STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 19, 2018 - 1:46 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.
(Hearing on Re-Hearing, *et alia*)

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:
D. Maurice Kreis, Esq., Consumer Adv.
Brian D. Buckley, Esq.
Office of Consumer Advocate

Reptg. PUC Staff:
Paul B. Dexter, Esq.
Stephen Frink, Director/Gas & Water
Al-Azad Iqbal, Gas & Water Division

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

CERTIFIED
ORIGINAL TRANSCRIPT

I N D E X

E X H I B I T S

EXHIBIT NO.	**D E S C R I P T I O N**	**PAGE NO.**
80-Updated	Compliance with Order No. 26,149 Appendix 2 Temporary/ Permanent Rate Reconciliation July 2017 through June 2018 (Test Year)	*premarked*
86-Updated	Compliance with Order No. 26,149 Appendix 2 Temporary/ Permanent Rate Reconciliation July 2017 through April 2018 (Actual)	*premarked*
84	Response to Record Request Revenue for Keene Customers *(as previously reserved)*	*premarked*
85	Response to Record Request Differences in recoupment shown in Appendix 5 of Order No. 26,122 and Exhibit 80 *(as previously reserved)*	*premarked*
87	Response to Record Request Analysis for full year rate period, 05/01/18 - 04/30/19 *(as previously reserved)*	*premarked*
88	Summary of Proposed Adjustments to the Authorized Revenue Increase	*premarked*
89	Testimony of Steven E. Mullen, with attachments	*premarked*
90	Attachment RATES-5, entitled "Rate Design Analysis and Calculations"	*premarked*

P R O C E E D I N G

CHAIRMAN HONIGBERG: We are here this afternoon in Docket DG 17-048, which is Liberty Utilities' rate case. The rate case that will never end. We have things scheduled today and on Monday.

Let's take appearances before we do anything else.

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

MR. KREIS: Good afternoon. I'm D. Maurice Kreis, a.k.a. Don Kreis, the Consumer Advocate, here on behalf of residential customers of this utility. The distinguished gentleman to my left is Brian Buckley, who is our Staff attorney.

MR. DEXTER: Paul Dexter, Staff counsel, representing Staff. Joined by Steve Frink and Iqbal Al-Azad from the Gas & Water Division.

CHAIRMAN HONIGBERG: All right. Before we do anything else, let's put out there what we're going to be doing today, what we're going to be doing on Monday, so we have a clear picture in our heads of what the difference is.

MR. SHEEHAN: At a high level, Mr. Chairman, we're going to pick up where we left off at the July hearing, with various exhibits and record requests, where we have filled in blanks and added information to respond to some of the questions the Bench had.

At the end of that process, we will have a number for you that will generate rates that are ready to go in effect November 1. And Staff and the OCA are on board with those numbers. So, today, we'll be walking through where we were, where we are, how we got from that point to this point.

Monday, I see two things. The secretarial letter explicitly referenced the customer material. We filed some of it a while ago, updated it recently. Yesterday, Staff and the Company had a long call to walk through all of it. And I wasn't part of that call, but I understand it went well, and I'm not sure there's going to be much disagreement on Monday, maybe some editing around the edges.

But we will have our communications people here, and I think Mr. Bonner is returning in case there are some questions about the bill itself and how it looks.

And the other piece for Monday is we filed the decoupling tariff language. And again, just this week, we had a conversation with Staff with some relatively minor edits that we have agreed to make. We tried to get that filing in electronically today, it didn't make it. It might come in this afternoon. But we can mark that Monday as well. And again, all parties are on board. We'll get it in as soon as possible, so if the Commissioners want to read it.

I can say that what we filed before, there are no material changes. There's some language inconsistency that we've cleared up.

CHAIRMAN HONIGBERG: Right. We're aware of some of this issues with the tariff. I mean, we've been reading this stuff since it started coming in. And Monday's discussion we hope will be something of a discussion, because we want to make this one work really well for you.

MR. SHEEHAN: Uh-huh.

