STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 17, 2018 - 1:17 p.m.
Concord, New Hampshire

RE: DG 17-048
LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. d/b/a LIBERTY UTILITIES: Request for Change in Rates. ***(Motion for Rehearing)***

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

Sandy Deno, Clerk

APPEARANCES:

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

Reptg. Residential Ratepayers:
Brian D. Buckley, Esq.
Office of Consumer Advocate

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

Court Reporter: Susan J. Robidas, NH LCR No. 44

I N D E X

WITNESS PANEL: STEPHEN R. HALL
JAMES J. BONNER, JR.
STEVEN E. MULLEN

I N D E X (CONT'D)

I N D E X (CONT'D)

P R O C E E D I N G S

CHAIRMAN HONIGBERG: Good afternoon. We are back on Docket DG 17-048, which is Liberty (EnergyNorth) Natural Gas Rate proceeding on a Motion for Rehearing. Not even going to try to summarize what the issue is. Before we do anything else, let's take appearances.

MR. SHEEHAN: Good afternoon, Commissioners. Mike Sheehan for Liberty Utilities EnergyNorth Natural Gas.

MR. BUCKLEY: Good afternoon, Mr. Chairman and Commissioners. My name is Brian D. Buckley. I'm a staff attorney with the Office of Consumer Advocate. I'm here representing the interests of residential ratepayers.

MR. DEXTER: Good afternoon. Appearing on behalf of the Commission Staff, Paul Dexter and Alexander Speidel.

CHAIRMAN HONIGBERG: How are we proceeding this afternoon?

MR. SHEEHAN: The Company intends to call three witnesses: Steve Hall, Steve

Mullen and James Bonner -- and I think you guys could take your seats -- and to mark the following exhibits. The rate case hearing left off with Exhibit 78, so the first one for today's been marked as 79, which is Attachment 1 to the filing we made a couple weeks ago with some revisions. Minor revisions, but revisions nonetheless. So it will be Attachment 1 that will be used at this hearing.

Marked as Exhibit 80 is Attachment 2, without any changes. I put it in again simply to have it handy.

Attachment 81 is a document prepared by Mr. Bonner, which is a summary of the calculations relevant to this issue.

And attachment -- Exhibit 82 is another document prepared for this hearing by Mr. Hall that even more concisely, we believe, summarizes this.

And last, in discussion with counsel, it seemed prudent to mark our July 9 letter and attachments as an exhibit. That would be 83. With that, I intend to ask the gentlemen questions about the Motion for Rehearing.

(The documents, as described, were herewith marked as Exhibits 79, 80, 81, 82, and 83 for identification.)

CHAIRMAN HONIGBERG: Anything else before we have the witnesses sworn in?

MR. DEXTER: Yes.

MR. SHEEHAN: Mr. Dexter.

MR. DEXTER: Yes, I would like to comment on Exhibit 82. This is the first time we've seen this exhibit, and it's the reason we asked for the 15 or 20 minutes to digest it. Our understanding of Exhibit 82 is that it presents an alternate theory of the case, if you will. And I'm sure Mr. Sheehan will get into that. But I wanted to point that out to the Commission, that the information contained on Exhibit 2 [sic] is different from -- it's a different underlying theory for recovery than what was laid out in the motion.

CHAIRMAN HONIGBERG: All right. Well, we'll let Mr. Sheehan have one of his witnesses explain it. If further clarification is needed, we know where to turn. Anything else?

MR. DEXTER: I do have an exhibit, but I would prefer to mark it when Mr. Frink takes the stand. We intended to have Mr. Frink take the stand as well.

CHAIRMAN HONIGBERG: Okay. Thank you. All right. Why don't we have the witnesses sworn in.

(WHEREUPON, STEPHEN R. HALL, JAMES J. BONNER, JR. AND STEVEN E. MULLEN were duly sworn and cautioned by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: Thank you.

DIRECT EXAMINATION

BY MR. SHEEHAN:

Q. Introductions first. Mr. Hall, your name and position with the Company.

A. (Hall) My name is Stephen R. Hall. I'm Director of Rates and Regulatory Services for Liberty Utility Service Corp.

Q. And are you familiar with the exhibits that I

just marked as 79 through 82 -- 83?
A. (Hall) Yes, I am.
Q. And were you involved in their preparation?
A. (Hall) I was.
Q. And have you been involved in the issues surrounding the Motion for Rehearing?
A. (Hall) Yes, I have.
Q. Mr. Mullen, same question. Your name and position with the Company?
A. (Mullen) My name is Steven Mullen, and I am the Senior Manager of Rates and Regulatory Affairs for Liberty Utilities Service Corp.
Q. And are you also familiar with what's been marked as 79 through 83?
A. (Mullen) I am.
Q. And last, Mr. Bonner, your name, please.
A. (Bonner) James J. Bonner, Jr.
Q. And your position with the Company is what?
A. (Bonner) I am Senior Financial Regulatory Analyst. I work in the Finance Department.
Q. And have you testified before the New Hampshire PUC before?
A. (Bonner) No, I have not.
Q. Could you give us a brief background of your

experience and education that brings you here today.

A. (Bonner) Yes, I can. I graduated from Northeastern University in 1976 with a degree in electrical engineering power systems. I have more than 33 years of experience in conducting and managing rate and regulatory affairs, particularly rate design. From 1985 until 2010, I was employed by National Grid and its predecessor companies in its various rate and regulatory departments in the states of Massachusetts, Rhode Island and New York, originally as an analyst, then as a manager and director of electric rates and pricing from 1990 onward. I retired from National Grid in 2010 but continued to provide rate and regulatory services to them as a contractor during 2011 and 2012. In January 2013, I joined Liberty as a contractor, providing financial and regulatory services, and was hired permanently in 2015. I am currently responsible for revenue forecasting and budgeting, rate case and regulatory support, financial analysis, revenue reporting, and billing systems analytical support.

Q. Although you have not testified here, have you testified before other commissions?

A. (Bonner) Yes, I have. I've testified on numerous occasions in the states of Massachusetts, Rhode Island and New York.

Q. And are you familiar with what's been marked as Exhibits 79 through 83?

A. (Bonner) I am.

Q. And were you involved in their preparation?

A. (Bonner) I was.

Q. And were you also involved in the work that supported the rate case filing that is the core of this Docket 17-048?

A. (Bonner) Yes, I've been actively involved in that docket since it's inception.

Q. Mr. Hall, if you could summarize for us, to set the stage, what the Motion for Rehearing asked for and why.

A. (Hall) Certainly. We originally filed our Motion for Rehearing requesting an additional $3,079,000 in revenue. And the way that number was calculated is it was the impact of the change to the residential rate design that occurred on May 1st, 2018, and it is the revenue loss in the months of May through October resulting from that rate design change.

Just to explain a little bit why there was a revenue loss associated with rate design change, what was done in the approval of the revised rate design by the Commission is residential customer charges, monthly fixed customer charges, were significantly lower and, as a result, the volumetric charge per therm charges were raised. And on an annual basis, that calculation, that changed rate design, produces the same amount of revenue as the previous rate design.

The issue that arose is that, by changing rate design on May 1st, during the summer months there is no volume, or there's very little volume to get the additional revenue through the volumetric charges; yet, the customer charges went way down, and it produced a revenue shortfall. So that was the basis of our Motion for Rehearing.

In addition, we looked at -- what drove it was we looked at the Commission's order, and the language in the order talked about basically synchronizing changes to rate design with implementation of decoupling. Well, decoupling, because of all of the programming changes we need to do and all the system changes, isn't going to take effect until November 1st. So when we got the order, it wasn't crystal clear to us that the rate design change should take effect May 1st. However, after we read through the order, we concluded that, yeah, there is enough in there. The right thing to do is to implement this rate design change on May 1st and go forward with billing and then ask for a rehearing.

Q. Now, Mr. Hall, you said the focus initially was on the time period May 1 through the end of October.

A. (Hall) Correct.

Q. That date was chosen for what reason?

A. (Hall) Because those are the months when the revenue shortfall occurs. Once you get into

November, you begin having colder weather, consumption picks up, and when the consumption picks up, we're now billing higher volumetric charges and getting in more revenue than we would under the old rate design to offset the loss in revenue from the customer charge.
Q. And November 1 was the date of decoupling implementation; correct?
A. (Hall) Yes.
Q. So the initial interest in the motion was for a roughly $3 million shortfall during those six months of 2018.
A. (Hall) Yes, $3,079,000.
Q. Now, has that changed what the Company is requesting?
A. (Hall) Yes. As a result of discussions with Staff and OCA, Staff brought it out in -- we had a technical session shortly after the motion was filed, and I don't recall if it was before or after the Commission granted a rehearing. But suffice it to say, we did have a technical with Staff and OCA. Staff pointed out that, gee, you're going to be

getting more revenue under the revised rate design in the months of November and December than you would have received had the old rate design remained in effect for those two winter months.

Q. And that's based on the higher use times the higher volumetric charges.

A. (Hall) Correct.

Q. And did the Company recalculate what the revenue shortfall would be during the balance of calendar 2018?

A. (Hall) Yes.

Q. And that resulted in what?

A. (Hall) What we did is we looked at the additional revenue we were going to receive as a result of the rate design change in November and December compared to the old rate design, and we took that additional revenue and reduced the $3,079,000 shortfall that we had calculated from May through October 2018. That net result is a shortfall of $2,171,000 for that eight-month period.

Q. And is that the amount the Company is requesting today based on the Motion for

Rehearing?
A. (Hall) Yes.
Q. Is there another way to calculate the impact of the rate design on the Company's revenues?
A. (Hall) Yes, there is.
Q. And what is another way to do that calculation?
A. (Hall) That is set forth in exhibit, I think it's 82.
Q. Let's go by what's -- oh, do you have --
A. (Hall) I'm not sure which is which. It's 82. Oh, this one.
Q. That's all four of them.

CHAIRMAN HONIGBERG: Which one do you want him to look at, 82 or --
A. (Hall) 82.

MR. SHEEHAN: He had a hand-numbered one.

CHAIRMAN HONIGBERG: But it's 82 you want him to look at and you want us to look at.

MR. SHEEHAN: Yes.

BY MR. SHEEHAN:
Q. Now that you said that, before you go there,

if you could quickly summarize what the four exhibits are in front of you, 79, 80, 81 and 82, and then we'll get into 82 in detail.
A. (Hall) All right. Exhibit 79 --
Q. I represented at the opening that this was Attachment 1 to our July 9 filing with revisions.
A. (Hall) Correct.
Q. And Mr. Bonner can describe for us what the revisions are in a few minutes.
What is Exhibit 80? Again, I represented this was Attachment 2, without changes. Is that correct?
A. (Hall) Okay. Are you on Exhibit 79 or 80?
Q. Eighty.
A. Okay. Exhibit 80 is or was Attachment 2 to our July 9, 2018 filing with the Commission, where the Commission's order instructed us to perform certain revenue calculations. So we did that in accordance with the Commission's directive. And I believe the purpose of Attachment 2 was to calculate a recoupment amount, if I'm not mistaken.
A. (Bonner) Correct.

A. (Hall) Correct.
Q. And we'll skip Exhibit 81 for the moment and turn to 82, which is where you were going. What is Exhibit 82?
A. (Hall) What we've done in Exhibit 82 is tried to set things out so that it's a little more understandable. And the first thing we did is we split the revenue amounts into various time frames.
The first column is July through December 2017, followed by January through April 2018, May through December 2018, and then the last column is 2018 in total. The first line shows --
Q. Let me just interrupt for a minute. Those time frames represent what?
A. (Hall) Okay.
Q. July to the end of 2017 versus the other time frames.
A. (Hall) Yeah. July 2017 through April 2018 is the recoupment period. May 2018 through December 2018 is the period where permanent rates were in effect, or took effect -- will be in effect. What I've -- and the reason

that we separated July through December 2017 from January through April 2018 is we're trying to show the impact of the Commission's order on 2018 calendar year in total; so, leaving out the impact of 2017. And that was the only reason for that split. So the first line shows revenue under rates that were in effect prior to the implementation of temporary rates -- in other words, rates that would have been in effect as of June 30, 2017. On July 1, 2017, the Commission authorized temporary rates to go into effect in the rate case. So these revenue amounts for those periods are rates in effect just prior to temporary rates taking effect.
Q. And are they based on actual use?
A. (Hall) No. Is that right?
A. (Bonner) That's correct.
A. (Hall) They were -- the numbers are based on test-year sales adjusted for year-end customer count as the Commission specified in their order on granting rehearing.
Q. Okay.
A. (Hall) The next line shows temporary rate

revenue using those same billing determinants during those periods. July through December '17, we received about 33.6 million of temporary rate revenue, and January through April, 36.2 million. Obviously, after May 1st there is no temporary rate revenue because permanent rates took effect.

Q. And is it fair to say, when you use the phrase "billing determinants," you're saying how much -- how many therms had sold?

A. (Hall) Yes, customers and therms adjusted for year-end customer count, as directed by the Commission's order.

Q. And the reason you say "customers and therms" is because there's a customer charge associated with each customer --

A. (Hall) Yes, there is.

Q. -- which is a separate bucket than the therms sold.

A. (Hall) That's right.

And Line 3, what we did is we then calculated recoupment. And to calculate recoupment, we first had to calculate a revised rate level, revised prices, based on the $8.06 million permanent rate increase authorized by the Commission. This rate level excludes the step increase, and it also excludes the impact of changes to the tax law. And that was in accordance with some of the language in the Commission's previous orders.

And as you can see, in the months of July through December 2017, recoupment calculated in this fashion is actually a negative number for the same reason that we have a revenue shortfall for 2018, and that is that recoupment applies during the summer months -- July, August, September and October. Since we calculated recoupment based on a revised rate design -- much lower customer charge, much higher volumetric charges -- we actually get less revenue during those summer months. We got more in November and December, and it was about a break-even. The incremental revenue recoupment for November and December is about equal to the revenue shortfall in July through October, resulting in about $11,000 difference.

Then we looked at recoupment for January through April 2018, again using the rate level, the 8.06 million in rate level approved by the Commission, calculating prices and comparing it to the prices that were in effect under temporary rates in that time period. That produces an additional $3.3 million of revenue -- $3,305,000.

The fourth line simply shows permanent rate revenue for May through December 2018. And for that we took those same prices that we used to calculate recoupment based on the $8.06 million rate increase granted by the Commission and applied it to the billing determinants for May through December 2018 -- again, test-year billing determinants adjusted for year-end customer count -- and that gives us $41,215,000.

Line 5 is simply the sum of all of the items above. And if you look at 2018 total, 2018 total is the sum of the total in the January through April column and the May through December column. It's also the sum of the amounts just above the 80,804,000 on Lines 2, 3 and 4.

