should know the costs today, right?

A (Hall) We have a timeframe of when we'll begin Phase 1, but it's premised on getting the rate consolidation approved.

Q Why is it premised on that?

A (Hall) Because customers, without rate consolidation, rates are going to be too high. We're simply not going to be able to get the amount of load necessary. We're not going to be able to grow as much.

Q Okay. So, you know you have to have consolidation, so you know what the

distribution rates would be.
A (Hall) Uh-huh.
Q You know what the costs would be to do Phase 1. Why can't you run a DCF analysis on that?
A (Hall) Well, we have.
A (Clark) We did.
Q Okay. And what was the result?
A (Hall) That's in the attachment that I was referring to earlier when Alex was asking his questions.
Q And does EnergyNorth get a benefit? In how many years does EnergyNorth get a benefit?
A (Hall) Again, I'm going to turn to Bates 079.
Q In the rebuttal testimony?
A (Hall) In the rebuttal. I'm sorry.
Q Okay.
A (Hall) And let me -- I'll just give you a quick overview of what this DCF analysis does. You have several columns and several rows. The rows are various years, the columns are certain costs. And if you go over across the columns, you get to the point where it says "Revenue Requirement". First, the year one, it's "$18,542". That's a revenue requirement

associated with $112,500 of capital cost for Year 1, for Phase 1. The next column over is the revenue that we anticipate we get, assuming that we billed Phase 1 customers under our temporary rate level, i.e., the rate level in effect today, not after permanent rates, but temporary rates.

Q And for Keene, what's the temporary rate?

A (Hall) Well, Keene isn't being billed temporary rates. This assumes that there's going to be a rate consolidation.

Q Okay.

A (Hall) We didn't know what the permanent rate level was going to be. So, as a placeholder, we're using the temporary rate level, EnergyNorth's current rates in effect today. And you can see, based on the assumptions that we've used, there's a positive benefit from Year 1.

Q Okay.

A (Hall) Now, this isn't what I would consider a "detailed business plan". This is based on a whole host of assumptions. Once we get a rate consolidation plan approved, now we're going to go forward with a detailed marketing plan. We're going to have information as to -- we'll do the engineering required to come up with a detailed cost estimate of Phase 1, and when it will be constructed, and where the construction will occur, and when we'd be in a position to provide service to customers along that route.

At that -- once we begin that work, we're now going to be knocking on customers' doors with an aggressive marketing effort, and trying to get customers to commit, primarily they're commercial customers, to commit to take service.

Q And would your Managed Expansion Plan apply to the decision to build?

A (Hall) It might, if -- it might, if you had --

A (Clark) If you had a phase where it required --

A (Hall) Correct.

A (Clark) -- to utilize MEP rates.

A (Hall) Correct.

Q Repeat that please.

A (Clark) So, if rates are consolidated for Keene, Keene customers would have the option, in future expansions, if required, to have MEP

rates.
Q What -- I don't understand by "if required"?
A (Clark) So, if we were to do a growth analysis, and the rates can't support that capital expense, we would run the analysis again through the MEP rate structure, which is higher.
Q Okay.
A (Clark) And then we will be able to offer the MEP rates to those Keene customers in lieu of a CIAC, or reduce the CIAC.
Q So, you wouldn't build -- if you consolidated, you wouldn't build the main necessary to add distribution service until you had, is it 50 percent? Or what's the MEP?
A (Hall) Well, I think you're confusing MEP with what's in the Settlement.
Q Okay.
A (Hall) MEP, I think of MEP as simply higher distribution rates that customers who would otherwise be required to pay an upfront contribution in aid of construction could avoid as a result of paying higher distribution rates instead.

Q Okay.
A (Hall) That's basically what MEP is.
A (Clark) But I believe the MEP docket is where we introduced and changed our tariff --
A (Hall) Yes.
A (Clark) -- to require a DCF analysis for any single investment greater than a million dollars. And before we move forward on that investment, we have to have 25 percent of the revenue requirement committed.
Q Okay.
A (Hall) Yes.
Q That's what I was thinking.
A (Clark) And that would also be in effect in Keene.
Q Okay.
A (Hall) Yes.
Q And in the Settlement Agreement, you were going to show me something --
A (Hall) Well, I was --
Q -- that maybe is different than that?
A (Hall) It's now on steroids. It's an enhanced version of that. We basically committed to a risk-sharing provision under the Settlement.