CHAIRMAN HONIGBERG: There are customers who are going to see things they have never seen before. There aren't many who pay attention, but there are some who do. And it has the potential to go sideways. And we don't want it to go sideways, and we know you don't want it to go sideways. So, we want -- we really are trying to help here.

MR. SHEEHAN: We appreciate that. And, you know, the edits that we have been receiving from Staff look great, and it was a good conversation. We live this stuff. And certainly, the people who are writing that do, and you often assume knowledge when you edit too much.

The people who will be here, Nicole Harris, who's, I think, Director of the whole consumer side of things, and John Shore, who is our communications person, who put the website together and put the video together, is actually the hands-on employee actually putting this stuff out the door. So, those are the people that drafted most of it, with lots of help on our end.

CHAIRMAN HONIGBERG: All right. But -- yes, Commissioner Bailey.

CMSR. BAILEY: I would really appreciate it if you could get the tariff to us before Monday, so that we can at least read through it again. You know, we are reading every word of this tariff. And I'm looking at the formulas. So, I would like to see that before Monday, if at all possible.

MR. SHEEHAN: Okay.

CMSR. BAILEY: Thank you.

CHAIRMAN HONIGBERG: All right. But, for today, it's numbers, and lots of spreadsheets with really tiny numbers on them.

So, how are we proceeding?

CMSR. GIAIMO: Tiny lettering, big numbers.

CHAIRMAN HONIGBERG: Big numbers, tiny lettering.

[Laughter.]

MR. SHEEHAN: The parties have agreed to a panel of Steve Mullen, Jim Bonner, and Steve Frink.

CHAIRMAN HONIGBERG: Okay. Anything else we need to do before those witnesses take their positions?

MR. SHEEHAN: We can talk exhibit numbers as they go up, I guess.

CHAIRMAN HONIGBERG: Okay. Why don't the witnesses take their positions.

MR. SHEEHAN: At the July hearing, there were a couple record request numbers left open. We filed those, and we have updated two of them. And so, in sequential order, what you received last week was an update to Exhibit 80; you received 84, which was new, it was a record request; you received 85, which was new, a record request; and we updated 86; and 87 was new. That was a filing of roughly a week ago.

Exhibit 88 is the summary that was filed maybe this morning, and is sort of the overview of everything else. We've agreed to mark Mr. Mullen's tax filing of -- I don't have the date here --

MR. DEXTER: August 9th.

MR. SHEEHAN: August 9th as "Exhibit 89". And Staff offered what's been marked as "Exhibit 90", which is some spreadsheets that support some of the numbers on the other exhibits. So, we now have 80 -- up to 90.

CHAIRMAN HONIGBERG: All right.

(The documents, as described, were premarked as **Exhibit 80-Updated**, **Exhibit 86-Updated**; **Exhibit 84**, **Exhibit 85**, and **Exhibit 87** *(as previously reserved)*; **Exhibit 88**, **Exhibit 89**, and **Exhibit 90**, for identification.)

CHAIRMAN HONIGBERG: Just off the record for a minute.

[Off-the-record discussion ensued.]

(Whereupon ***Steven E. Mullen***, ***James J. Bonner, Jr.***, and ***Stephen P. Frink*** were called to the stand, having been previously sworn.)

CHAIRMAN HONIGBERG: All right. The witnesses are in position. They were sworn in as witnesses at earlier stages of this proceeding and they are still under oath.

Who is going to start, Mr. Sheehan or Mr. Dexter?

MR. SHEEHAN: You want to go first?

MR. DEXTER: Well, I thought you were, but I'd be happy to go first, if you would like. I had a few comments on the overall process you were talking to Mr. Sheehan about.

CHAIRMAN HONIGBERG: Go ahead, Mr. Dexter.

MR. DEXTER: A few things I wanted to point out. I agree with Mr. Sheehan that we are here to take up where we left off in July. Although that filing I believe was exclusively focused on the recoupment calculation. There were a couple of recoupment calculations, which is the difference between the temporary rates and the permanent rates that were approved.

Today's subjects will go beyond just

the recoupment. They will deal with base rate issues. They will also deal with the tax reform, the proposal the Company made to deal with tax reform that took effect back on January 1st as a result of the federal tax changes. So, I will be getting into those issues today as well.