So let's look at what this does. It takes temporary rate revenue for January through April 2018. It then adds in recoupment, which is the difference between temporary and permanent rate level for that four-month period. So it gets us up to the permanent rate level amount for those four months. That's the sum of the 36,284 and the 33,205 -- 3,305. Adding those two amounts, we get to what our permanent rate level would have produced in that four-month period. We then add the permanent rate revenue for the months of May through December of 41,215, and we get $80,804,000 on an annual basis. We then need to make a couple of adjustments that we took from Exhibit 81, and I'm going to turn to Mr. Bonner and ask him to explain those adjustments.

A. (Bonner) Okay. The test-year adjusted revenue includes two items that are necessary as a result of the case was conducted. All through the case, the billing units in all the revenue calculations were predicated on test-year billing units without the end-of-year adjustment. As a result of the response to a Staff interrogatory, an adjustment was made to account for the revenues that would have been received by the Company had the year-end bill count been in place for the entire year. And that was an adjustment of 920 -- referring to Exhibit 81, Column A, Line 2 -- of $929,551.

In addition, another consideration in this particular case that would not normally be present in EnergyNorth's prior cases is the Company proposed, and the Commission approved, to combine the Keene operation with the legacy EnergyNorth operation. During the test-year period, Keene was operating on its own independent set of rates which returned higher revenues than they would pay under EnergyNorth's rates. In doing the revenue calculations, the beginning number as shown in Line 1, Column A, the 70,118,000, the Keene revenues are included as if they had been billed under EnergyNorth's then-existing rates. The actual amount of return by Keene was actually a half a million dollars higher. So that also had to be accounted for in the calculation by adding it to the previous adjustment to produce the final answer. Now, the Keene adjustment was $536,161, based on the rates that were in effect prior to the rate case for both Keene and EnergyNorth. So that now formed the basis from which the rate increase was to be applied.

A. (Hall) All set?

A. (Bonner) Hmm-hmm.

A. (Hall) So we then take that adjusted revenue level in Line 6, and we subtract it from the total revenue that we would have received under permanent rates in Line 5, the $80,804,000, and we get $9,219,000, which on its face one would say, gee, under these assumptions, the Company gets more than its $8.06 million annual increase. But when you think about the assumptions that were used to do these calculations, recall that I said it was based on test-year billing determinants adjusted for year-end customer count.

Because we adjusted for year-end customer count, we increased the test-year billing determinants; so, of course, the revenue appears to be higher.

Q. And that's simply a function of more customers and more use accumulated the end of the test year.

A. (Hall) Exactly. So what Line 8 does is it adjusts -- it's a calculation of an adjustment as a result of these test-year -- as a result of the end of the test-year increment, if you will, in both customers and therms, and that's about $1,070,000. I'm trying to get to the point of where we should be, based on the Commission's permanent rate order. So, the 9,219,000 minus the 1,070,000 adjustment for additional test-year billing determinants gives you a net revenue increase of $8,149,000. It's a little higher than the 8.06 million, again, because of the fact of the way we're using the billing determinants to calculate the number. So one would expect, gee, about $8.1 million, you should be okay and --

Q. And the problem is what?
A. (Hall) There is one problem. If you look back up on Line 3, we calculated a recoupment amount of $3,305,000 for 2018. In actuality, we're not going to recover that amount. The recoupment amount approved in the Commission's initial order was $1,326,000.
Q. And where do you find that?
A. (Hall) That is in the order in Appendix 5, Order 26,122, dated April 27, 2018. And it's in Appendix 5 to that order where the Commission performed a calculation of recoupment.

(Atty. Sheehan hands document to Witness Hall.)

Q. I put a copy of Appendix 5 from the Commission order in front of you. And if you could walk through -- the bottom line, if you will, of that document is the $1.3 million recoupment that was allowed; correct?
A. (Hall) Yes.
Q. And can you describe what that calculation is?
A. (Hall) Sure. What this calculation does is

it takes the allowed permanent rate increase, the $8,060,000, backs out the temporary rates that we were billing on an annualized basis, 6.75 million, and the difference is $1,310,000. That amount was then divided by test year with normalized sales to come up with a per-therm amount. That per-therm amount was multiplied by the actual sales during the recoupment period, July 17 through April 18, of 161,741,745. You do that math and you come up with $1,326,000. That would have been fine, except there was a rate design change.

Q. And so if we were to look at Attachment 5 to the rate order -- Appendix 5, where is the problem? What was not figured into that calculation that the Company claims left us at an erroneous number of 1.3 million rather than 3.3 million?

A. (Hall) The significant impact due to the rate design during the recoupment period.

Q. So are you saying that this Appendix 5 did not adequately predict or project or figure in what that impact would be?

A. (Hall) Correct.

Q. And what number would -- or what number changed on Appendix 5?

A. (Hall) The number -- well, obviously the number that would change in Appendix 5 is the bottom line, the 1,326,000. But if we were to calculate Appendix 5 by applying rates and charges determined based on the 8.06 million, that gets us back to Line 3 of Exhibit 82; it's $3,305,000 minus the $11,000 revenue loss for July through December 2017; so, $3,294,000, if I did the math correctly in my head, is what the, if you want to call it, the correct recoupment amount, taking into account rate design. And that's a difference of about 1.97, 1.98 million. Low and behold, that number is very close, about $2 million, to the number I talked about earlier, which is the revenue shortfall from May 1, 2018 to December 31, 2018, as a result of the rate design change. I said that number was $2.171 million. This number, because of different billing determinants, is just under $2 million.

CHAIRMAN HONIGBERG: I'm sorry. I'm going to ask you to go over the first part of your answer again, the comparison between the 2.1 and the 1.9 seems just like a happy coincidence, because you're doing two things that are completely different and just happen to be arriving at numbers that are roughly the same.

WITNESS HALL: Yup.

CHAIRMAN HONIGBERG: I'm also going to ask you to back up one step further and give us the 3 million again, where that comes from. Is that from Exhibit 82?

WITNESS HALL: Yes.

WITNESS MULLEN: If I could add to that. There's further detail on that in Exhibit 80. You'll see the bottom of that comes to the $3.294 million. That goes month by month through the recoupment period.

CHAIRMAN HONIGBERG: All right. Whichever one of those you want to do, Mr. Hall, if you want to just recap the 3.3 and then go over again why the 2.1 and the 1.9 aren't just a happy coincidence, my phrase.

WITNESS HALL: Okay. Let's talk about the 3.3 first. The 3.3 million is the revenue shortfall due to the change in rate design for May through October 2018. If I extend that analysis through the end of December, instead of 3.079 million, it was 3.079, not 3.3.

CHAIRMAN HONIGBERG: Three point three is the second way of calculating. Three point three is the number --

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: -- from Exhibit 82.

WITNESS BONNER: Exhibit 82.

WITNESS HALL: Yes. Okay. I'm with you. I'm sorry. I misled you.

CHAIRMAN HONIGBERG: Correct me if I'm wrong, but the 3.3 you showed on Exhibit 82, that's where 3.3 comes from.

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: That's the source of that number, and it is the calculation of your recoupment amount applying the new rate methodology and the new rates back to throughout the temporary rate period.

WITNESS HALL: Yes. And essentially what that is -- that's exactly what it is. And it takes into account the rate design change.

CHAIRMAN HONIGBERG: All right. Now explain again why the 1.9 and the 2.1 are justifications for each other, because they seem to be just completely different ways of doing what you were doing.

WITNESS HALL: The two-point -- the $1.9 million number is the difference between the $3.3 million number on Exhibit 82 minus the amount of recoupment actually approved by the Commission.

CHAIRMAN HONIGBERG: Appendix 5 from the rate order.

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: Now, then, all the way back to much earlier in your testimony. How do we get to 2.1? And are those two numbers related at all, other than they just happen to be close to each other?

WITNESS HALL: Okay. The 2.1 million is the revenue difference as a result of rate design change for the period of May 2018 through December 2018. So we've got a revenue difference from May to December that's a result of a rate design change that's $2.171 million. We've got a revised recoupment amount that is a difference of $1.979 million, looking at all of calendar year 2018 as compared to the way recoupment was calculated in the Commission's order.

CHAIRMAN HONIGBERG: Wait, wait. That's not right. The last thing you just said isn't right. It's not the entire calendar year rate for 2018, it's the temporary rate period.

WITNESS HALL: Yes. Yes. Recoupment ends in April 2018. So it's only that portion of 2018 to which recoupment applied, January through April. Correct.

BY MR. SHEEHAN:

Q. And Mr. Hall, could you describe not the numbers, but the math that resulted in the

calculation of May 1 through the end of the year? What number did you multiply by what number to come up with the 2.171 shortfall? You said it's the --
A. (Hall) I basically took the difference between two revenue numbers. I calculated the revenue shortfall as a result of rate design change May through October 2018.
Q. And the numbers behind that, am I correct to say it is, again, the billing determinants, the number of customers and the use projected through 2018 times the new rates? Is that the exercise you went through or some other exercise?
A. (Hall) I don't believe that the 3.079 million adjusted for year-end customer count. But I'm going to have to turn to Mr. Bonner to confirm that. I don't think it did. I think it was based on test-year determinants.
A. (Bonner) No, it did not, Stephen.
A. (Hall) Okay. So there are differences in the calculation, volumetric differences, as well as number of customer differences. That 3.079 million shortfall, we netted out the

additional revenue in November and December 2018 as a result of the rate design change, and that's how we got the 2.171.
Q. Turning to Mr. Bonner. During a technical session with Staff yesterday, Staff did sort of a "back-of-the-envelope" look at some of the numbers on what has been marked Exhibit 79. And paraphrasing, that back-of-the-envelope calculation came to suggest that we got all of the $8 million increase that the Commission ordered. Do you recall that discussion?
A. (Bonner) I do.
Q. Understanding that Exhibit 79 as we have in front of us is slightly changed from what we were looking at yesterday -- well, let me back up.
What changes have been made to Attachment 1 to our July 9 filing that now appears in a modified form as Exhibit 79?
A. (Bonner) There are two changes. The first was really two different, small formula errors in the original calculation that amounted to about a $40,000 difference, as

seen looking at the top table, which is Monthly Distribution Revenue at Current/Old Rates. The original number for the total for the entire period was about 71 million and a small fraction. I think it was 006, subject to check. And so I had to make a correction inside the supporting models that produced this to correct that, and we went over that with Staff yesterday.

The second correction we made this morning upon further examination of the overall document. I realized that the recoupment value was overstated. In the original document as filed, the recoupment unit rate was .0082, which is the number that shows up on Appendix 5 to Order 26,122 in this docket. Unfortunately, that particular unit rate is for an annual period. The actual recoupment had to be recovered over a 20-month period. So there's another portion of this calculation that does not show up on Appendix 5 that the Company had to perform. And what they did, or what we did, was take the $1,326,355 and then divided by the forecasted billing units, which in this case would be the therms applicable to all customers for the period May 2018 through December 2019, and that particular number would have been 254,219,949 therms. If you then divide the 1,326,355 by that number, you will produce the unit rate shown on Exhibit 82 in Section 4 of .0052. And that is currently what is being billed by the Company today.

Q. So the recoupment rate, for lack of a better word, of .0082 was slightly high because it was going to collect the whole amount over 12 months rather than 20 months; is that correct?

A. (Bonner) Exactly correct.

Q. And then you calculated it over 20 months and came to the new rate of .005-something.

A. (Bonner) Yes.

Q. And what prompted this was looking at what is now Exhibit 79, and it showed that we were going to recover all of the recoupment too fast.

A. (Bonner) Yes. In our discussions with Staff yesterday, it was brought out that it looked like we were recovering all our recoupment over a 12-month period, and that clearly didn't seem right. So upon re-examination, I recognized the error.

Q. So those are the two changes in Attachment 1, now reflected in 79.

A. (Bonner) That's correct.

Q. The second change, where do we look on Exhibit 79 to see the effect of the re-calculated recoupment rates?

A. (Bonner) Sure. That shows up in two places. One is in Section IV, called Impact of Temporary/Permanent Rate Recoupment, and then a little farther down in Section VII, the 2019 Revenue Impact, which is coincidentally the same as the 2019 portion of Section IV, the Impact of Temporary Rate Recoupment. And that's at the bottom of the page, and you'll see the .0052.

Make one other correction. On the 2019 table, the recoupment rate wasn't actually approved. We had to calculate that. The recoupment wasn't approved. So what it did was it lowered the amounts compared to the original exhibit.

Q. So in Table VII at the bottom, it shows recoupment of 830-something thousand dollars. That is recovering less in 2019 than the prior schedule showed.

A. (Bonner) Yes.

Q. And similarly for Table IV, the $400,000 is a smaller number than what's in the prior table.

A. (Bonner) Yes. Because the billing units were from our financial forecast, they're even higher than the billing units as adjusted for year-end customer count. The sum of those two numbers is going to come up to about approximately one and a quarter million dollars, a little bit short of the target.

Q. And that's a reconciling number. If everything stays as is, we will make sure we collect the 1.3 as in the Commission order.

A. (Bonner) That's correct.

Q. And if the Commission grants our request, we'll be collecting a different number that is reconcilable to whatever the Commission

orders today.
A. (Bonner) That's is also correct.
Q. So, going back to what started this, can you tell us what Staff's -- again, this was admittedly an informal, "back-of-the-envelope" look that Staff presented yesterday. What they were pointing to to suggest that we had already -- that we will get the full $8 million increase --
MR. DEXTER: I'm going to object to --
(Court Reporter interrupts.)
CHAIRMAN HONIGBERG: Hang on.
BY MR. SHEEHAN:
Q. That we will get the full $8 million increase in 2018.
CHAIRMAN HONIGBERG: Now, Mr. Dexter.
MR. DEXTER: I object to the question, as it requires the witness to attest to things that Staff may or may not have said at a tech session. There's no basis for that in the record as to what Staff said.

CHAIRMAN HONIGBERG: Mr. Sheehan, why don't you ask him a hypothetical.

BY MR. SHEEHAN:

Q. Mr. Bonner, is there a way to look at Exhibit 79 to, in the Company's view, correctly get to the answer that Mr. Hall testified to, that there will be a shortfall of revenue of approximately $2 million in 2018?

A. (Bonner) No, I don't believe that there is.

Q. And why is that?

A. (Bonner) There are a couple of issues, and I haven't quite worked out all of the numbers to actually prove the calculation, although my expectation is that these would correct it.

There are two issues that are not accounted for in Exhibit 79, even as corrected. Perhaps the most significant actually turns out to be the temporary rate calculation. Temporary rates were applied only to EnergyNorth customers, not to the Keene customers, but the billing units in this calculation include the Keene customer amounts in the temporary billing section. So the number shown in Section II and the corresponding revenue impact is actually too high.

The second issue was referred to a little bit earlier. In determining the final adjusted revenues upon which the approved increase was to be applied, we also had to take into account the Keene revenue adjustment, which is not in this calculation.

Q. Two questions. First, so what you're saying is, to answer the question that the Company's posing here -- i.e., is there a $2 million revenue shortfall in 2018 -- Exhibit 79, as formulated, can't get you that answer to that question. Is that what you're saying?