Where, you know, we're going to go out and market, and we're not going to commence construction until we have a positive DCF analysis. And we're also committing to a target of an additional amount of revenue growth in excess of the revenue requirement associated with this new investment. And if we don't reach that incremental amount over and above the revenue requirement by a date certain, there's going to be some sharing. We'll give back or we won't recover as much in a subsequent rate case.

Q Okay. And the revenue requirement, once consolidated, of building the distribution system in Keene would be included in EnergyNorth's distribution rate?

A (Hall) Yes. And this risk-sharing provision was added to provide some protection to EnergyNorth's existing customers.

A (Clark) I believe --

A (Hall) And therefore ensure that there would be benefit associated with our growth in Keene to the existing customer base.

Q Did you have something to add?

A (Clark) I was just --

[Court reporter interruption.]

BY THE WITNESS:

A (Clark) I believe it's similar in structure to the Pelham Settlement Agreement with the risk-sharing.

BY CMSR. BAILEY:

Q Okay. And something that you said in response to a question that Mr. Speidel asked you was it sounded like the capital costs of certain investment would not be included in the rate base for EnergyNorth. Did I hear that wrong?

A (Hall) I think what we were referring to was production costs. There's a provision in the Settlement that says production costs associated with Keene -- with serving Keene customers will be recovered through the cost of gas. So, when Mr. Clark just now referred to the permanent CNG facility that we're going to install in order to serve this increased load in Keene, we're going to calculate a revenue requirement on that amount. That revenue requirement will be recovered through the cost of gas that's billed exclusively to Keene customers.

BY CHAIRMAN HONIGBERG:

Q Okay. So, look at the Settlement. I think you have it up there.

A (Hall) I do.

Q On Page 13, which is the last paragraph of Subpart G on "Keene Consolidation".

A (Hall) That's exactly what --

Q That's what you're talking about, right?

A (Hall) Yes, sir.

Q Now flip back to Page 7, on Subsection 6 of "Terms of the Settlement", where it also uses the phrase "production costs". I want to make sure we're talking about the same "production costs" in both paragraphs?

A (Hall) We are.

Q Okay. The difference on Page 7, though, is that response costs related to the 2015 incident are included in that paragraph, are not included in the subsequent discussion of the Keene consolidation?

A (Hall) Correct.

Q In this proceeding, are you asking us to approve dollar amounts for any of those? I

don't think you are.
A (Hall) No. We're not.
Q Okay. So, the agreement going forward under the Settlement is "deal with these things in cost of gas"?
A (Hall) Yes.
A (Clark) Yes.
Q And is that consistent with your original request in this rate case or did it just come up through the Settlement?
A (Clark) I believe it was consistent. It was the same structure that we proposed for Hanover and Lebanon. That was part of a settlement agreement and part of the order, that production costs --
A (Hall) Right.
A (Clark) -- would be independent and recovered through the cost of gas.
Q And just to close the loop on this, I think this is all the questions I had in this area, the risk-sharing that's on Page 12 of the Settlement, was that part of the original request or is that the result of the settlement discussions with the OCA?

A (Hall) It's the latter.
Q Settlement discussions?
A (Hall) Yes.

CHAIRMAN HONIGBERG: Okay.

BY CMSR. BAILEY:

Q All right. I'm a little bit confused, because I thought that, in the Keene cost of gas proceeding, we said we would deal with these production costs associated with the Winter of 2015 in a rate case. And now the result of the rate case is to deal with them in cost of gas?
A (Hall) We're now in a rate case. We're requesting a consolidation of Keene with EnergyNorth. Our proposal in the rate case is, we think these costs should be recovered through the cost of gas, because, from a ratemaking perspective, it makes sense to bill those customers, if you can identify the cost causation, you want to bill the customers who cause a cost to be incurred for that cost to the extent practical -- practicable.