And I wanted to point out that on Monday the Commission's Director of Consumer Services & External Affairs, Amanda Noonan, will be here as well, and will be available to answer questions from the Commission.

CHAIRMAN HONIGBERG: Thank you, Mr. Dexter. That's helpful.

So, Mr. Sheehan, why don't you start us off with the witnesses.

MR. SHEEHAN: Sure.

STEVEN E. MULLEN, Previously Sworn

JAMES J. BONNER, JR., Previously Sworn

STEPHEN P. FRINK, Previously Sworn

DIRECT EXAMINATION

BY MR. SHEEHAN:

Q I think we decided to have Mr. Mullen start with by looking at the summary sheet, which is

Exhibit 88. And between you and Mr. Bonner, using 88 as an outline for -- for an outline, walk through where we left off in July. And Mr. Bonner had a lot to do with the non-tax pieces and Mr. Mullen had most to do with the tax pieces. And I think we decided Mr. Mullen would take the first crack.

A (Mullen) Good afternoon. Yes. I think, if you look at Exhibit 88, there's three sections to this exhibit. The first section starts with the permanent rate increase that was in the Commission's order in the rate case. And then it subtracts from that the temporary rates that were approved earlier in the proceeding, comes down with a number slightly over $1.3 million. There's some further adjustments to that that net to about $36,000, and come to the calculated incremental permanent rate increase of 1,346,000. Details related to that 36,000 are on another exhibit, number 85, which we can get into as we go along.

Going down to the next section, it brings that $1.346 million up to a $3.1 million item, in terms of what the recoupment would have been without figuring in the impacts of tax reform. And there are three main adjustments to that, which we can get into detail on, and Mr. Bonner can certainly give a lot of detail to. But they have to do with a revenue shift to Keene customers that was assumed by EnergyNorth customers. Changes related to rate design, when you figure in two additional months so you get to a full year. And then, when you compare the actual billing units to the test year billing units. The net of all of those come down to $3.1 million. And again, that's recoupment without tax reform.

And then, when you figure in tax reform, that brings you down to the next section. The first Line, $1.661 million, which is on another exhibit we can get into, which is Exhibit 86. Which then, so, what that means is, if you compare the 3.1 million on the prior line to this 1.6, the tax reform had an impact of about $1.5 million on the recoupment.

Then, there are -- the next line down, the 160,000, relates to a proposal that I had in my August 9th testimony, about using some of the tax reform one-time impact to deal with a deferred asset that was on the books related to an audit that was done before. We have agreed to a reduction of that amount, my testimony of about $210,000 was the full amount and we reduced that by 50,000.

The next line, "455,362", is the same amount that's on the line in the second section above. What that is is that's the revenue shift of the -- from Keene customers that are absorbed by EnergyNorth customers. And as we went through this analysis, it became clear that that really should be removed from the recoupment calculation. So, that's what's happening down below.

The next line down, "Excess Revenue Due to Miscalculated Compliance Rates", when we implemented rates coming out of the, you know, the order, I think, and this was discussed at the July hearing, the dollar amounts related to year-end customer count were taken into effect, but the billing units were not adjusted for that. So, when we put rates into effect beginning May 1, they were actually a little higher than they should have been. So, what this does, this $319,000 amount, is it brings down the amount of the recoupment to take into account the amount that in effect -- customers were, in effect, overbilled because those rates were a little higher than they should have been.

Then, from that, you subtract "Authorized Recoupment". And what we end up with out of all of these gyrations is a reduction to the LDAC for the recoupment of basically reducing that amount by $280,000.

We can go into these in further detail. But, in summary form, that's what this exhibit does. And as you can see, this exhibit also ties to some of the other exhibits that we're going to be getting to. But this one tries to put it all in one place so all the numbers kind of tie together.

CHAIRMAN HONIGBERG: I want to ask you a question, Mr. Mullen. Just so I make sure that I understand the math. I haven't done the calculation. But, in the last section, the last third, the way to do the math on this one is starting with 1.6 million, you add the next number, and subtract the next -- the two numbers after that?