A. (Bonner) Not in my opinion, no.

Q. What Exhibit 79 is, though, is what was requested of us; is that correct?

A. (Bonner) Yes. No. Exhibit 79 was prepared in accordance with the directives in the Commission's order in 26,149, if memory serves me correctly.

Q. If you could make the changes to Exhibit 79

that you think are necessary to answer the question that the Company is posing today, is it your opinion that we would again get to the $2 million revenue shortfall?
A. (Bonner) Yes, I believe that the shortage that is resulting from the recoupment calculation would manifest itself again in that calculation.
Q. And the second question I'd ask you to clarify is if you could explain for us the Keene adjustment. What is it? It's a number that came up I think in Mr. Hall's description of 500-some-thousand dollars. Explain for us what's happening with that number.
A. (Bonner) Oh, the Keene adjustment, again, is a recognition of the -- there are two parts to it. The first, and most important, is that the amount of money the Company actually received during the test-year period is higher than what was calculated originally by repricing Keene customers as if they had taken -- or had paid EnergyNorth's rates prior to the rate case. So, Keene had its

own independent rates. Keene's actual rates are materially higher than those. In fact, they're still higher than what was approved finally in this docket. So that money has to be taken into account; otherwise, you're measuring the rate increase across off the wrong baseline. And their billing is associated with those, in effect, higher units, higher dollars, are never factored into the calculation directly.

Q. Mr. Mullen, turning to -- oh, let me back up. One more thing with Mr. Bonner.

Exhibit 81, did you prepare this document?

A. (Bonner) I did. This was in response to certain questions Mr. Frink posed after our first technical conference, which was on July 12th.

Q. You walked through the first handful of lines to get Mr. Hall to the 71,584 that's on Line 5.

A. (Bonner) Correct, Line 5.

Q. Could you walk us -- what is the purpose of this document? What question were you trying

to answer?
A. (Bonner) There were a couple different ones, one of which Mr. Frink was trying to understand why his calculations were coming up with larger revenue differences than what was the approved increase.
So the purpose of this was to show, and it really was a comparison between the numbers really in Column A versus the numbers in Column B of how he arrived at his calculations and what elements were in his computation and which elements were actually in the Company's computations of the rates.
Q. And Staff was coming up with numbers that showed we received actually $9 million in 2018; is that correct?
A. (Bonner) Hmm-hmm. Yes.
Q. And the question was: Wait a minute. You guys are claiming a deficiency. How come I'm coming up with $9 million?
A. (Bonner) Correct.
Q. So walk us through how you answered that question.
A. (Bonner) Sure. I'm going to focus on

Column A and proceed from the top down.

Using the original billing units that were in the rate case that is unadjusted for the year-end bill count, the actual amount of revenue that would be received from EnergyNorth customers, the Concord Steam adjusted customers which were added to it, and Keene customers at EnergyNorth's rates, actually produces about $70 million. And so that's what the raw numbers -- that's what the billing units times the prices that were in effect under those conditions would yield. But that's insufficient to calculate the actual baseline for the rate increase. The first adjustment was as a result of the Commission's order in the rate case itself -- that's 26,122 -- adopting the year-end customer adjustment that was proposed by Staff. That's the 929,551 originally in response to Staff 8-17 in the case. That brings us up to 71,048,393.

In the sheets that I provided, in addition to just the summary sheets which are captured in the exhibits to actually build up to all those revenue values, is an intricate series of supporting calculations that actually does the full price-out and comes up with the appropriate billing units to apply. The numbers that I provide in the calculation, which was a supporting sheet that said the amount of money that we were going to receive under the year-end billing determinants, was going to be 71,048,393, and so at this point we matched.

The next adjustment which we've gone over a couple times is the adjustment for the additional Keene revenues at Keene's prior rates. That brings us out to 71,584,554.

Now, one other issue that had to be taken into consideration in proposing final rates is the Commission's increase is going to give us a pool of money that has to be subdivided across two different components. The first is the base rates, which is going to collect the vast bulk of it; the second portion relates to the low-income discount provided to Rate R4 customers. Rate R3 customers are the ordinary residential heating rate customers. Rate R4 customers are exactly the same customers, except they're eligible for the low-income discount. So whatever price you set for Rate R3 by applying the known discount percentage, which I believe is 60 percent, you now know what Rate R4 would be. The missing amount of money that Rate R4 will not actually pay has to be paid for by all other customers.

There's a number of ways of doing this. The Commission has adopted that that deficiency is actually flowed through the local distribution adjustment charge, the LDAC, the low-income portion of it. So you have to determine which portion is going to go to the base rates and which portion goes to the low-income discounts. So you have to know how much the current low-income discount is going to be; that's the 1,678,167. At that point, when you sum up -- add that to the previous 71,584 number, you'll come up to the actual baseline from which the rate increase will be applied, and that's the 73,262,722. The next number is the permanent increase, which we recognized from the order as 80,060,117. So the rates, combination base rates plus the low-income discount, needs to collect $81,322,839, based on the test-year billing units without the year-end customer count applied. In order to do this in the compliance filing that we made -- and someone's going to have to correct me.

WITNESS BONNER: Did we supply, I believe we did, the compliance attachment that has the rate design?

WITNESS HALL: Yes.

A. (Bonner) Yes.

WITNESS BONNER: Thank you.

A. (Bonner) In that attachment, you'll find that there's a calculation made in the actual numerical calculation to be able to come up with the right amount of money. In order to account for the fact that the billing units for both the Keene adjustment and the year-end customer adjustment are not in the numbers that were used to design the rates, they had to first remove them, figure out what the increased percentage was, apply that to the base rates and to the portion that's going to go to the below-income rate, check to be sure that it collected the same amount of money, which is the 81,322,839, and that's what the purpose of this middle adjustment was. So it looks, when you look through the calculation -- and this was another question that Mr. Frink had was I see that the rate design is actually calculating off of nine and a half million, but the allowed revenue was only 8,060,000. How can those numbers both be right? When you go through the entire calculation in detail, you'll find out that applying that increase in order to be able to calculate a multiplier times the present unit prices will yield exactly the same amount of money as the 81,322,839. In the actual attachment itself, that proof calculation is actually demonstrated.

Q. Thank you, Mr. Bonner. And last, a couple of questions for Mr. Mullen.

Can you describe for us, on the issue of tax reform, what portion of -- is there any portion of tax reform in rates now?

A. (Mullen) Yes.
Q. Can you describe what that is, not so much dollar amount first, but conceptually what that is?
A. (Mullen) Conceptually, it's an amount that comes from the -- originated in the settlement that the Company had with OCA that the Commission rejected. That number was included in the Commission's order, essentially a placeholder number.
Q. And was that part of the conversation early in the rate case where the Staff and the Company and OCA could not quite agree on how to do it, but we decided to put a number in for purposes of a placeholder, as you said?
A. (Mullen) Yes. I wouldn't say early in the rate case because this came in towards the end of the proceeding.
Q. Early in the hearing I should say.
A. (Mullen) Correct.
Q. So how is that in rates now?
A. (Mullen) That is figured into the distribution rates that are being charged to customers.

Q. And when we calculated -- and the amount is what?
A. (Mullen) It's 2,394,000 and change. And that is shown in Appendix 3 to the Commission's order. It's 2,394,065.
Q. Okay. Is it fair to say that that is not going to be the final number that evidences the impact of tax reform?
A. (Mullen) That's correct.
Q. And is that final number known yet?
A. (Mullen) It is not.
Q. And why is that?
A. (Mullen) Pursuant to the Commission's order, that number was going to be reviewed in a separate proceeding. The Company has not made a filing, nor has such proceeding been opened. But I think as everyone's aware, there were a few motions pending and some numbers that would have to be finalized before we could even get there.
Q. So what numbers are still moving that would prevent you from saying we think the tax impact is X?
A. (Mullen) Well, right now I think that, given

the Commission's rulings on the Motion for Clarification, this Motion for Rehearing should not impact it. But for instance, in the Motion for Clarification, there was an adjustment in there for iNatGas and the revenue requirement associated with iNatGas. The calculations that developed that revenue requirement adjustment included calculations that were performed at the old tax rates. And depending on the Commission's final determination of how to rule on the Company's Motion for Clarification, that kind of left that in limbo.

Q. So that was just resolved a week or so ago; correct?

A. (Mullen) Correct.

Q. So the request the Company has today as part of this Motion for Rehearing does not include a final amount, if you will, on tax reform.

A. (Mullen) Correct.

Q. And to the extent that there is an effort -- would the Company agree with any effort to try to put a finer point on tax reform in this proceeding?

A. (Mullen) I think the Commission wouldn't have sufficient information to finalize that number.

Q. So if there is any further refinement of the tax reform number in this Motion for Rehearing, are you saying that would have to be refined once more later?

A. (Mullen) Yes, because partially, while there may be some incremental impacts associated with the finalized numbers for tax reform, it's possible that the Company may propose some different treatments for even maybe part of that money. So if the Commission were to try to deal with it through this proceeding, A, they'd be dealing with a placeholder number that would essentially create another placeholder number that would later have to be trued up.

Q. And now that the moving pieces, as you say, for the tax calculation have been settled recently, what's the Company's plans for making a filing on the tax reform issue?

A. (Mullen) I envision that most likely in the next few weeks.

MR. SHEEHAN: Those are all the questions I have. Thank you.

CHAIRMAN HONIGBERG: Mr. Buckley.

MR. BUCKLEY: Thank you, Mr. Chairman. Just a few questions, and I think they're largely for Mr. Hall here today.

CROSS-EXAMINATION

BY MR. BUCKLEY:

Q. Earlier this afternoon you heard Attorney Dexter mention, or, rather, describe that Exhibit 82 presented something of a new theory of the case. Can you tell me what the primary difference is between Exhibit 82 and the value presented and the methodologies utilized in previous exhibits?

A. (Hall) I'm not quite sure I follow your question. All Exhibit 82 is intended to do is try to represent the amount of revenue and the net revenue increase that the Company would receive through a rigorous calculation of recoupment for the January through April 2018 period. That's effectively what we're trying to do. And I sort of -- I did this exhibit sort of to come up with a revenue proof to basically convince myself that with a correct calculation of recoupment, we would come up to the amount of increase that the Commission authorized. And it does that. It comes up to 8.149 million instead of 8.060, the difference being billing determinants difference as compared to test-year billing determinants. That's the purpose of this exhibit.

I then went on to say that we really didn't get that full recoupment amount. We got a lower amount. And that lower amount is what leads to the $2 million shortfall.

A. (Mullen) May I add to that response? As shown on Exhibit 82, various lines reference prior Exhibits 79, 80 and 81. So, for instance, if you were to look on Line 1 of Exhibit 82, if you went to those respective months in Section I on Exhibit 79, that's where those totals come from. So if you did that on each line -- and, for instance, the recoupment number on Line 3, if you add the negative 11 in the July to December and the 3,305,000 in January through April of 2018, those come right to the amounts on Exhibit 80. So what Exhibit 82 does is summarizes information that's on the prior three exhibits.

Q. And can you just summarize for me the relationship of the 3,305,000 presented as the recoupment value on Exhibit 82 and the relationship between that and the recoupment value presented in Appendix 5 of the settlement agreement, the 1.3 million or so?

A. (Hall) Sure. The recoupment value in the appendix, 1.326 million, was premised on no rate design changes; so, had we not made any change to rate design, that was a correct number. The 3,305,000, net of the $11,000, is the recoupment amount incorporating the impact of rate design. That's really the difference between the two. One doesn't take into effect the rate design change. This exhibit does take into effect rate design changes.

Q. On what is essentially a retrospective basis?

A. (Hall) Yes.

MR. BUCKLEY: No further questions.

CHAIRMAN HONIGBERG: Mr. Dexter, do you -- would it be valuable for you to take five or ten minutes, because my sense is you're probably going to take a little while with these witnesses?

MR. DEXTER: Yeah, I'd request a 15-minute recess so I can talk to -- there's a lot of new information in the record.

CHAIRMAN HONIGBERG: I think it will help the stenographer and us. So we'll be back in 15 minutes.

(Brief recess was taken at 2:21 p.m., and the hearing resumed at 2:44 p.m.)

CHAIRMAN HONIGBERG: Please be seated. Mr. Dexter.

MR. DEXTER: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. DEXTER:

Q. So I have some questions on both theories of recovery here. I'd like to start with the one that was presented in the motion about the rate design changes, and I'd like to start by turning to the Commission's order

and turning to Appendix 1.
A. (Hall) Which order?
Q. The Commission's rate order of April 27, 2018.
A. (Hall) Got it.
Q. Now, would you agree that at Line 9, the 8,060,117 was the revenue deficiency that was determined by the Commission in this case?
A. (Mullen) You're looking at Page 1 of 16?
Q. Exhibit 1, Page 1 of 16.
A. (Mullen) Yes.
Q. And would you explain what's on Line 11, please.
A. (Mullen) Line 11 is the result you get when you subtract the placeholder amount for tax reform that's shown on Line 10 from the amount on Line 9.
Q. And when the Company implemented rates when the order came out, which number were they trying to collect? The 8 million? The 5.67 million, or some other numbers?
A. (Mullen) The rates were put into effect and taken into account the amount on Line 11.
Q. Okay. And plus there was a step adjustment;

correct?
A. (Mullen) Correct.
Q. Okay. So this might be a little bit of a review of what Mr. Hall said, but now I'd like to move to the Company's Motion for Rehearing that was filed on May 25th, 2018, and I'd like to turn to the attachment on the back, please.
Isn't it correct that the Company, when they filed the motion, requested that the 3,079,391 figure in the lower right-hand corner be an amount that should -- they proposed that that amount be recovered through the LDAC?
A. (Hall) Yes.
Q. Over what period of time was that recovery going to take place?
A. (Hall) Eighteen months, commencing July 1, 2018.
Q. And if I understood your testimony today, the Company has now revised that request down to two million one hundred seventy-one million and change; is that correct?
A. (Hall) Two million one hundred seventy-one

thousand.
Q. Two million one hundred seventy-one thousand.
A. (Hall) Yes.
Q. Okay. And over what period would that be collected?
A. (Hall) At this point, it would be calculated over the remaining months in the period over which recoupment is being calculated, and recoupment ends on December 31, 2019. So, depending on when the Commission's order is issued, it will either commence August 1st, 2018 or September 1st, 2018. My preference is August 1st, 2018.
Q. And when would it end?
A. (Hall) December 31, 2019.
Q. Ad would that also be recovered through the LDAC?
A. (Hall) Yes.
Q. Now, in your testimony earlier, you had indicated, I believe, that the 3,079,000 figure was calculated as a result of rate design changes that were implemented as of May 1st; is that correct?
A. (Hall) Yes.

Q. And the 3,079,000 figure encompassed a six-month period through October, as the schedule shows; is that correct?
A. (Hall) Yes.
Q. And is it correct that you extended that calculation out through December to get at the 2,171,000 figure that's now at issue?
A. (Hall) Yes, based on -- I'm sorry.
Q. Go ahead.
A. (Hall) Based on what Staff pointed out in our technical session.
Q. And what was that, that Staff pointed out?
A. (Hall) That the rate design change would produce more revenue than what would otherwise occur, absent a rate design change during the months of November and December.
Q. And that was unknown to the Company at the time they filed the motion?
A. (Hall) No, it was known.
Q. Okay. So if one were to take this calculation and extend it forward another four months, what would the result be?
A. (Hall) I don't know. I haven't done that calculation.