We're now in a rate case. We're saying -- we're asking you to approve this Settlement that conceptually says "these costs are going

to be recovered through the cost of gas." We are not yet to the point where we're saying "and these are the dollars we want to recover through the cost of gas." But we're asking you to approve that concept.
Q And by approving that concept, are we making a determination that those costs are prudent?
A (Hall) No.
Q So, we bounce that decision from the cost of gas case to the rate case. And if it goes back to the cost of gas, when do we decide if those costs were prudently incurred?
A (Hall) In the first cost of gas case when we seek to recover it.
Q And, so, we've already done that?
A (Hall) I'm sorry?
Q Oh. In the first cost of gas case where you seek recovery --
A (Hall) Yes.
Q -- going forward?
A (Hall) Yes.
Q Okay. On the corporate charges, the $200,000?
A (Hall) Okay.
Q In the Settlement Agreement -- in the

Settlement Agreement from the acquisition, --
A (Hall) Yes.
Q -- it was agreed that EnergyNorth would charge Keene $200,000 for corporate expenses.
A (Hall) Yes.
Q Does Energy -- are those corporate expenses for services that EnergyNorth provides or that Liberty Corporate provides?
A (Hall) It's more the former, but it's probably both. They aren't specifically identified. During the acquisition proceeding back in 2014, the parties recognized that there were going to be certain costs or certain services provided, either by Liberty Utilities New Hampshire Corp. or corporate parent, to the Keene Division. We didn't identify what those costs were.

So, as part of the Settlement, what we agreed is, we took a look at what the former owner of New Hampshire Gas, now the Keene Division, was incurring for those costs on an annual basis was $200,000. The parties agreed that that amount would continue to be charged to the Keene Division after the acquisition.
Q Okay. Did EnergyNorth or Liberty, I think you

said "Liberty Services" in New Hampshire?
A (Clark) Liberty Services Corp.
A (Hall) I said "Liberty New Hampshire", but it's Liberty Services Corp.
Q Okay. Did either EnergyNorth's or Liberty Services Corp. expenses or costs increase because Keene was acquired? Did you add any personnel because of that?
A (Clark) Well, I was going to ask if that was your -- if that's the impetus behind your question. I'm not aware of any hires that were brought on just to serve Keene.
A (Hall) Right.
A (Clark) I know, as one of my duties, I look at development opportunities out there. The existing Sales team looks at sales out there. I'm not aware of any CSRs or HR or regulatory folks that were brought on because of the need in Keene.
A (Hall) Right. No one -- I agree. There are no specific positions that were added as -- or, identifiable positions that were added as a result of the Keene acquisition.
There were some costs that I would suppose

one could identify. Let me give you an example. We recently converted the billing of Keene customers to Liberty's Cogsdale system. They were previously billed under a model that had -- a spreadsheet-type model that had been in place for several years under the previous ownership. Certainly, there were costs associated with that conversion. I don't know what they were.

But those costs would be charged, if I recall the terms of the 14-155 Settlement, would have been charged to the Keene Division, if my memory serves me correctly. But I'd have to check that.

Q And --

A (Clark) I'm sorry.

Q Go ahead.

A (Clark) I was going to say, actually a benefit of that conversion is the two office workers in Keene that were solely Keene --

A (Hall) Correct.

A (Clark) -- working are now capable of handling EnergyNorth calls and billing questions and inquiries.

A (Hall) Right. There are synergies associated with it.
Q Well, that's what I was sort of getting at. So, although the cost of conversion had a price tag, --
A (Hall) Uh-huh.
Q -- the cost of billing the Keene customers separately also had a price tag?
A (Hall) Correct. Yes.
Q And the Liberty company or EnergyNorth was able to absorb the costs of overhead for Keene without adding additional personnel?
A (Hall) Correct.
A (Clark) Correct.
Q So, it seems like there are some synergies as a result of this acquisition?
A (Hall) Oh, there definitely are. And those synergies will continue and grow, if we're able to expand in Keene, because costs are going to be spread over a larger volume.
A (Clark) As part of that rate consolidation, the new Keene -- well, the Keene customers will be paying into the LDAC. So, they will be paying into, you know, CIBS Programs. They will gain

access to the energy efficiency programs that they currently don't have as well.

Q Staff's main criticism about consolidating seems to be the concern about cross-subsidization. And it seemed to me, and I'm going to ask them this as well, that, in the acquisition case, they believed that there would never be a consolidation. And I looked at that old Settlement Agreement, and it says "until the Commission rules otherwise" --

A (Hall) Rules otherwise.

Q -- or whatever.

A (Hall) Yes.

Q And so, what was your thinking at the time of that Settlement Agreement? Were you thinking that you were going to ask for consolidation in the first rate case?