WITNESS MULLEN: The next three, I believe.

CHAIRMAN HONIGBERG: Subtract the -- okay.

WITNESS MULLEN: Yes.

CHAIRMAN HONIGBERG: So, it's add the first two, subtract the next three?

WITNESS MULLEN: Yes.

CHAIRMAN HONIGBERG: That produces the 280,000?

WITNESS MULLEN: Correct.

CHAIRMAN HONIGBERG: Thank you.

MR. SHEEHAN: And the document itself says "less" at the beginning.

CHAIRMAN HONIGBERG: I know. But often we see --

MR. SHEEHAN: Right.

CHAIRMAN HONIGBERG: -- numbers in parentheses when they're negative numbers or some other indication, and here they're just a column of numbers that -- if I had taken out a calculator and done it, I clearly would have gotten there. But I just wanted to make sure that I understood what I was looking at.

MR. SHEEHAN: And I guess, from the Company's perspective, you know, I could certainly have these witnesses go through each number and spend however much time with the math behind it. I'm not prepared to do that, unless -- and what I had planned to do is turn it over to Mr. Dexter, because I believe he has some thoughts on how to illustrate how they got from the numbers from July to the numbers today. And frankly, he will do it better than me. So, I'm happy to pass the baton.

CHAIRMAN HONIGBERG: Mr. Dexter.

MR. DEXTER: Thank you.

CROSS-EXAMINATION

BY MR. DEXTER:

Q So, as I said to the Chairman at the beginning, today we're dealing with base rates, we're dealing with recoupment, and we're dealing with the LDAC. Would you agree with that?

A (Mullen) Yes.

Q And would you agree that we are also dealing

with the impacts of the Tax Reform Act that took effect in January, and the idea is to -- is to sort of put that case to bed as well with all these numbers? Would you agree with that?
A (Mullen) Correct. And the impacts of tax reform hit both in base rates and in the LDAC.
Q And in the LDAC. Good. Okay. So, we're in agreement on that. So, what I wanted to do, as I said, when we left off here in July, there was a lot of discussion about Exhibit 80 and Exhibit 86. And I would like the panel -- I guess I'll direct these questions to the Liberty witnesses, unless otherwise noted. If I direct them to Mr. Frink, I'll do so. But, Mr. Frink, feel free to chime in if you want to.
So, to the Liberty panel, could you review for us what Exhibit 80 -- original Exhibit 80 and original Exhibit -- let's take them one at time. What was original Exhibit 80?
A (Bonner) Original Exhibit 80 was the calculation to produce what the recoupment value would have been without taking into account the tax reform. It's a comparison

between the rates that were in effect under the temporary rates, versus the rates under permanent rates, using actual billing units.

Q And is it correct that Exhibit 80 was filed in response to the Commission's order on rehearing back in June in this case, where they posed a couple of questions at the end of the order and asked the Company to respond to them?

A (Bonner) Yes.

Q And if I look at Exhibit 80, and I go to the number in the bottom right-hand corner, which I agree is difficult to read, it looks as though the Company was requesting a recoupment amount of $3,294,000. Correct?

A (Bonner) Is that the original Exhibit 80, Mr. Dexter?

Q Original Exhibit 80.

A (Bonner) Yes. That is correct.

Q And would you agree that the difference between that number of 3,294,000 -- I'm sorry. Would you agree that that number was what we've referred to in this case as the "more refined recoupment calculation", in conformance with the statutory requirements?

A (Bonner) Yes. And making the characterization that the proper way to do the calculation is to compare on an actual basis using actual billing units, the revenues produced by the rates that are approved versus the rates that were in effect during the temporary period.
Q And so, it had the effect of taking the approved rates and bringing them back to the date of the temporary rates, which in this case was July 1st, 2017, correct?
A (Bonner) That's correct.
Q Okay. And so, the Company's request back in July was not to collect an additional $2.94 million, but the difference between the 2. -- I'm sorry, not to collect 3 -- this is impossible to read -- not to collect the 3,294,000, but to reduce that amount by the recoupment calculation that was built into the order?
A (Bonner) Yes.
Q So, the net that the Company was requesting was roughly $2.1 million?
A (Bonner) That would be correct.
Q Okay. Now, let's look at Exhibit -- original

Exhibit 86. And could you explain what the difference is between original Exhibit 80 and original Exhibit 86?