Q. Well, I think you testified earlier that the rate design issue that's underlying these two numbers will resolve itself after 12 months; is that correct?
A. (Hall) Yes, over a 12-month period, the amount of revenue recovered under the new rate design will be or should be the same, assuming billing determinants are the same, as under the old rate design.
Q. So then, could one conclude from that answer, then, that if you added the four months of January, February, March and April of 2019, and you did the calculation, that this number would be at or near zero?
A. (Hall) In theory, yes. Now I'm there. I misunderstood where you were going.
Q. So, then, at the end of that 12-month period, which is the first 12 months that the permanent rates are in effect, if the Commission were to grant your request to add $2.1 million through the LDAC, and the rates as you've laid out here would produce the $8 million they were supposed to produce, wouldn't that give the Company $10 million

over that 12-month period?
A. (Hall) In cash collections, yes. But the revenue would be recognized in 2018.
Q. What's the difference between cash collections and revenue recognition?
A. (Hall) Cash collections is cash coming in. Revenue is when you book the revenue on your books of account.
Q. Okay. So over that 12-month period ending April 1st, 2019, what would be the cash collected? I think you said $10 million.
A. (Hall) Subject to check, yes.
Q. Subject to check, what would be the revenue booking over that period?
A. (Hall) It should be an amount that's $8.06 million above test-year revenue level, all else being equal.
Q. Well, what would the period -- what would it be for the 12 months ending April 30th, 2019?
A. (Hall) I'm sorry. I didn't follow you.
Q. Well, I think what you said was there would be a difference between cash collected over that, I'm going to call it the "rate effective period," the 12 months ending

April 30th, 2019. I think you indicated that if the Company -- if the Commission were to grant your request in this case for $2 million in the LDAC, plus you would collect the $8 million that was approved in the rate order, that you would collect $10 million. Can we agree on that?
A. (Hall) No, we wouldn't collect it in cash.
Q. So what would you collect?
A. (Hall) Something less than that because the cash collection continues through December 31, 2019.
Q. Because of the recoupment?
A. (Hall) Yes.
Q. But absent the recoupment, if the recoupment were 12 months, let's say, hypothetically --
A. (Hall) Okay. I mean, I'm having a hard time saying "absent the recoupment" because recoupment is really what's driving this.
Q. Okay. What would they book for revenues over that period? You indicated there might be a difference between cash and revenues.
A. (Hall) I can't answer that off the top of my head. What would happen is if we were

granted -- I can tell you what would happen in 2018.

If we were granted an additional $2 million in recoupment as a result of this proceeding, we would book that $2 million in 2018. That's the way the accounting is done. So we would recognize the revenue in 2018, thus solving the issue that has arisen for calendar year 2018 as we've discussed on more than one occasion.

Q. Well, we've discussed it in technical sessions, but we haven't discussed it in a hearing context. Would you expand on that, the issue that's going to occur in 2018 as a result of the rate order?

A. (Hall) Sure. I believe we summarized it in our motion. Well, perhaps not specifically.

Basically what the rate order has done is it's created a revenue shortfall and, therefore, an earnings shortfall for calendar year 2018. And it is a significant problem for the Company, and that's what drove us to file a Motion for Rehearing. The Company has already had to take steps to address the problem. And absent an additional $2 million from this proceeding, the Company may take additional steps to attempt to reduce costs in 2018 as a result of a revenue shortfall in 2018.

Q. And what steps has the Company taken in 2018 to date to reduce costs?

A. (Hall) First of all, we're no longer filling vacancies; so when someone leaves, the position remains open. We have limited overtime. We are focusing more on capital work rather than work involving O&M expense. We have limited employee travel and also attempted to limit employee expense. And we are in the process of reviewing our use of contractors and eliminating the use of contractors wherever possible, to the extent those costs would be expensed. So those are some of the steps we've taken to date.

Q. And what would be the further steps that you mentioned?

A. (Hall) Could be more drastic. Could be eliminating all overtime. It could be targeted layoffs. That's something the

Company would consider. It could be ceasing all training other than training that's required for operator qualifications. It would be ending all -- it could be ending all discretionary work and could be terminating all travel. Now, I'm saying "could be" in all of these because we haven't made that decision yet. All I'm saying is all of this is a possibility. And as I've indicated to you earlier, and I'd like to stress, this is a significant issue for the Company for 2018.

Q. Now, you indicated that there are some vacancies that haven't been fulfilled -- filled and that going forward there might be some layoffs. Would you agree that the revenue requirement approved in this case included the full complement of employees that were laid out by the Company, represented as a full complement as of December 31st, 2017, minus 3.5 employees that were adjusted as vacancies? Do you recall that?

A. (Hall) I would agree that that was included in the data that we submitted to support our rate increase request. The problem is the rate increase that we got was over $2 million lower than what we had agreed to in the settlement.

Q. Do you have the order in front of you that --

CHAIRMAN HONIGBERG: Mr. Dexter, why do you care about this? Why is this important?

MR. DEXTER: Well, I want to point out that the Commission allowed for a full complement of --

CHAIRMAN HONIGBERG: We understand what's in the order. The goal here is to figure out what the basis for this shortfall is, not the effects on the Company. If there are effect on the Company, there are effects on the Company. Let's find out what the source of the argument is for the shortfall. And if you believe Mr. Hall and his colleagues up there are wrong, let's hear it.

MR. DEXTER: Fair enough.

BY MR. DEXTER:

Q. So I'd like to turn to the Company's reply to the Motion for Clarification.

A. (Hall) Okay. I'm not following where you are.
Q. I seem to have misplaced my copy as well. If I could go off the record for a second.
A. (Hall) Do you mean the July 9th letter?
Q. No.
(Discussion off the record)
Q. I'm sorry. It's actually called the Company's "Response to Staff's Objection to Motion for Rehearing." It was filed June 6th.
A. (Hall) I don't have that in front of me.
(Mr. Sheehan hands computer to Witness Hall.)
Q. Now, it says on Page 2 of that response, quote, "Thus, the Order authorized Liberty to collect the $8.1 million increase for every 12-month period beginning July 1st, 2017, including the 12-month period of January 1st through December 31st, 2018."
A. (Hall) Okay. What paragraph are you in?
Q. I'm reading on Page 2, Paragraph 4.
(Witness reviews document.)
Q. And then Paragraph 5 goes on to say, "The

Commission plainly approved Liberty to collect the $8.1 million increase beginning July 1st, 2017, which means Liberty has the right to collect $8.1 million in the calendar year 2018 (whether that is the rate effective period or not)." Do you agree with those statements?

A. (Mullen) If I may, to me, I thought the Commission already addressed that in its order on rehearing, and I'm just wondering why we're going back over it.

CHAIRMAN HONIGBERG: Mr. Mullen, are you objecting to the question?

WITNESS MULLEN: I am suggesting that Mr. Sheehan might --

CHAIRMAN HONIGBERG: Are you suggesting Mr. Sheehan should object to the question?

WITNESS MULLEN: Yes.

MR. SHEEHAN: No, let him answer the question.

CHAIRMAN HONIGBERG: I think Mr. Sheehan would like you to answer the question.

BY MR. DEXTER:
Q. Do you agree with those statements?
A. (Hall) Yes, I do.
Q. So you agree that the rate order entitled the Company to collect 8.1 million going back to July 1st, 2017.
A. (Hall) Yes, when you take recoupment into account.
Q. But I thought you testified earlier that recoupment extended out to 2019.
A. (Hall) It does. But I also said just a few minutes ago that we book it as soon as we recognize it.
Q. Well, the statement says that Liberty is authorized to collect, not to book.
A. (Hall) Okay.
Q. Okay what?
A. (Hall) Inopportune choice of words. Let's think of it this way: You have a temporary rate level that's in effect January through April of 2018. Recoupment for those months should get you back up to the permanent rate level. And then you're at permanent rates. So now you're at permanent rate level with

recoupment January through April 2018. You're at permanent rate level May through December 2018. That permanent rate level, including that recoupment, ought to be $8.06 million higher than the previous rate level.

Q. And your answer is per books, not per collection.

A. (Hall) Correct, because of the way recoupment is recovered from customers.

Q. Okay.

A. (Hall) But logic tells you that the purpose of recoupment is to get your rate level during when the period temporary rates are in effect up to the permanent rate level. You're recouping the difference between the two.

Q. All right. I would submit not only logic says that, the statute says that as well.

A. (Hall) Okay. I'm glad I answered that way.

Q. So let's go to attachment -- to Exhibit 80. And I want to compare that to Appendix 5 in the order. And before I do that, I'd like to compare Appendix 5 in the order to Attachment C in the settlement. Do you have that settlement with you? This is the settlement of March 1st, Exhibit 29 in the case.

A. (Hall) I believe I do.

Q. So, looking first --

A. (Hall) Hold on.

Q. Oh, I'm sorry.

(Witness reviews document.)

Q. So I'm in the settlement at Attachment C, Exhibit 29.

A. (Hall) Okay. We got it in front of us.

Q. And I have Appendix 5 to the Commission's order. There's no Bates Stamp on it.

A. (Hall) I'm there.

Q. Would you agree that these two recoupment calculations mathematically work the same way?

A. (Hall) Yes.

Q. And that the one difference between the two calculations is Line 1, the amount of rate increase?

A. (Hall) Yes.

Q. And then the math just flows from there.

A. (Hall) It does.

Q. Okay. Now, Mr. Bonner had pointed out what he described as an "error" in Line 5 of Appendix 5.

A. (Hall) No, I don't think he characterized it as an "error" in Line 5. What Mr. Bonner said was he inadvertently used what was on Line 5 in his original calculation of Attachment 2, which was replaced by --

A. (Bonner) Exhibit 79.

A. (Hall) -- in Exhibit 79.

Q. So, Mr. Bonner, in your opinion, is there an error in Appendix 5 and in Attachment C to the settlement?

A. (Bonner) In terms of the mathematics? No.

Q. Well, not in terms of the mathematics, in terms of the underlying theory. I thought you had testified earlier that in calculating that rate on Appendix 5 of $0.0082, that the number in Line 4 should have been a 20-month number and not a 12-month number.

A. (Hall) No. What he said was this exhibit -- this appendix calculates the amount per therm on an annualized basis. That amount is then multiplied by projected therm sales during the recoupment period to come up with a recoupment amount.

Q. And that's the 20 months on Line 6?

A. (Hall) Yes. I believe he went on to say that, in actuality, the way we calculate recoupment, or the way we perform recoupment is by taking the total dollar amount, dividing it by projected therms for the 20-month period and then coming up with a rate to charge customers. That's what the .0052 is that is in his corrected attachment.

A. (Mullen) Exhibit 79.

A. (Hall) Yes.

Q. Okay. So there is no error in the appendix or the settlement.

A. (Hall) No. As long as it's appropriately applied, it's fine.

Q. So we'll move forward from that then.

Would you agree with the characterization that the recoupment method contained in the settlement and in the rate order is a "more simplistic approach" than what's contained on Exhibit 80?

A. (Hall) Yes.

Q. And could you describe the two and why one is more simplistic than the other?

A. (Hall) Sure. The Appendix 5 approach -- same approach as in the settlement, by the way -- is simply taking the dollar amount of recoupment and calculating -- it is taking the recoupment amount, translating it into a per-therm adjustment, which is then multiplied by the therms in the recoupment period to come up with a recoupment dollar amount. That is a relatively straightforward and simple way of calculating it. It works fine if you don't do any rate design changes. That's what I was saying earlier. Absent rate design changes, this methodology is fine. The problem is there were rate design changes. And because there were rate design changes, and you take those into account, you get a very different number.

Q. And those rate design changes were present in the settlement as well; correct -- in the settlement Attachment C? Those rate design changes existed at that time.

A. (Hall) We agreed to a revised rate design in the settlement.

Q. Okay.
A.
(Hall) The Commission rejected the settlement.

CHAIRMAN HONIGBERG: Wait. Focus on what the question was. The questions was: Doesn't the settlement have the same rate design changes in it as the Commission's final order?

WITNESS HALL: Yes, with a caveat.

CHAIRMAN HONIGBERG: What's the caveat?

WITNESS HALL: The caveat is the settlement had over $2 million more annual revenue.

CHAIRMAN HONIGBERG: We're talking about recoupment right now.

WITNESS HALL: Okay.

CHAIRMAN HONIGBERG: Wouldn't you be here with the same recoupment problem if we had approved the settlement as submitted?

WITNESS HALL: No.

CHAIRMAN HONIGBERG: Why not?

WITNESS HALL: Because we would

have received an additional two-plus million dollars in permanent rate revenue. That would have allowed us to address the problem.

CHAIRMAN HONIGBERG: I don't see how that can be, Mr. Hall. In all honesty, I don't see how that can be, because your stated reason for having a problem here is solely related to the changes in the rate design. And if you just want 2 million more dollars, say, "We just want $2 million more. We don't care how we get it." But what you're saying is that it's a recoupment problem, which makes a lot of sense to me, because the simplified recoupment methodology that was in the settlement carried through to the order produced an odd result.

WITNESS HALL: Understood.

CHAIRMAN HONIGBERG: But that same odd result was in the settlement. And I would be shocked if you wouldn't have come back and said we have a recoupment problem, even we had approved the settlement as submitted. You don't need to answer. That's not a question. I'm sorry.

WITNESS HALL: My belief is we would not because of the difference in revenue level.

CHAIRMAN HONIGBERG: I'm sorry to interrupt, Mr. Dexter. You may proceed.

BY MR. DEXTER:

Q. Now, if we turn to the more complicated method, which is on Exhibit 80, could you briefly describe how Exhibit 80 was calculated.

WITNESS BONNER: Would you like me to answer that one?

WITNESS HALL: Yeah.

A. (Bonner) Exhibit 80 is what was described in Appendix 2 of Order 26,149. So it's a calculation using the permanent rates, without tax reform, compared to what the temporary rate level using test-year billing terms adjusted for year-end billing count and month-by-month calculation of the revenue difference produced by those two different sets of rates. The temporary rates are known. The permanent rates had to be calculated without the tax effect. So we had

to remove the step increase from the -- and
the tax adjustment from the compliance
calculation that was previously submitted.
Q. So, Block I is what was collected under
temporary rates for this 8- -- 9-month
period, 10-month period.
A. (Bonner) Yes, July 2017 through April 2018.
Q. And then Block II took the approved rates,
including all the rate design changes, and
applied them against the consistent set of
billing determinants to Block I; correct?
A. (Bonner) Yes. Same billing units are used in
both Block I and Block II.
Q. Same billing units. And it's marked Block V,
but I think it should be Block III?
A. (Bonner) Correct.
Q. It's just the difference.
A. (Bonner) Yes.
Q. And that comes to $3,300,000 rounded.
A. (Bonner) Yes.
Q. Okay. And the purpose of the recoupment is
to collect the difference between permanent
rates and temporary rates over the time
period that temporary rates were in effect.