A (Hall) I don't think there was a specific timeframe. But, certainly, our plan was, at some point, we would request rate consolidation. We knew that, in order to be able to grow in Keene, we had to do something about rate level in Keene. Currently, when it comes to distribution rates in Keene, we're in a -- it's an unsustainable situation. Costs are very high. We are losing money. That division operates at a loss.

So, you're left with a situation where there aren't a whole lot of choices. They already have very high distribution rates. Raising them to eliminate the loss results in even higher rates. And at today's level of -- even at today's level of distribution rates, our ability to expand is very limited, because of rate level.

So, our plan was, at some point, to do the consolidation. In the last EnergyNorth rate case, we hadn't yet completed the acquisition. I don't believe the acquisition was completed until January 1, 2015, if I recall. So, it was premature in the last EnergyNorth rate case. That rate case was filed in the Spring of 2014, shortly after we filed the acquisition proceeding.

This rate case, the time seemed right. We have put the Company in a position where our sales force is now in place. We have a Business Development team in place. We're in a position where we basically are able to put the boots on the ground to go out and acquire new load. And this seems like the right time to do it. And that's what's driving our request today.

Absent consolidation, I don't have a solution to what we do with Keene.

Q If you -- what are the Keene distribution rates? I mean, I know there's different rate groups, but --

A (Clark) Well, there's actually just residential and commercial.

A (Hall) Right.

Q Oh. Okay. So, what are they?

A (Clark) I believe the -- subject to check, they're both a customer charge of $9.00 per month.

A (Hall) Uh-huh.

A (Clark) They have three different breakpoints, as opposed to two, so -- as far as their usage goes. So, the first break I believe was up to $1.15, $1.17 per therm for the first X amount of therms. Drops down for the middle tier to somewhere over a dollar. And I believe high 90

cents for therms after that.
A (Hall) I think we have information where we can show you.
Q And then I want to see how that compares to EnergyNorth's rates.
A (Hall) Yes. That's what I'm looking for.
A (Clark) Well, it's set up a little differently. EnergyNorth residential customers have a higher customer charge of, I believe, $28, as opposed to $9.
Q And the Keene customers would get that, if we consolidated?
A (Hall) Yes. We'd be --
A (Clark) The Settlement Agreement, I believe, calls for 15 through their new rate structure --
Q Why?
A (Clark) -- with decoupling.
Q Oh, because of decoupling, and, so, the EnergyNorth customers would also go down to $15?
A (Clark) Correct.
Q Okay.
A (Hall) Yes.

A (Clark) Yes.

A (Hall) There is a bill impact analysis that's attached to the Settlement for various customer classes. And I believe we included Keene in that analysis. I'm just trying to find it.

Yes. Yes, I'm sorry. That attachment just shows at typical bill amounts. It doesn't show pricing, *per se*.

MR. SHEEHAN: Bates 034.

WITNESS HALL: Yes. That's where I was looking, is Bates 034 and 035.

BY THE WITNESS:

A (Hall) Here we go. If you look at Bates 035 of the Settlement, the upper portion shows proposed rates under the Settlement: Customer charge of 14.88 and per therm charge of 57.75 cents. The lower portion shows today's Keene rates for a Keene customer: $9.00 customer charge and three blocks; one -- the first is $1.15, the next is 94 cents, the next is at 79 cents per therm.

So, the per therm charges, while the customer charge is higher, or will be higher for Keene customers, the per therm charge is substantially lower.

BY CMSR. BAILEY:

Q Okay. And walk me through this.

A (Hall) Sure.

Q Is there a typical customer bill analysis here?

A (Hall) Yes. These are average consumption amounts. If you look at Line 790, you can see "Average Usage" by month. Starts in November '17, and starts with a winter period, and then goes to the summer period.

So, for an average heating customer, if you look on Line 815, where it says "Total Bill", under the proposed rates, the total annual bill, this includes cost of gas and everything, is about $1,200. For a Keene customer using that amount, the annual bill, if you look in the next block down, it's on Line 850, the far right-hand column, that's 1,364, $1,364.

Q That's what they pay today, under their existing rates?

A (Hall) Yes.

Q So, they're going to get a $100 discount a year?

A (Clark) About $164.

A (Hall) Yes. Which is roughly 10 percent.

Q Okay.

A (Hall) And then, in the following several pages, 13 through 16, I believe, it shows similar bill impact analyses for commercial and industrial customers.