A (Bonner) There is only one difference between Exhibit 80 and Exhibit 86. Exhibit 86 is calculated using the permanent rates for the period in 2018, including tax reform. The period during the temporary rate period, that was in 2017, uses the same rates that were in Exhibit 80.

Q And I think I'm remembering this conversation we had back in July, that the only months that would be different, if you actually compared the two sheets, would be January, February, March, and April of 2018, correct?

A (Bonner) That's correct.

Q Okay. And in fact, the tax rates decreased as of January 1st, 2018, correct?

A (Bonner) Yes.

Q Okay. So, now there have been some changes to both those exhibits, you would agree?

A (Bonner) Yes.

Q And I'd like to turn now to the current Exhibit 80 and the current Exhibit 86. And those are contained in a filing that the Company made on October 10th. And the filing itself was not marked as an exhibit, but it contains in it Updated Exhibit 80 and Updated Exhibit 86.

So, if you have that in front of you, my first question is, back in July, Exhibit 80 consisted of one page, and now, in September or October, it consists of three pages. And so, could you explain why that is?

A (Bonner) Sure. The other two pages are actually used to support numbers on Exhibit 85.

Q Okay. So, if we just wanted to do a comparison of what changed between July's Exhibit 80 and September or October's Exhibit 80, we should look at Page 1 of 3, is that correct?

A (Bonner) Yes.

Q Okay. And so, the number that I've been having a hard time reading on the old Exhibit 80 of 3,295,000, down in the bottom right-hand corner, is now 3,110,000. Is that right?

A (Bonner) Yes.

Q Okay. Can you explain the differences between those two numbers? What led to that change?

A (Bonner) Let's see if I can put together this in kind of a high-level summary to make it a little bit easier to follow. There's more than one change that affects this. And the actual controlling document or the one that explains most of the details up to the difference between the Updated Exhibit 80 and 86 and the original is actually Exhibit 85.

Let me outline the four major factors that made this particular case more challenging than it would otherwise be.

The first major factor is really --

MR. DEXTER: Let me just interrupt you for a second, Mr. Bonner. I want to direct the Bench to Exhibit 85, which is in this -- it's in the October 10th package, if you're looking for it.

BY MR. DEXTER:

Q And please proceed.

A (Bonner) So, at a high level summary, there are four major factors that contributed to all the issues that we've been dealing with in the case. And it really has to do with the consolidation of the Keene operation into

EnergyNorth; the year-end bill count adjustment that was in the rate case order; the effective tax reform; and finally, the major rate design change that was approved in the Commission's order in May.

In addition, as part of the process of really preparing Exhibit 85, and 85 was intended to address really the question that was posed toward the tail end of the hearing in July, which was "how do we get from one million three [1,300,000] to $3 million?"

And that led me to really examine right from really square one, starting with the revenue requirement, each and every element of the rate computation. And I found several issues that needed to be addressed.

The major issues were as follows: Perhaps the most important had to do with the year-end bill count adjustment. In the Company's compliance filing with the order in May, the revenue requirements in the Company's rate calculation were correct. However, the billing units did not reflect the actual additional billing units implied by the year-end bill count revenue adjustment. This set the Company's compliance rates in May too high. In short, the denominator was too small and the numerator was correct. And when you do the price out, you'll end up with essentially about a $1 million difference.

In the original hearing, in Exhibit 81, if you would take a look at that particular exhibit, you will see a difference of 1 million -- I'm on -- sorry, I'm in Column (C), and on Line 18, of a little more than $1 million.

MR. DEXTER: Excuse me, Mr. Bonner, for interrupting, but you might be the only one in the room that brought Exhibit 81. I know I don't have it. And I'm looking at the Bench, and I'm thinking they don't have it either.

CHAIRMAN HONIGBERG: Let's go off the record for a minute.

[Brief off-the-record discussion ensued.]