Would you agree?
A. (Hall) Yes.
A. (Bonner) Yes.
Q. And the temporary rates that were ordered were $6.75 million on an annual basis; correct?
A. (Hall) 6.75 million above rate level in the test year.
Q. And the permanent rates that were ordered were 8,010 -- roughly $8 million. Agreed?
A. (Hall) Yeah, 8.060.
Q. The number we started with.
A. (Hall) Yes, sir.
Q. So, just subtracting those two numbers, you get about 1.2, 1.3 million; correct?
A. (Hall) Yes.
Q. And, again, those are annual numbers. Those are to be collected over a 12-month basis.
A. (Hall) Yes.
Q. This recoupment calculation only goes for 10 months.
A. (Hall) Yes.
Q. So one would expect, I think, that rather than getting that full difference, you might

get something around a million dollars.
Would you agree with that?
A. (Hall) If there were no rate design changes, I would completely agree.
Q. Okay. And yet, this schedule produces 3.3 million over 10 months. Agreed?
A. (Hall) Yes.
Q. And is it your testimony that the difference is due to rate design changes?
A. (Hall) Yes.
Q. Entirely?
A. (Hall) Yes.
Q. Okay.

COMMISSIONER BAILEY: Mr. Dexter, can I just ask a questions right here? Sorry.

Mr. Bonner, you said that the information on Attachment 2, Exhibit 80, you used test-year billing determinants.

WITNESS BONNER: No.

COMMISSIONER BAILEY: That's what you said.

WITNESS BONNER: Oh, I'm sorry.

COMMISSIONER BAILEY: I wrote it

down.

WITNESS BONNER: Yes. I'm sorry. I need to correct myself. They were the actual billing units during that period.

COMMISSIONER BAILEY: Right. So the recoupment here is based on 2018 usage.

WITNESS BONNER: Yes, 2017 actuals and 2018 actuals for the first four months of the year.

WITNESS HALL: Yes. Thank you.

CHAIRMAN HONIGBERG: And Mr. Hall, it's then your testimony that the two months that are missing from the 10-month period on Exhibit 80 -- that would be May and June -- that those two missing months are sufficient to explain a $2 million difference? It doesn't seem possible.

(Witness reviews document.)

WITNESS HALL: Two million -- I'm not following you on the $2 million difference.

CHAIRMAN HONIGBERG: The difference between 1.3 and 3.3 that Mr. Dexter asked you a question about the 10-month, the 10-month period is the difference in the rate design. And we've already established that over any 12-month period, the rate design changes should wash out.

WITNESS HALL: Yes.

CHAIRMAN HONIGBERG: It doesn't seem possible that May and June could be significant enough to explain a roughly $2 million difference.

WITNESS HALL: I would have to take a look at what the numbers are for May. Basically what you're saying is what is the revenue difference over that 12-month period, including May and June of 2018.

CHAIRMAN HONIGBERG: It seems like one of these exhibits, and it may be 79, has May and June numbers. They may be projected numbers. I'm not quite sure. I suspect they are. I think they're May and June projected numbers for 2018.

WITNESS BONNER: They're on a slightly different basis.

CHAIRMAN HONIGBERG: But the basic numbers are here.

WITNESS BONNER: Maybe I can help a little bit on this. My expectation is the missing months would not contribute the missing amount of money. I suspect because -- well, let me just back up.

According to the statute, and even logically, the correct way of doing this is the way it's laid out in Attachment 2. Make the comparison once you know the actual units. Price them out and compute the difference. I believe that number to be correct. I suspect, but I have not proven, that the original, simplified method that we proposed in the settlement that was copied into the order itself is not correct. Now, I'm not sure exactly why, but the difference, although rate design will have a material influence, it should not be as large as it is.

COMMISSIONER BAILEY: It's not rate design. It's usage. There's more customers and there's more therms in 2018 than there is in 2016.

WITNESS HALL: That's certainly

part of it. No question.

COMMISSIONER BAILEY: Pretty sure that's the difference between the recoupment that the order calculated and the recoupment that you're calculating -- or that we asked you to calculate based on 2018 actuals.

CHAIRMAN HONIGBERG: That may be true. There may be other factors as well. I think you're --

WITNESS BONNER: Yes. And that's why I'm saying I have not run this to ground. I'm confident that the Attachment 2 calculation is a correct representation. The real issue here is were all the factors -- because there were a number of things in this case that make it a bit more complicated than was the case in, say, EnergyNorth's previous case, and that has to do with the inclusion of Keene and making the year-end bill count adjustment I think has an influence on this number.

CHAIRMAN HONIGBERG: Okay. Thanks. Sorry, Mr. Dexter, we keep interrupting you.

MR. DEXTER: No, no problem.

BY MR. DEXTER:
Q. But again, Mr. Bonner, I believe you were talking about the difference between Appendix 5, the simplified method of 1.3 million, and Exhibit 80, the 3.3 million. But what I'd like to do is go back to the two amounts of rate increases that were ordered, the temporary and the permanent. You would agree, as Mr. Hall did, that the temporary rates were 6,750,000.
A. (Bonner) Yes.
Q. And the permanent rates were roughly 8 million.
A. (Bonner) Yes.
Q. That's roughly a $1.3 million difference; correct?
A. (Bonner) Yes.
Q. To be collected over a 12-month period. Both of those numbers are annual periods.
A. (Bonner) Yes.
Q. And does it strike you as plausible that Exhibit 80 purports to collect 3.3 million over a 10-month period, when the whole objective here is to only collect 1.3

million?
A. (Bonner) Yes.
Q. And why is that?
A. (Bonner) And I'll turn back to Exhibit 81. It has to do with the baseline. As I was mentioning earlier, beginning at Line 10 and continuing to Line 15 in Column A, in the actual compliance calculation, an adjustment is required in order to remove the effect of the year-end adjustment and the Keene adjustment before computing the numbers that will produce the equivalent of the 8,060,117 revenue increase. The revenue increase is just that, a revenue increase. In order to be able to compute rates, you actually have to compute the total revenues you are going to be collecting. So you need to know the second value, which is the baseline. And what's different I think is the baseline. Those two adjustments alter the calculation.
Q. I'd like to look at Block II on Exhibit 80 for a moment. And I would like to ask you, going forward -- I'm sorry. Turning to the January, February, March and April months, do

these revenues reflect income taxes at the old higher rates, or income taxes at the new lower rates?

A. (Bonner) At the old higher rates.

Q. Yet, those taxes won't be due to the Company; correct? Your actual taxes will reflect the lower rates; correct?

A. (Bonner) Yes.

Q. So, to the extent there is a difference between the old taxes and the new taxes in those four months, is it the Company's position that those revenues would be the subject of the subsequent docket that Mr. Mullen indicated would be filed in a couple of weeks?

A. (Bonner) I believe so.

A. (Mullen) Yes.

Q. Now, I started the conversation by going to the Commission's order, Appendix 1, Page 1. I'd like to go back to that for a minute. That's the one that lays out the two different rate increases, the one of 8 million and the one of 5.67 million. Do you see that?

A. (Mullen) Yes.
Q. And I think you indicated that the rates that actually were put into effect were consistent with the -- or were intended to recover the amount on page -- on Line 11, the 5.67 million, rather than the 8 million; correct?
A. (Mullen) Well, it really would be the amount on Line 13, taking into account the step adjustment, too.
Q. Sure, sure. Okay.
Now, again, the purpose of temporary rates, as the statute says, is to take the rates that were ultimately approved and apply them back as though they were approved at the date of the temporary rates. Would you agree with that?
A. (Mullen) Yes. I don't have the statute in front of me, but that sounds --
Q. Generally how it works; right?
A. (Mullen) Yes.
Q. But would you also agree, then, that Attachment 2 doesn't do that because it collects rates that are based on the $8 million revenue deficiency on Line 9

rather than the $5.6 million revenue deficiency on Line 11?

A. (Mullen) It calculates rates based on the $8.06 million, which is consistent with the Commission's original order in dealing with recoupment in Appendix 5 to the order. And similarly, the Commission's order on rehearing, on Page 8 of that order, again referred us back to Appendix 5 which used the 8,06 number.

CHAIRMAN HONIGBERG: All right. What would happen, then, if you recalculated Exhibit 80 using the rates that you said you put into place to capture the 5.66? Because isn't that what we're trying to get to? Isn't that the shortfall that should be recouped?

WITNESS MULLEN: That would reduce the amount calculated on Attachment 80. Again, that would be done based on the placeholder amount, which is not the final amount of taxes.

CHAIRMAN HONIGBERG: Understood. But we're trying to hold as many factors as we can constant. And it sounds to me, and I don't think I understood this until just a second ago, that the rates that were put in place, separate from the step increase, were designed to collect the 5.66 increase.

WITNESS MULLEN: That's correct.

CHAIRMAN HONIGBERG: But the numbers on Attachment 2 are based on rates designed to collect the 8 million. Am I right about that?

WITNESS MULLEN: You're right about that, understanding that throughout the proceeding, the tax reform was put in as a placeholder at the end. Knowing that there was going to be a separate docket to finalize those numbers, we were trying to be consistent throughout and keep those separate.

CHAIRMAN HONIGBERG: Okay.

Mr. Dexter.

MR. DEXTER: We'll have more on that issue when Mr. Frink takes the stand.

BY MR. DEXTER:

Q. So, Mr. Bonner, turning to Exhibit 79, which is the calculation that was requested of the Company in the order on rehearing, you indicated that there were at least -- well, I don't think you said "at least." I think you indicated that there were two errors in these calculations in their attempt to try to figure out what it was the Company actually collected through the various rate elements. Is that a fair characterization of your testimony?

A. (Bonner) I would characterize it just slightly different. I had two issues with the calculation. The calculation numerically is what was requested by the Commission's order.

Q. Right. And would you agree that the intent of the -- well, I'm not going to ask you that.

Could you describe the first error again? My notes say that it had to do with temporary rates in Keene.

A. (Bonner) Yes.

Q. Could you just explain that again.

A. (Bonner) Sure. Actually, you have both of them together there.

The first issue that I identified or critiqued was the temporary rate calculation --

Q. And if I could just interrupt you for a second.

A. (Bonner) Sure.

Q. In your answer, could you point us to which of the seven Roman Numeral blocks we're talking about.

A. (Bonner) Absolutely. I'm talking about Roman Numeral No. II, Impact of Temporary Rate Increase. And I'm referring to the period of all 2017 and the first four months of 2018. When the Commission approved temporary rates in this case, the only customers that were affected by temporary rates were the original EnergyNorth customers. Keene customers did not pay the temporary rate level. They continued to pay their original rates that were in effect up until May 1st of this year.

The billing units, which are uniform across all the months, are the test-year billing units adjusted for the year-end customer count, which includes those Keene customers.

So what I was saying is that the 2017 value shown in Table II for both 2017 and the first four months of 2018 are overstated because the billing units are too high. The Keene units need to be subtracted before that computation can be correctly made.

Q. And if we want to look at the impact of that correction, we'd have to go down to Block VI; is that correct?

A. (Bonner) V and VI, depending on which period of time we're looking at.

Q. Well, if we wanted to look at the same 12-month period, I guess I'd have to -- or 10-month period, I'd have to look at Blocks V and VI.

A. (Bonner) Correct.

Q. So this schedule shows that the temporary rates resulted in the Company collecting $634,000 over that 10-month period; correct?

A. (Hall) No.

A. (Bonner) No.

Q. No, no. I'm sorry. I didn't phrase that

right. This schedule shows that the Company collected an additional $634,000 as a result of temporary rates as compared to the old rates. Would you agree with that?
A. (Bonner) For the month of April, that would be correct.
A. (Hall) Right. That's just April that you're looking at.
A. (Bonner) I'd have to add the numbers up for you. But, for example, just using 2017 as an example, we collected $3 million -- $3.2 million more, just because the number is easy to see. And then what we have to do is simply add up the other remaining four months and do the same in Table No. I.
Q. Okay. And what was the second issue that you had with the requested calculation?
A. (Bonner) It's actually related to the first. So, in Block No. I, the revenues shown there are with Keene units priced out at EnergyNorth's rates, and that isn't actually what the Keene customers paid. They actually paid their old rates.
Q. And what period would that affect?

A. (Bonner) That would affect the same period, from July 2017 through April of 2018.
Q. Now, there's no indication of the Company's issues with this calculation in the July 9th letter; is that correct -- that you are aware of?
A. (Bonner) No, not that I'm aware of.
Q. When did you or the Company become aware of these two issues?
A. (Bonner) After our tech session yesterday.
Q. And would you estimate that it would be difficult for you to correct these two issues?
A. (Bonner) No, I do not believe that would be the case, although it does take a little bit of time.

MR. DEXTER: Mr. Chairman, I would request that the Commission request those recalculated schedules if they've identified two issues and they're not difficult and they just came up as a result of our tech session. This is a confusing record. This might help clear things up. It might not. But I don't think it could hurt.

CHAIRMAN HONIGBERG: So, Mr. Sheehan, you understand the request? It will be Exhibit 83.

(Discussion off the record)

MR. CHAIRMAN: That'll Exhibit 84. Sorry.

(Exhibit 84 reserved for record request as described.)

BY MR. DEXTER:

Q. So, Mr. Bonner, if I'm not mistaken -- again, I'm now looking at Exhibit 80, Attachment 2, which calculates the $3.3 million recoupment number.

A. (Bonner) Yes.

Q. And I think the Chair had asked you how that compared to the $1.3 million calculation contained in Appendix 5 of the order. Do you recall that?

A. (Bonner) I do.

Q. And I think you said that you thought you could explain that difference with some time. Is that true or --

A. (Bonner) With some time. I think that's a fair characterization. Again, as a result of the tech session that we had yesterday, the great disparity in the two recoupment calculations was brought up. And it has been troublesome. Although I do believe the rate design is an important influence, it doesn't, at least at first blush, seem to explain it all.

Q. And could you review again what the elements, other elements might be for this discrepancy?

A. (Bonner) I suspect, but have not confirmed, that the missing issue is the end-of-the-year bill-count adjustment and the Keene revenue adjustment is playing a role in the correct computation under a simplified method for recoupment.

Q. And do you think Commissioner Bailey's point about using actual sales in Exhibit 80 versus estimated sales in Appendix 5, do you think that's a contributing factor?

A. (Bonner) I do.

Q. Do you think you'd be able to break down those three items in a reconciliation?

A. (Bonner) I certainly can attempt it.

MR. DEXTER: Well, Mr. Chairman, I

would request that that calculation be done as well.

CHAIRMAN HONIGBERG: All right. Mr. Sheehan, you'll work with Mr. Bonner on that?

MR. SHEEHAN: Yes. If I could, just while we're all here, ask Mr. Bonner if he understands what the question is and if he needs any clarification right now before we go further of what he's being asked to do.