BY CHAIRMAN HONIGBERG:

Q And, Mr. Hall, if we wanted to see how the EnergyNorth -- the rest of the EnergyNorth customers would be affected, --

A (Hall) That's in --

Q -- we could go back to Page 25 for the residential heating customers --

A (Hall) Yes.

Q -- to see how their bills would change, the current to proposed?

A (Hall) Yes.

Q Are the usage levels comparable?

A (Hall) For Keene and versus the rest of the system?

Q Uh-huh.

A (Hall) I believe Keene usage levels -- average usage levels are lower. Let me just confirm that.

Q So, you did not -- you didn't compare those bills at the same huge levels, the same number of therms, you've used averages?

A (Clark) I believe they did it as a heating customer. Keene, right now, has a residential bill whether they use heating or not. So, if you were to look at an average residential bill in Keene, it may be lower than the average residential bill in EnergyNorth, but there's a higher percentage of customers in Keene that only use the service for a water heater or a stove.

So, if you were to take a weather normalized heating customer in either division, they are similar. I would probably guess that there's more heating degree days in Keene than the other parts of our system.

A (Hall) Well, there may be. I believe that what these charts show for Keene versus EnergyNorth is average usage by month for EnergyNorth customers. That's in the EnergyNorth analyses. I believe the Keene analyses show average usage by month for Keene customers.

And the reason I'm concluding that is, if you look at the line that says "Average Usage" or "Therms", and, on Page 25, we have EnergyNorth heating customers. And the average usage, on Line 76, you can see it's "51" in November, "90" in December, and so on. Now you go to the far right-hand side, and that's an average of "760" therms a year.

If I look at the same analysis on Page 35, except for Keene customers, Line 790 shows "Average Usage". It differs from the EnergyNorth average usage. And the total average usage is "511" per year. So, I believe, on average, Keene customers use less.

So, I think this is -- I think the Keene analysis is specific to Keene average usage.

Q And, Mr. Clark, I think you were providing an explanation for why that is. It's because they're not -- there are more types of residential rates in the non-Keene system. And, so, we're getting --

A (Clark) Correct. So, the 760 usage was a residential heating customer. In Keene, it's just a residential customer. So, you're lumping the non-heat customer usage in with the others.

A (Hall) I respectfully disagree. I don't think that's the case. I think we specifically identified, or at least attempted to identify, key heating customers versus Keene non-heating customers.

BY CMSR. BAILEY:

Q So, you think Keene heating customers use less heat than --

A (Hall) Yes.

Q -- EnergyNorth customers?

A (Hall) And it appears that Keene non-heating customers use less energy as well, less therms. I don't know why that is. But I believe this information is specific to the Keene Division.

BY CHAIRMAN HONIGBERG:

Q Oh. It's definitely specific to the Keene Division.

A (Hall) Yes.

Q A question, whether it's specific to Keene heating versus non-Keene heating? Or, whether it's all Keene residential versus non-Keene heating?

A (Hall) I can find that out and get you an answer, to confirm it.

CHAIRMAN HONIGBERG: Sure. If you can confirm that.

BY CMSR. BAILEY:

Q But, Mr. Clark, you think that the Keene numbers are the average of all types of customers?

A (Clark) I think Rates & Regulatory may have more information than I have.

Q Okay.

A (Clark) But I believe --

Q But that's --

A (Clark) But I believe that there is only one rate classification. So, unless they're looking at other more detailed information provided by the Keene Division, that they know who those customers are.

CHAIRMAN HONIGBERG: All right. At the end of the day today, and before we get together, or sometime over the next day or so, if you can confer with those who may have more or better information and let us know what the answer is.

If it causes us to call you back for more questions, well then I'm sure you'll be cooperative.

WITNESS CLARK: Yes.

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: And I appreciate that.

CMSR. BAILEY: I think that's all I have. Thank you.

CHAIRMAN HONIGBERG: Commissioner Giaimo.

CMSR. GIAIMO: Good afternoon.

WITNESS CLARK: Good afternoon.

WITNESS HALL: Good afternoon.

CMSR. GIAIMO: The home stretch. So, again, whichever panelist wants to answer, feel free.

BY CMSR. GIAIMO:

Q On Bates 049, the bottom of 049/beginning of 050, the last line states: "Clearly, a bill impact of 37 cents per month with respect to distribution rates can hardly be considered as causing financial harm to EnergyNorth's customers, or an unreasonable shifting of costs."