WITNESS BONNER: No, I believe the question is clear to me. What we're trying to do in real -- let me summarize it this way: What we're trying to do is reconcile the methodology used in Appendix 5 against the methodologies in Attachment 2, compensating for the various billing-determinant changes and maybe the effects of the year-end bill-count adjustment, as well as the Keene revenue adjustment on the overall calculation.

(Exhibit 85 reserved for record request as described.)

CHAIRMAN HONIGBERG: And I think

there may need to be another one, whether it's part of this one, which is going to be 85, or whether it's another one, having to do with the taxes, using the different revenue targets or revenue shortfalls under the old tax rate and one under the new tax rate to determine whether that's part of the explanation for the difference.

Mr. Bonner, is that a possible explanation for some of the discrepancy as well?

WITNESS BONNER: I believe Mr. Dexter is about to introduce that. That calculation has actually already been done.

CHAIRMAN HONIGBERG: I see. Never mind.

BY MR. DEXTER:

Q. That calculation was -- was it the two issues that you described on Exhibit 79 don't affect Exhibit 80; correct?

A. (Bonner) That's correct.

Q. Okay.

MR. DEXTER: That's all the questions Staff has.

CHAIRMAN HONIGBERG: Mr. Bonner promised me an exhibit that you were going to introduce. Is that something you're going to use in Mr. Frink's then? Is that what that means?

MR. DEXTER: I had intended to. Although, if it's helpful before your questioning, I'd be happy to introduce it now. Mr. Bonner produced it, so it's his schedule. I'd be happy to introduce it now.

CHAIRMAN HONIGBERG: No, we can wait -- well, no, actually, as you just said, it might make more sense. Maybe it won't. But let's find out.

So this is going to be 86; right?

CLERK DENO: That's right.

MR. SHEEHAN: With the proviso, Mr. Chairman, you asked to add another element to what was going to be 85, and it may be a separate calculation.

CHAIRMAN HONIGBERG: Yeah, I think I withdrew that with the understanding that maybe what's about to be Exhibit 86 will answer my questions.

MR. SHEEHAN: Thank you.

(The document, as described, was herewith marked as Exhibit 86 for identification.)

BY MR. DEXTER:

Q. So, Mr. Bonner, turning to Exhibit 86, does this look familiar to you?

A. (Bonner) It does.

Q. Did you prepare this schedule?

A. (Bonner) I did.

Q. And was it prepared in response to a request that Staff made at one of our various tech sessions or phone calls leading up to this hearing?

A. (Bonner) It was.

Q. And we were referring to it in the tech session as "Attachment 2A." Do you recall that?

A. (Bonner) I do.

Q. And we called it that because it was sort of a variation on Attachment 2 to the July 9th filing; correct?

A. (Bonner) Yes.

Q. And what was the difference between

Attachment 2 in the filing and 2A?
A. (Bonner) There really is only one difference, and that has to do with the -- sorry. There's two differences. The July to December 2017 permanent rate revenues are calculated with rates that exclude tax reform, which is the same basis as the original tax -- Attachment 2 throughout. And then the period from January to April 2018 were re-calculated using a different set of permanent rates that now reflects the tax reform adjustment.
Q. So, looking --
A. (Bonner) Perhaps in simplified terms, the first set was related to the $8 million increase; the second set for the period January through April of 2018 reflects the $5.7 million increase.
Q. But looking quickly, would you agree that Blocks I on both Exhibit 86 and Exhibit 80 appear to be the same?
(Witness reviews document.)
Q. In other words, there were no changes between --

A. (Bonner) That's correct.
Q. And in Block II, the period from July through December, there are no changes. Would you agree?
A. (Bonner) Yes.
Q. And would you agree that there are changes for the period January through April 2018?
A. (Bonner) Yes.
Q. And therefore, would you also agree there are changes in Block III from January through April of 2018?
A. (Bonner) Yes.
MR. DEXTER: Thank you. That's all we have.
CHAIRMAN HONIGBERG: Commissioner Bailey.
INTERROGATORIES BY COMMISSIONERS:
BY COMMISSIONER BAILEY:
Q. Mr. Mullen, did you expect to get $8.06 million revenue increase to your 2016 test-year revenues?
A. (Mullen) Yes.
Q. Okay. And on Exhibit 79, all the schedules on this page are based on the 2016 test-year

billing determinants; right?

A. (Mullen) Adjusted for year-end customer count and billing determinants as required in the Commission's order.

Q. End-billing determinants?

A. (Mullen) And.

Q. So explain that to me.

A. (Mullen) Well, when I say "year-end customer count," I mean some billing determinants are on a per-customer basis, like the customer charge, and some are on usage.

Q. So on this schedule in Exhibit 79, did you use 2016 usage and the end of 2017 number of customers?

A. (Mullen) It's the test year of 2016 plus the year-end 2016 customer count.

Q. Okay. Thank you. All right. And you have more customers now in 2018 than you did in 2016.

A. (Mullen) I believe that's correct.

Q. And has your usage -- has the Company's usage increased, the volume of gas sold?

A. (Mullen) I expect that's the case. Mr. Bonner would probably be closer to that.

A. (Bonner) Sure. It's a little bit more complicated than that. But if you were to adjust for weather, the answer would be yes.
Q. Okay. Thank you.
So if we used Attachment 79, the first table labeled "I," under the old rates for 2018 you would have collected $71 million?
A. (Bonner) Yes.
Q. Subject to the billing determinants discussion that we had; right?
A. (Bonner) Yes, that's correct.
Q. Okay.
A. (Bonner) Based on the -- and again, Schedule 79 -- sorry -- Exhibit 79 was prepared in accordance with the directions that were in Appendix 1 of the order.
Q. Okay. So, using the 2016 billing determinants adjusted like we discussed, you would expect to collect $79 million. And I'm not sure that that's quite correct because of the tax change. But in 2018, in order to calculate an $8 million increase over 2016 test-year revenue, you would have to look at how much the new rates would produce on the

old usage, based on the old usage, not the actuals.

A. (Bonner) Yes. Yeah. No, everything in a rate design calculation assumes the billing determinants are constant over the calculation period.

Q. Okay. And you say because of the rate design change, there's this -- and I believe you -- there's a big problem you guys have. So I'm trying to understand how the rate design caused the problem.

So if we look at the second table on Exhibit 79, which tells you May through December what the permanent rates would have collected -- right?

A. (Bonner) Yes.

Q. And that's based on 2016 billing determinants?

A. (Bonner) Yes.

Q. So if you look at June, July, August and September, you would have collected a little bit less than you did under the old rates.

A. (Bonner) Yes.

Q. But in December you collected more -- well, and the rest of the months you collected more. But we don't have a comparison of January, February, March and April.

A. (Bonner) No. At that particular point in time, the temporary rates were in effect.

Q. Right. Could you calculate another schedule that shows what you would have collected in January, February, March and April under the 2016 billing determinants? We don't have that, do we?

A. (Bonner) Well, perhaps on the -- let me restate your question in a different way.

I think maybe you were asking me to re-compute the fraction of this schedule that's done under the temporary rates for the January through April period, say almost like a projected 2019 period, using the permanent rates.

Q. Not projected 2019.

A. (Bonner) Well, the projection is actually stylistic. The billing units are -- and I can demonstrate this -- are the same in the respective months. If you were to look, say in Table No. I, and you see the answer, the

revenue answer under July is at $3,478,761.
Q. Yes.
A. (Bonner) And if you were to look at July 2018, they're exactly the same.
Q. Yes.
A. (Bonner) So I'm recycling the same monthly units. But by extending the analysis, which is really Block III, the impact of permanent rate increase over an entire 12-month period, which would be from May to the following April, will give you a full, annualized number of the permanent rate.
Q. No, I didn't understand what you just said. Do that again.
A. (Bonner) Sure.
Q. That's the third block?
A. (Bonner) Block III.
Q. Oh, Block III. Yeah.
A. (Bonner) Permanent increase right now only covers the period May through December. If you had the numbers for January through April calculated on the same basis, using the rates that were used in May through December, you would now have a full annual period.

Q. Yeah, that's what I'm asking you to do.
A. (Bonner) Yes, and that's what I was trying to re-characterize. And the answer is yes, I can provide that.

COMMISSIONER BAILEY: Okay. Could we make that a record request?

CHAIRMAN HONIGBERG: That's going to be 87.

(Exhibit 87 reserved for record request as described.)

BY COMMISSIONER BAILEY:

Q. All right. So if we had that information and we compared it to the revenue produced in Table I, it should be either 8 million or 5.6 million greater, shouldn't it?
A. (Bonner) It'll be in that 8 million range, but it'll be a higher number because the billing units used in preparing Exhibit 79 weren't the billing units used in the rate case.
Q. Because of the end of the year --
A. (Bonner) Because of the end-of-the-year adjustment.
Q. Okay. And in Exhibit 80, that shows what

you're actually getting?
A. (Bonner) Yes.
Q. And it's more than an $8 million increase.
A. (Bonner) I'm not sure I'm following you. In my exhibit, it shows a $3 million delta between the temporary rates and the permanent rates. So...
Q. The temporary rates that you actually received.
A. (Bonner) Yes. And then the permanent rates projected over the same units over the same time frame.
Q. So if I took January, February, March and April under the permanent rates and added those numbers up, that's what you actually received; right?
A. (Bonner) Yes.
Q. And if I plug that into Exhibit 79 for the missing months that you're going to recalculate, that would show what you collected under -- I mean, I could figure out what you actually collected -- no, that's not actual collected. You didn't actually collect this under temporary rates.

A. (Bonner) Yes. You've got a little bit of an apples and oranges comparison. It really depends on the purpose for which you're -- the end purpose of what you're looking for the numbers to do.

Normally, in order to identify price differences, you want to hold the units constant so that you're not introducing a second variable, so you can separate the two effects; or conversely, if you're trying to detect the volume difference, you hold the price constant and you vary the units.

A. (Hall) January through April 2018 on Exhibit 80 is based on actual billing determinants. So, plugging it into 79, 79, as you'll recall, is based on test-year adjustment for year-end customer count. It's different units.

Q. Right. I'll have to think about that some more.

When you were answering questions of Mr. Sheehan, you said you wouldn't have this -- I think somebody said, and I think it might have been you, Mr. Hall, that you would have had this problem if you didn't implement the rates on May 1st, the significant revenue shortfall. Do you remember that?

A. (Hall) I believe what I said is this problem wouldn't have occurred had I not -- had we not implemented a rate design change on May 1st.

Q. And if you hadn't implemented rate design change on May 1st, but you were authorized to increase your revenues by $8 million, what would have happened?

A. (Hall) We would have received on an annualized basis an additional $8 million, or the revenue for the months of May through October would have been proportionately higher because the same rate design would have applied while we were billing those rates as what was in effect prior to billing those rates.

Q. Okay. I think I heard Mr. Hall and Mr. Bonner say two different things about Line 1 on Exhibit 81, and I just want to see if somebody can tell me which -- so I think, Mr. Hall, you said that the $70 million

figure includes the Keene revenue at higher rates, at the old rates. And Mr. Bonner, you said it includes the Keene revenue at the EnergyNorth rates.
A. (Bonner) It is Keene revenue at the EnergyNorth rates.
A. (Hall) If I said that, I misspoke. Mr. Bonner is the expert on this exhibit.
Q. Okay. So I want to go through this one more time, just so I know I have it.
So that figure is the test-year revenue. And the adjustment for year-end bill count, can you explain to me why that increases the test-year revenue?
A. (Bonner) Yes. In order to be able to calibrate basically the baseline necessary to compute the final revenue number, the billing units for the 929,551 in Column A are not included in the 70,118,000 number.
Q. So that's revenue that you would have had at the end of the test year because you had that many more customers in the beginning of the test year?
A. (Bonner) Right. If you take a look at Column

B, get down to Line 3, the 71,048,393 used to prepare Exhibit 79, which now has the end-of-year billing units in the computation, times the same rates that were in effect for Line No. 1 produces the same answer.

Q. Okay. So, Exhibit 79, then includes the change in billing determinants. Okay.

A. (Bonner) Yes.

Q. All right. Okay. And then additional Keene revenue at Keene prior rates, I understand that. That's the difference between what you would have collected from Keene customers. But in Line 1, you took that out. So you're adding it back in?

A. (Bonner) Yes. Well, it wasn't there to begin with, so we had to add it to it.

Q. So then the next line is the test-year revenues that we would have needed -- okay. The next line is just an addition.

A. (Bonner) Yes.

Q. And then the line after that, why do you add the low income? That's for the revenue that you don't get from low-income customers that you have to collect from everybody else?

A. (Bonner) Yes. And so what happens is, as parts of -- this is just a fraction of the rate design calculation. The first part is to add that piece back in. You're going to separate it out later into the part that's going to go to the low-income program and the part that's going to go to base rates. So the first part is you have to put it in, in order to come up with the right baseline.
Q. Where do you do that?
A. (Bonner) Well, that's not shown on this sheet. That would be shown in the rate design calculation itself.
Q. But if we're going to add that revenue back in to the test year, you're going to collect it somewhere else. So why would that be included in the tax-year revenue that has to be increased by 8 million?
A. (Bonner) The reason for that is in order to be able to compute the proper discount, you have to basically price out the R4 customers as if they were paying R3 rate in order to figure out at the end of the calculation how much the overall discount really is. What

the R4 customers will pay is a rate that's
calculated based on Rate R3, but only
60 percent of it.
Q. So, by those customers paying only
60 percent, you're going to have $1.6 million
less revenue?
A. (Bonner) Actually what happens, if I can
reflect you farther down in the calculation
to where we didn't discuss it, that 1,678 is
going to end up eventually being shown on
Line 17. The additional Rate R4 revenues at
R3 permanent rates is actually going to be
1,891,561. And that's the number that's
going to be used to set up the target for the
LDAC adjustment. So it comes back out again.
Q. Okay.
A. (Bonner) So a portion of the overall increase
of the 8 million has to be assigned to the
low-income discount.
Q. Okay. So then you would expect to produce
$81 million based on the 2016 billing
determinants adjusted or the year-end
customer count.
A. (Bonner) Unadjusted.

Q. Unadjusted?
A. (Bonner) Yes. At that point, everything -- that's the reason why the discrete adjustment on Line 2 is required.
A. (Hall) Hmm-hmm.
Q. All right. I'm going to have to think about that. I don't really understand that. Can you help me out?
A. (Bonner) Well, Column A is based on test-year billing determinants without the year-end adjustment.
Q. But then you added it on Line 2.
A. (Bonner) I do, I do, in order to work out the calculation.
Q. Right.
A. (Bonner) What we need to introduce would be a copy, probably for this purpose, of the calculated permanent rates just for simplicity sake, without tax reform. That shows you the overall calculation. What you're looking at is only a fraction of it. In the overall calculation, you can see that when we finally get down to the bottom line, that the revenue target that's described

here, the 81,322 is exactly the rates we'll in fact collect. But all the calculations in the original rate design model were predicated on the test-year billing determinants without the year-end billing adjustment numbers, the determinant numbers, actually added.

Q. Right. But you've added it back in on Line 2.

A. (Bonner) You do. You add it in. But it alters the computation when you do that. Perhaps more straightforwardly would have been a computation had the numbers existed at the time they performed the rate design that would have started off in the calculated B column. But these numbers need to shift again. And that's the effect of adding the year-end customer count. Remember we had the discussion a little bit earlier of if the answer, if we were to subtract the two in the Exhibit 79 analysis, yield $8 million, and I said it would be more. The "more" is the effect of the unit. So the actual revenue increase that would have been prescribed in

the order would have actually been higher.
Q. So, based on the test-year billing determinants with the end-of-the-year adjustment, you would expect to collect $81 million.
A. (Bonner) We would expect to collect $81 million without the end-of-the-year adjustment in the billing units, but with the money in there perhaps is the way to discuss it. So the revenue amount needs to be in there, but the billing units didn't have them in there.
Q. Okay. And what are you trying to show on the next part of the table?
A. (Bonner) The final parts of the thing were actually to help answer Mr. Frink's specific question. He was trying to reconcile that $9.4 million to an $8.3 million number.
Q. Tell me what Lines 10 through 15 are showing us.
A. (Bonner) Oh, 10 through 15 is a fraction of the rate design calculation used to set up the target revenues for the rate design purpose in order to calculate the scaling

factor to increase the rates.

Q. Is it showing me anything different than the first part of the table?

A. (Bonner) No. Actually, Line 9 and -- sorry. Line 14 gets you to the same place.

Q. And Line 15 shows that you're really going to increase your revenue by $9.5 million.

A. (Bonner) Only for the purposes of designing the rates. That isn't actually what you achieve. In short, in order to compensate for the missing billing determinants, you have to subtract out the adjustments that have no associated determinants; otherwise, you come up with the wrong answer. If you were to actually try it and calculate the 8,060, do the multiplications, calculate the actual percentage multiplier, which you have to increase all the prices by other than the customer charges or the residential rate, you'll end up to be $1.4 million short. It's the algebra required because of the two discrete adjustments that were made in this case that would not ordinarily be there.

Q. Can we go over the cash collections thing again? I think, Mr. Hall, this was you. You said you expected to get $10 million in cash collections in 2018?

A. (Hall) I thought I was responding to Mr. Dexter's question regarding the amount of revenue over the period May '18 through April '19, including our revised recoupment amount that gets collected through the LDAC.

Q. Okay. So in that 12-month period, you're going to collect $10 million because you're going to get some of the temporary rate money back.

A. (Hall) I believe the collection will be a little less because I believe Mr. Dexter's example assumed that recoupment was recovered over that 12-month period. In actuality, recoupment is recovered through the end of December 2019.

Q. Would it help your significant problem if we allowed you to collect the temporary rates this year?

A. (Hall) No, because, as I said earlier, that's a cash issue.

Q. Okay. That's what I don't understand. So

explain that to me.
A. (Hall) Okay. It's basically the difference between when revenue is recognized with regard to recoupment and when it's actually recovered from customers.
Q. Right. And you booked an $8 million increase for 2018. Is that what you're saying?
A. (Hall) We booked -- no. We booked a recoupment amount of $1.326 million, which was provided for in the Commission's order. Permanent rates recover an additional 8.06 million on an annual basis --
A. (Bonner) I might be able to help, just with the --
A. (Hall) Thank you.
A. (Bonner) -- accounting side of all this.
Recoupment is recovery of basically costs based on things that have already happened in the past.
A. (Hall) Right.
A. (Bonner) So when the Commission issues its order, the recoupment amount is recognized immediately on the Company's books and records --

Q. Stop, stop, stop. So the recoupment -- what recoupment amount did you recognize on your books?
A. (Bonner) The number that was recognized was the recoupment amount as specified in Appendix 5 of Order 26,122, the $1,326,355.
Q. And you booked that on May 1st?
A. (Bonner) Actually, it was booked in the month of April, I believe.
Q. Okay. And your problem arises because you're not going to get 1.3 million in cash in 2018?
A. (Bonner) No. The actual amount that we'll recover is going to be dollar for dollar. The cash collections will take place over the 20-month period commencing May 2018 and concluding in December 2019. When the money comes in the door, it actually goes to the balance sheet, not to revenues, because the revenues have already been recognized and is covered in the LDAC accounts. In terms of revenues from the actual rates themselves, those are recognized as they're received. So, in short, the $8 million, or whatever the real amount we collect is, is actually

recognized in the month in which it is actually earned.

COMMISSIONER BAILEY: Go ahead, Commissioner Giaimo.

BY COMMISSIONER GIAIMO:

Q. So one of the suggestions was that there would be targeted layoffs. Explain why that would happen if eventually it's going to come back.

A. (Hall) Corporate performance is measured on a calendar-year basis. And to the extent that we haven't recognized sufficient revenue in the calendar year, then earnings for that year are lower. And in order to meet earnings targets, you have to control expenses. You have to manage basically to that level. And I listed some of the things that the Company would consider. I'm not saying it would happen. But I'm saying they will definitely be considered. And I also listed four or five things that we've already done.

BY COMMISSIONER HONIGBERG:

Q. Well, the consequences aren't significant.

You answered Commissioner Giaimo's question about the difference between when it's booked and when it's received. And the significance from the corporate perspective of having it booked in the right calendar year, regardless of when it's received, is essentially what you said; right?
A. (Hall) Yeah.
Q. Was recoupment of numbers from 2017, was that also booked in 2018?
A. (Bonner) It was because we received it after the books in 2017 were closed.
A. (Hall) The full recoupment amount was booked in April of 2018.
Q. And that was actually a negative number you calculated; is that right, for 2017?
A. (Bonner) No, it was always a single, lump-sum adjustment.
Q. Oh, okay. I see, I see. Okay. All right.
COMMISSIONER BAILEY: Do you have any more follow-ups on --
BY COMMISSIONER GIAIMO (CONT'D):
Q. While we're discussing booking, can you explain the tax reform one more time and how

that's been booked?
A. (Bonner) At this point, I don't think there's any explicit recognition of tax reform as an independent line item. The revenues are co-mingled, so the amount of money you receive under base rates is a known number, but it's not segregated into a portion that we would attribute to the tax reform piece versus the permanent increase piece or the step adjustment.
A. (Mullen) But essentially, as the revenue comes in, that's a lower revenue amount; at the same time, the taxes are lower.
Q. But are you collecting less revenue in 2018 for the tax expense?
A. (Mullen) Yes, because the $2.4 million placeholder is included in the rates that were determined.
BY COMMISSIONER BAILEY (CONT'D):
Q. Show me where that $2.4 million placeholder is accounted for.
A. (Mullen) In which?
Q. In any of your schedules that show the difference between what you expected to

collect and what you actually collected.

A. (Mullen) I think, I believe Mr. Bonner mentioned earlier that these calculations were done absent the impact of tax reform. And so if you look at the numbers that are here, you will not see that $2.4 million factored in here, again, recognizing the fact that the tax numbers were going to be updated.

WITNESS MULLEN: And Mr. Bonner, if you can explain a little bit more why we kept that factor out.

A. (Bonner) Oh, yes, I understand now. Actually, it was just trying to put everything on common footing. So the discussion has been around the 8.010 increase to conflate it with the tax reform effect. Just seemed to be making an already confusing matter, an intricate matter, even more intricate. So...

Q. But everything that you've showed us suggests that you're going to collect $8 million more from your customers. Your tax expenses are going to actually go down. So isn't that

going to help your earnings?
A. (Bonner) The tax expenses go down, and so don't the revenues, more or less what you would expect them to offset each other.
Q. You would, except for you haven't accounted for the lower revenues in all these schedules.
A. (Bonner) That's correct. One of the things that would have made the analysis far more difficult is what is the different periods of time. And you see this a little bit in the attachment which is now Exhibit 86. The lower tax revenues only account for a fraction of the time period.
Q. May through December -- no.
A. (Bonner) No. January through December 2018, depending how far you go out.
Q. Right. But that's the year --
A. (Bonner) But then you --
(Court Reporter interrupts.)
Q. But that's the year you have the significant problem.
A. (Bonner) Yes.
Q. And you have lower tax expenses.

A. (Bonner) Yes.

BY CHAIRMAN HONIGBERG (CONT'D):

Q. But are we correct that the rates that you actually put into effect were intended to collect the lower amount, the amount adjusted for taxes, the 5.7 million shown in Appendix 1, Schedule 1, of the order in this case?

A. (Bonner) With one more adjustment, yes. The remaining adjustment is that the step increase is also in there.

Q. Good point. But separate and apart from the step increase --

A. (Bonner) Separate and apart from the step increase, the $5.7 million is the permanent portion reflected.

Q. All of the schedules that were introduced today are all apart from the step increase; right?

A. (Bonner) Yes.

Q. And with the exception of Exhibit 80, which says "actual," it isn't actual. Really, Exhibit 86 is actual because it reflects the actual rates that were put in place. Is that correct?

A. (Bonner) Exhibit 86 for the 2018 period would reflect, yes, the lower $5.7 million permanent rate increase, including the tax reform effect.

A. (Hall) To come up with these exhibits, we had to basically recalculate rates eliminating the impact of tax reform.

Q. I misspoke. It's not all of the exhibits that were introduced today, only the ones that purport to show actuals. I apologize for the lack of clarity there.

COMMISSIONER BAILEY: Okay. That's all I have. Thank you.

CHAIRMAN HONIGBERG: Commissioner Giaimo? No questions?

All the things I was fired up about have been covered.

Mr. Sheehan, do you have any further questions for the panel?

MR. SHEEHAN: If you give me one minute to scan through...

CHAIRMAN HONIGBERG: Off the record.

(Pause in proceedings)

REDIRECT EXAMINATION

BY MR. SHEEHAN:

Q. I think the only one I wanted to ask is the very last one. Clearly, everyone in this room is struggling with this, and certainly the Company has worked through all these numbers, but it seems like a logical question. Why did we have to recalculate rates in effect for these schedules without tax reform? What was the -- why not include the 5 million number for purposes of this recoupment discussion?

A. (Bonner) Okay. Sorry. I thought Mr. Mullen was going to answer for a moment.

The reason was really to put all the numbers on a common basis, removing one more variable. For example: Temporary rates and the old rates were all under the old tax regime. So to add the complexity or one more piece to the permanent rates for the period of 2018 didn't seem to be appropriate.

Q. And we can all hear the questions coming from both counsel and the Commissioners that, to the extent the Company claims we're short on recoupment, why isn't that simply a result of having a lower rate, the 5 million, rather than 8 million, as opposed to some problem with recoupment? Do you understand that that seems to be the tone of the questions that have been posed to you?

A. (Hall) Yeah. Well, as was correctly pointed out, our permanent rate level was reduced by tax reform. But our tax expense also decreases. The issue becomes the calculation of the recoupment amount which is going to be subject to adjustment pursuant to the new docket. I think Mr. Mullen talked about a filing in a few weeks. That will be subject to adjustment. So, in order to really -- I mean, this is heavy stuff we're dealing with. It's confusing.

What we we're trying to do is to eliminate one more layer of confusion to come up with a number, and then after the fact make an adjustment to rate level for taxes that reconciles the 2.4 million reduction to permanent rate level that's already been implemented.

Q. So the Company's request is to allow -- is to
approve a $2 million increase to the
recoupment order; correct?
A. (Hall) Yes.
Q. Understanding that that number, the overall
number of rates charged to customers, will
probably come down, or it will change at
least when we finally finish, as I said, put
the fine point on tax reform.
A. (Hall) Yes.
Q. And at that proceeding, say it's a change of
X percent up or down, that gets reconciled
back to what happens today.
A. (Hall) Yes.
Q. And so -- well, to the -- so it's really
asking the Commission to take two steps:
One, from our perspective, fix the recoupment
calculation period; step two, fix the tax
calculation period.
A. (Hall) And step two has to be taken anyway.
A. (Mullen) Yes. And what we wanted to do is
keep them as distinct items so that it's
easier to deal with.
A. (Hall) Right.

Q. So, to the extent it turns out the $2 million requested increase to recoupment is too much because the tax effect would change that, that will be picked up in a month or so and reconciled?

A. (Mullen) Correct.

COMMISSIONER BAILEY: Can I just ask a follow-up?

CHAIRMAN HONIGBERG: Sure.

COMMISSIONER BAILEY: Does it matter if it all gets reconciled in 2018?

A. (Hall) Does it matter? Was that the question?

Q. Yeah, to the problem that you have.

A. (Hall) I don't know because I don't know how we're going to account for it.

A. (Mullen) I hope it wouldn't go beyond the end of the year, just considering we're in July. But, you know, the reconciliation -- you know, there's a reconciliation there, and there's also a reconciliation for the LDAC that's done periodically. It would be in the cost of gas filing that's done. So, you know, when you say "reconciled," I'm trying to get my hands around exactly what's being reconciled when.

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

CHAIRMAN HONIGBERG: All right. I think you gentlemen can return to your seats.

Let's go off the record for a minute.

(Discussion off the record)

CHAIRMAN HONIGBERG: We're going to have the Company's witnesses excused for the moment. It may be that we recall them at some point after we receive the record requests. And we're going to hear from Mr. Frink now and see if we can get through his testimony today, and then we'll adjourn and see what we can do from there. So why don't we have the witnesses switch positions.

* * * * * *

(WHEREUPON, STEPHEN P. FRINK was duly sworn and cautioned by the Court Reporter.)

CHAIRMAN HONIGBERG: Mr. Dexter.

DIRECT EXAMINATION

BY MR. DEXTER:

Q. Please state your name and position for the record, please.

A. My name is Stephen Frink, and I'm the Director of the Gas and Water Division here at the Commission.

Q. And have you been involved in the matters that are at issue in today's hearing throughout the course of this docket?

A. Yes, I am.

Q. Are you familiar with the exhibits that were submitted today?

A. I am.

Q. Mr. Frink, I'd like to direct your attention to Exhibit 79. Do you have that in front of you?

A. I do.

Q. Is it your understanding that this exhibit was submitted in response to the Commission's directives at the back of the order on rehearing?

A. That is my understanding.

Q. And could you describe, and briefly, what you

think this exhibit shows.
A. Well, what the exhibit shows is, based on rates that were in effect prior to the rate increase, what the Company would have earned in 2018, and under permanent rates and temporary rates for part of the season of 2018, what that impact would have been. And then it factors in the recovery through the recoupment surcharge to give you a 2018 revenue, because the original Company petition was saying they wouldn't get the 8.6. Anyway, when you factor those all in, you come up with, on Section VI --
Q. Let me just interrupt you for a minute, Mr. Frink. You just said 8.6 --
A. I'm sorry. Right.
Q. -- and I think you meant --
(Court Reporter interrupts.)
Q. Mr. Frink, I want to interrupt you for a second because you just threw out a number of 8.6, and I think you meant to refer to 8.06 million; is that right?
A. That is correct.
Q. Okay. So why don't you continue with that

explanation.
A. Okay. So when you factor in the permanent temporary rates that would be recovered under the increase, the permanent rate increase, and stripped out the step adjustment, you wind up with -- on Table VI you see a revenue requirement -- you see a number, about 6.5 million, that is the difference between what would be recovered under the old rates and what would be recovered under the permanent rate increase of 8.06. And then in the block right below that you have the --
Q. Let me just interrupt you before we get to the block below that --
A. Sure.
Q. -- because you did a little rounding, and I want to make sure everyone follows you.
So you're at Block VI, called "2018 Revenue Impact"; is that right?
A. Yes.
Q. You drew the Bench's attention to the figure in the lower right-hand corner, $6,449,977; is that right?
A. That is the number, yes.