So, is it fair to restate this assertion, which is that there will be a cost shift, but that cost shift will not be unreasonable?

A (Hall) Yes.

Q Okay. What amount, if 37 cents isn't unreasonable, what amount is unreasonable?

A (Hall) You know it when you see it. Interestingly enough, I'm trying to find the reference, the amounts cited in our testimony are really too high, if you take the Settlement into account. And that's because, in our rebuttal testimony, we are proposing a revenue increase of 14.7 million. We've since settled at 10.3 million. So, if you do some simple math, 10.3 is about 70 percent of 14.7. If you multiply those differences by 70 percent, you drop that amount to about $3.10 a year, or about 26 cents a month.

Q Safe to say that's still a reasonable amount?

A (Hall) I think it is. And I think it's in the public good.

Q Well, that was going to be my next question. So, you answered that. All right.

Page 53, you quote the 2003 order, which allowed PSNH to buy and assume CVEC and its stranded costs. And it says, in order to remove Claremont from "the economic burden of being the only area in the state saddled with unreasonably high rates".

Under that analogy, is Keene and CVEC analogous to each other, and do you believe that Keene is being saddled with unreasonably high rates that need to be -- which is the reason for consolidation?

A (Hall) Yes.

A (Clark) Yes.

Q Okay. Excuse me. On to Bates 063, there's a suggestion that "Customers may ultimately conclude from Staff's characterization that there is no reasonable solution".

"The Company may face this skepticism even if the Commission ultimately approves the Company's proposal in light of Staff's testimony."

Help me out here. Is the suggestion that, even if the Commission were to approve consolidation, Staff's testimony could be pervasive and create a barrier for you getting customers in Keene?

A (Hall) That's the message that I was trying to convey. Whether that happens or not, time will tell.

But I was concerned when I read Staff's testimony. And my concern is that, if a customer reads Staff's testimony, a customer might not understand the distinction between a Staff recommendation versus something that the Commission orders. So, that's what caused my concern.

Q Which customers are you specifically concerned about?

A (Hall) Larger customers.

Q Large customers.

A (Clark) Large customers, that would require anywhere around 50 to $250,000 to convert the equipment.

A (Hall) Yes.

A (Clark) That's quite an investment. And, if they're not sure about the viability long-term of that fuel source, they may not make that investment.

Q So, maybe you can explain to me how you think these large customers are tracking these proceedings and would be made aware of this? Help me out with that.
A (Clark) That would be through our Sales and Business Development teams. I think that would be our responsibility, to explain the difference between a testimony and a final order and help them overcome that. I think that's achievable.
Q All right.
A (Hall) I mean, and don't get me wrong, it may not happen. I hope it doesn't. But it did raise a concern in my mind.
Q And is it your belief that that concern could be rectified by, and it's somewhere, where you ask that the order -- that the Commission specifically make clear that -- I think it's on Bates 063 -- "make clear that the growth of the Company's system is good for all customers"? That that language should be inserted in the order, is that the suggestion?
A (Hall) Yes. Basically, a signal by the Commission in an order that the Commission

supports the Company's growth efforts.

CMSR. GIAIMO: Thanks for the clarification.

CHAIRMAN HONIGBERG: My questions were answered.

BY CHAIRMAN HONIGBERG:

Q I just will observe that another time you were here, Mr. Clark, talking about sales to a skeptical audience, you were much more optimistic in a scenario where I think everyone else in the room thought you were maybe being a little bit too rosy.

Here, you at least have a population that's used to having gas in the community, right?

A (Clark) No, we do. We believe, you know, as mentioned earlier, that, you know, a detailed business plan, while we don't have the marketing and the outreach, we have done an analysis of where these customers are, and have talked to these customers.

We have picked up four customers in the Marketplace this year. We have a signed Service Line Agreement that was ready to take service from a large customer on Production Avenue that we could not turn on because of the skid not being there.

We have reached out to customers in Phase 2, and we've had positive results.

CHAIRMAN HONIGBERG: All right. Thank you. I don't have any other questions.

Mr. Sheehan, do you have any other questions for the panel on this topic?

MR. SHEEHAN: A few, just follow-ups, if I may.

REDIRECT EXAMINATION

BY MR. SHEEHAN:

Q I just want to make sure there's no disconnect left over what we have in place now, as far as the temporary facility in Keene versus Phase 1. What's sitting there now, ready to go, the purpose of that, as I understand the testimony, is to facilitate the shutdown of the blowers?