Q. Now, again, what does that -- and
understanding that the Company's pointed out
there may be some issues with these
calculations, but going with the numbers that
were presented by the Company today, what is
that 6,449,997 intended to represent?
A. That represents the difference between the
revenues that would have been recovered in
2018 under the old rates with an adjustment
for year-end -- weather-normalized, test-year
sales, with an adjustment for year-end
customers.
Q. It's the difference between --
A. It is the difference between what would have
been recovered under temporary rates using
billing determinants, weather-normalized
test-year and year-end customer count, and
what is being recovered under temporary and
permanent rates, with permanent rates being
the 8.06 increase. Those combined four
months of temporary rate revenues and eight
months of permanent rate revenues are then
that total of 77,498,370 is what would be
recovered in 2018 under this analysis;

whereas, under old rates it would have been 71,048,393 from the above block. That means that there's an increase in revenues of $6,449,977.

Q. And the Company's motion stated that they believe they should get 8.06 million in calendar year 2018. Do you agree with that, that that's what they said?

A. That is what they said, yes.

Q. And this number shows something less than that. Could you explain why this is less?

A. Yes. That would be because the first four months of 2018 only reflect rates at the -- increase the annual revenues by 6,750,000. So it wasn't at the full 8.06, it was at 6.75.

Q. Which is the temporary rate level; correct?

A. That's correct. So, for four months they weren't getting the permanent rate level.

Q. Now, what's the line below that that says "Total With Recoupment" in Block VI, which totals 6,856,000? What does that show?

A. On Block VI. Okay, the 6,856,000. If you go up to the narrow block, two blocks above it, you have a calculation of the recoupment revenues recovered in 2018. That amount is $406,541. That is additional revenues that they're recovering under the recoupment surcharge. So that's an increase in their 2018 revenues related to the rate order. When you add that in, that gives you the 6,856,518 that's in Section VI, that single block below the bigger block.

Q. And then what's the significance of Block VII, which is labeled "2019"?

A. So, Block VII is recoupment revenues that are tied to the rate increase that are being recovered in 2019. And as we heard the Company explain, that revenue is actually booked in 2018. So if you include that, that brings a difference that's an extra 839,946. I would say that that's a reconciling item. So part of that will be returned if that's what happens because it will exceed the approved recoupment amount of 1,326,355. But if they recover the full 1,326,355, the approved recoupment amount, then their 2018 revenue would be $7,776,332. That's

comparing Block I to these -- including the three factors: Temporary and permanent recoupment in 2018, recoupment in 2019.
Q. So, again, putting aside any issues that the Company raised with these numbers, in your opinion, is this a fair representation of what the Company would collect as a result of the rate order of April 27th?
A. I think it clearly demonstrates that they are going to have increased revenues, and it's not going to be significantly below what the approved rate is. It may even be above the approved rate, depending on whether you are considering the 5.666 or the 8.06.
Q. But all the numbers on Exhibit 79 are based on a rate increase calculation of 8.06 million; correct?
A. That is correct.
Q. Now I'd like to turn to Exhibit 80 and Exhibit 86, please. You heard Mr. Bonner explain that only two blocks of Exhibit 86 differ from Exhibit 80; did you not?
A. Yes, I did.
Q. And you agree with that?

A. Yes, I do.
Q. And can you explain briefly why those two blocks changed on Exhibit 86 versus Exhibit 80?
A. Right. For Exhibit 80, the Company calculated a recoupment number of, and it's on the bottom, very bottom right, 3,293,820. And that is based on a recoupment of the difference between the permanent rate increase of 8.06 and the temporary rate increase of 6.75 and that -- over the 10 months that are on the schedule. And so that's on Exhibit 80.
On Exhibit 86, we -- basically what that's doing is reflecting the 8.06 revenue requirement for the base annual recovery at the rates for July through December of 2017, which is when the higher tax rates were in effect. On January 1st of 2018, lower tax rates were implemented, and the rates reflect that. It reflects the reduction that was -- it actually reflects the $5.666 million that was accounted for using a holder for the tax impact.

Q. Would you agree that if the Commission were to grant the Company's request and adjust the recoupment to reflect the numbers on Exhibit 80, that the Company would be collecting revenues to cover taxes that they will not have to pay?
A. I agree with that, yes.
Q. And that's for the four months, January through April; correct?
A. Correct.
Q. And which do you support, use of Exhibit 80 or Exhibit 86, in the calculation of the recoupment?
A. I would recommend to the Commission that the proper accounting would be Exhibit 86, and that is also consistent with what the Commission approved in the recent Northern rate case. That was exactly how it was done for the Northern proceeding, which paralleled this one, almost the same dates and the timing, where there was an overlap between 2017 and 2018, where Northern was allowed to recover the difference between the rate increase in 2017 reflecting the higher tax

rate and the increase in 2018 at the lower tax rate.

Q. And if the Commission were to adjust the recoupment amount based on Exhibit 86 versus what was contained in the April 27th order, that would result in a significant additional revenue for the Company; do you agree?

A. It would. It would be a difference of -- the 1.3 million that was booked in 2018 is the recoupment amount. The new recoupment amount, if this was approved, would be 2,015,359. That would be approximately a $700,000 increase in their revenues for 2018.

Q. And you support that, despite the fact that the order contained a recoupment amount of 1.3 million; correct?

A. Yes, I do.

Q. And why, again, is that?

A. Because that's consistent with the recoupment statute. I think it's fair, in that those rates, the permanent rate increase in 2017 does reflect expenses at the higher tax rates, and 2018 correctly matches the tax rate that took effect on January 1st, 2018.

Q. That's all the questions I have. Thank you.

CHAIRMAN HONIGBERG: Mr. Buckley.

MR. BUCKLEY: No questions.

CHAIRMAN HONIGBERG: Mr. Sheehan.

MR. SHEEHAN: Thank you.

CROSS-EXAMINATION

BY MR. SHEEHAN:

Q. Good afternoon, Mr. Frink.

A. Good afternoon.

Q. You've had a discussion with counsel between Exhibit 80 and Exhibit 86.

A. That's correct.

Q. And those are the same exhibits, except for whether the tax effects are included or not in what the Company is requesting here today.

A. Yes.

Q. And you accept the calculations in Exhibit 86.

A. I do.

Q. And you accept the calculations in Exhibit 80.

A. Well, let's say we haven't reviewed these recoupment numbers. I'm looking forward to Mr. Bonner's analysis that shows what the difference is. But subject to that, this is what Mr. Bonner produced. And subject to check, I'll accept that, yes.

Q. Understanding that the record requests may alter the final number -- and if they do, certainly the Company would stand behind what the correct number is. But as of now, we have in front of us Exhibits 80 and 86. And subject to what you just said, those numbers are -- you're comfortable with those numbers.

A. Yes.

Q. And one of the numbers in Exhibit 80 is that the Company is short $3.3 million on the recoupment; correct?

A. That is what it shows, yes.

Q. Okay. Turning to Exhibit 79, by pointing to the numbers you pointed to with counsel, showing that, according to that schedule, the Company had received most of the $8 million increase, according to that schedule, you'd agree with me that, as Mr. Bonner testified, the temporary rates in the schedule were overstated? Do you recall that?

A. Yes.

Q. And that they do not include the adjustment for Keene. Do you recall that?
A. The temporary rates include the Keene units based on EnergyNorth rates.
Q. Turning to Exhibit 81, do you have that in front of you, Mr. Bonner's sort of summary chart?
A. Yes, I do.
Q. Is there anything in that schedule that you disagree with, again, subject to some of these numbers might wiggle?
A. I have looked them over. They appear to be reasonable. We have -- the Commission has hired a consultant to assist in this compliance filing because it is complicated. In addition to Keene, looking at these schedules and adjustments for the Concord Steam load, adjustments for year-end customers, there were a lot of factors in here that you don't normally get. But, again, until we see a more detailed explanation, I'm willing to accept this as being -- nothing's been found to be incorrect.

Q. And do you agree with Mr. Bonner's
characterization of the purpose for this
schedule, that you kept finding the increase
was nine and a half million dollars rather
than the $8 million you were looking for?
A. Yes. I was concerned with the fact that
Schedule 79 was, when you added up the
numbers -- well, actually, this goes back to
Commissioner Bailey's comment. We actually
looked at what was provided Staff through the
discovery process leading up to this was a
permanent rate increase for the entire 12
months of 2018. So that was -- that
indicated that there was this 9.4, almost
9.5 million increase, looking at the
schedules. But, again, through the technical
session and the discovery process, we're
trying to understand that and get to the
bottom. So I believe this does that.
Q. So what was laid out in Exhibit 81, as Mr.
Bonner testified to, sort of building the
base numbers, applying the rate increase and
then his calculations, you're okay with the
method that he followed here in Exhibit 80;

is that correct -- 81?
A. I think it's a reasonable method.
Q. Okay. Turning to Exhibit 82, which was Mr. Hall's revenue proof document, is there anything here you disagree with?
A. Well, I'm really concerned about the 3.3 million recoupment amount for January to April 2018. And looking at Exhibit 79, it just -- if you look at the difference in revenue impacts for the various months...
Q. It's Exhibit 80, I believe, that calculates the 3.3 million, and you had just testified that you were okay with that.
A. Right. Right. Okay. What I'm saying is if I look at that Exhibit 80 and I see a July -- so, under permanent rates, because as Mr. Hall pointed out, there's very low -- there's a $10, essentially, decrease in the customer charge to residential customers during the low-usage months. The Company is actually not recovering what they should be. But they make up for it in the high-use months. And because I'm looking at July and thinking, okay, that's a low-use month, and

that resulted in an under-recovery of $498,222, I would expect July would look similar, another $500,000 shortfall due to the change in rate design. And I would expect May to be fairly neutral. So, based on rate design, I would only expect a difference, an under-recovery in the recoupment of about a half-million dollars. So I'm a little worried about how this is done. The Keene numbers I think could be an issue because monthly distribution revenue at temporary rates, if Keene was under temporary rates in Mr. Bonner's adjustment of a half-million dollars for additional revenues, that could be part of this. I don't know. But like I said, I'll be curious to see what the explanation is.

Q. So if you're uncomfortable with Exhibit 80, then that discomfort should translate into Exhibit 86; correct?

A. It could well be that once we get the explanations, if the 3.3 is something less, then, yes, Exhibit 86 is going to be something less as well.

Q. And if the 3.3 stands, then you'll agree the 3.3 stands; correct?
A. Yes, I would.
Q. Okay. And if the 3.3 stands -- let's assume it does for the moment -- and the Commission decides not to incorporate tax reform in this docket, but save it for a later one, would you agree that the Company would be short $2 million in its recoupment?
A. You're referring to Schedule 86?
Q. Eighty-six or 80, both -- well, 80 is the one that calculates the $3.3 million.
A. Right.
Q. And I understand you just testified you have concerns. Assume for the moment the 3.3 million stands, okay. And assume for the moment the Commission decides not to include tax reform in this docket. The order allowed recovery of 1.3 million in recoupment. Would you agree that then the $2 million would be -- we'd be short the $2 million in recoupment?
A. If they didn't address the tax impact?
Q. Yes.

A. Yes, that would be right.

Q. So is it fair to say the point of disagreement here is whether to include tax impact or not?

A. Yes, I do believe that we're looking at a recoupment issue here. And I do believe that the proper method of recoupment is what was done for Northern. And that's what we're -- Staff is recommending the Commission do here. But you're right. As a recoupment issue, what was used in the settlement and in the Commission order was a rough estimate -- that is, Mr. Hall explained if there hadn't been a change in rate design, maybe there isn't this big difference. Maybe it's all just tied to what the volumes were. I don't know. But there was a rate design. It does have an impact. And the recoupment was a rough estimate in the settlement and in the rate order. This is a more precise and accurate way to make sure the Company gets the full benefit of the approved rate increase.

Q. Would you agree, if the Commission accepts Staff's proposal to include the tax reform

now, there would still have to be a subsequent proceeding to put a fine point on the tax number?
A. Yes, I agree with that.
Q. Do you agree with Mr. Bonner, that trying to calculate the impact of tax reform now is another variable that would further complicate what's already been a complicated calculation of recoupment?
A. Using the placeholder, it is not a difficult calculation to do. And Mr. Bonner has done it, which is 86. So, again, I don't think it's a terribly complicated exercise, and it's been done. So that's my recommendation.
Q. Thank you, sir.

CHAIRMAN HONIGBERG: Commissioner Bailey.

COMMISSIONER BAILEY: I don't think I have any questions.

CHAIRMAN HONIGBERG: Note the date and time.

Commissioner Giaimo.

COMMISSIONER GIAIMO: Ditto.

CHAIRMAN HONIGBERG: And I have no

questions.

Mr. Dexter, do you have any follow-up for Mr. Frink?

MR. DEXTER: I do.

REDIRECT EXAMINATION

BY MR. DEXTER:

Q. Mr. Frink, can you think of any reason why the Company should be permitted to collect through a temporary rate recoupment provision dollars to cover taxes that they will never be -- that will never be due to the IRS?

A. I don't think there is a justification for that.

MR. DEXTER: Just one moment, please.

(Pause in proceedings)

MR. DEXTER: That's all I have. Thank you.

(Commissioners conferring off the record.)

CHAIRMAN HONIGBERG: All right. Mr. Frink, you can probably stay where you are. I think we're going to be adjourning for the day, and we'll wait to get the responses to the record requests that are Exhibits 84, 85 and 87.

Let's go off the record for a minute.

(Discussion off the record)

(Hearing was adjourned at 5:02 p.m.)

C E R T I F I C A T E

I, Susan J. Robidas, a Licensed Shorthand Court Reporter and Notary Public of the State of New Hampshire, do hereby certify that the foregoing is a true and accurate transcript of my stenographic notes of these proceedings taken at the place and on the date hereinbefore set forth, to the best of my skill and ability under the conditions present at the time.

I further certify that I am neither attorney or counsel for, nor related to or employed by any of the parties to the action; and further, that I am not a relative or employee of any attorney or counsel employed in this case, nor am I financially interested in this action.

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Susan J. Robidas, LCR/RPR
Licensed Shorthand Court Reporter
Registered Professional Reporter
N.H. LCR No. 44 (RSA 310-A:173)

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