A (Clark) Correct.

A (Hall) Yes.

Q And Phase 1, although there may be some overlap of just shutting down the blowers, is it's intended to do more?

A (Clark) Well, Phase 1, from the permanent facility, will include marketing and outreach to the remaining customers on Production Avenue that can't physically be supported by the temporary skid sitting there.

So, while the pipe may be in the ground, we can't support those customers until the full facility is built.

Q And Phase 1 is this temporary facility and Phase -- I'm sorry, the temporary facility is what's there now?

A (Clark) Correct.

Q Phase 1 will be a different CNG facility, --

A (Clark) Correct.

Q -- the so-called "permanent"?

A (Clark) Correct.

Q And the plan is to expand that over time as we grow?

A (Clark) Yes.

Q Commissioner Giaimo asked how the large customers may be tracking what's going on here. Based on what we have done in Keene over the last year or so with regards to the temporary facility, is it fair to say that our work in

Keene has been the subject of a lot of attention?

A (Clark) Yes.

A (Witness Hall nodding in the affirmative).

Q Regarding the treatment of the cost of gas costs versus the distribution costs in rates, is what the Company proposing here in Keene the same model that was proposed and recently approved in Hanover/Lebanon?

A (Clark) Yes.

Q With the separate cost of gas having the same elements?

A (Clark) Yes.

A (Hall) Yes.

Q There was discussion of production costs a lot, and again, to make sure there wasn't a disconnect, one bucket of production costs would be the costs related to the new permanent facility in Keene, the new CNG and whatever that turns out to be. And that would be part of the cost of gas going forward, correct?

A (Clark) Correct.

Q The other production costs, and this was, I think, the Chairman talking about the reference

to the December 19 event and the labor costs. Those are production costs that were related to the December event and the 24/7 coverage that has happened since, correct?
A (Clark) Yes.
A (Hall) Yes.
Q And the intent of those production costs is to recover them also through just the Keene cost of gas, rather than spreading those costs throughout EnergyNorth?
A (Clark) Yes.
Q And they're both production costs, but a slightly different history?
A (Hall) Correct.
Q Initially, when we filed this case, the 24/7 and response costs were proposed to be part of distribution rates, is that correct?
A (Hall) Yes.
Q And part of the Settlement was to pull them out and make them Keene-specific?
A (Hall) Yes. And that was done to address the concern that was expressed with regard to cross subsidization.
Q And last, Mr. Hall, you mentioned a couple

times there aren't good options in Keene, and Commissioner Giaimo asked if the consolidation was in the public good. What do you see as the options for Keene, this being the best of them?

A (Hall) Absent a rate consolidation?

Q Yes.

A (Hall) In order to recover the cost of doing business there, we would have to file a rate case resulting in substantially higher rate levels.

Q And that's, in fact, one option that Staff pointed out in its testimony, correct?

A (Hall) Yes.

Q And do you have an estimate of how much higher rates would be to make the Keene Division carry its weight, so to speak?

A (Hall) I thought we might have covered that in rebuttal.

Q Bates 052?

A (Hall) Thank you. Yes. There would have to be a 66 percent increase in distribution rates, or about a 34 percent overall bill increase for Keene customers. That's from an already high level of rates.

Q And the other option, if that wasn't taken? And this was also mentioned in Staff's testimony.

A (Hall) That option, I don't really view that as an option. That was abandoning the system, basically, walking away. That leaves Keene customers in a jam, quite frankly. All of those customers would have to convert their heating systems. And, for some, it may be very expensive to do that.

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

CHAIRMAN HONIGBERG: All right. I think we're finished with that topic. We're going to be back tomorrow morning, ten o'clock. I don't have the schedule in front of me, but what's going to be coming up when we resume?

MR. SHEEHAN: We're having some travel problems with various experts. So, it may not be exactly what was written down on the procedural schedule. But I believe Mr. Frink is on for tomorrow.

Our expert is supposed to be flying today, he's still in Pennsylvania. So, we're penciling him in for Friday. So, there's going to be a little shuffle.

CHAIRMAN HONIGBERG: Okay. So, we will adjourn for the day, and resume at ten o'clock tomorrow morning.

(Whereupon the hearing was adjourned at 4:46 p.m., and the hearing to resume on March 22, 2018, commencing at 10:00 a.m.)