CHAIRMAN HONIGBERG: All right. Mr. Dexter, why don't you -- I don't know who was talking, if it was Mr. Bonner or Mr. Dexter, we now have Exhibit 81 in front us.

MR. DEXTER: Yes. Mr. Bonner was explaining, we were talking about the year-end billing determinant adjustment, and he referred to Exhibit 81, which everyone now has in front of us.

BY MR. DEXTER:

Q So, I would ask Mr. Bonner to continue with his explanation.

A (Bonner) Thank you. So, this is where -- this was presented at the July hearing. And actually, it's going to be the point at which I started to develop what's going to be Exhibit 85. But, at this point in the calculation, it does show where the effect of the missing billing units, that "1,070,435", shown on Line 18, in Column (C), will exactly equal the multiplication of the year-end billing units, times the rates, will produce exactly that same number.

I did not know at the time, when Exhibit 81 was prepared, what the number actually matched. But I do now, as part of the additional analysis conducted between July and

today.
Q So, when I started my discussion today about base rates and LDAC and tax reforms, this is an item that would fall under the category of both "base rates" and "LDAC", would you agree?
A (Bonner) Base rates, LDAC, and it also affects the recoupment calculation.
Q Okay. So, how does this affect base rates? What's going to be -- what's going to have to happen in order for this adjustment to be reflected in the Company's base rates?
A (Bonner) To reflect the adjustment in the Company's base rates, the rate design model that was used to calculate the base rates in May had to be adjusted to now include the year-end billing units. Once that is properly reflected, and then recalculated, you'll end up with the rates that produce the revenue requirement approved in the rate case.
Q And we were going to get a little further on in the case to Exhibit 90, but we'll do it now. That's the rate design model that you're talking about, is that right?
A (Bonner) You'll have to identify Exhibit 90 for

me, Mr. Dexter, to make sure --
Q Sure. It's a four-page worksheet that I believe you prepared, or certainly Liberty prepared, and it's entitled "Rate Design Analysis and Calculations".
A (Bonner) Uh-huh.
Q And I think it's what we've been referring to sort of colloquially as the "Rate Design Model".
A (Bonner) Yes. And there are several editions. If you could tell me what the suffix on the filename on the very bottom line is?
Q Yes. It says "Attachment RATES-4,5,6,7,8 and WPs-Perm_with_Tax Reform ALT".
A (Bonner) Okay. And so, this has now been labeled as "Exhibit 90"?
Q Correct.
A (Bonner) Okay. I just want to make sure I have it marked on mine.
Exhibit 90 is not the rates that would go into effect. It's close. What it does, it's -- this particular exhibit is the rate design necessary to compute recoupment, because it does not include the step increase. That's

the only missing element.
Q But, generally speaking, this is the type of -- this is the type of model that you were talking about. It would have to be tailored specifically for the ultimate rates. Is that what you're saying?
A (Bonner) Yes. No, in fact, it's identically the same.
Q Okay. And the correct billing determinants are now in Exhibit 90, is that right?
A (Bonner) That's correct.
Q Okay. Did you have anything else you wanted to add on the -- well, I have one more question, because I said that this affects both base rates and LDAC. And so, that covers the base rates.
In terms of the LDAC, Mr. Mullen, on Exhibit 8 **[**Exhibit 88**?]**, referred to a calculation or a figure of "319,660", towards the bottom of the page. Do you see that?
A (Bonner) Yes.
Q And that's also tied to this year-end billing determinant issue, would you agree?
A (Bonner) Yes.

Q So, could you explain how this number of 319,000 differs from the million -- roughly a million dollar adjustment that will have to be made to base rates?

A (Bonner) They're actually two different things. The $319,000 represents the excess revenues recovered by the Company over the period from May 1st through October 30th. The first four months of May, June, July, and August are actuals, and then there's an estimate for September and October of 2018. And so, this is a comparison between the rates that's correctly calculated, the compliance rates, less the actual rates that were in effect during that period of time. And there are two separate rate schedules that were in effect during that period of time between May and now.

On July 1st of 2018, the Company adjusted its rates for its Cast Iron/Bare Steel Program adjustment. So, the rates for May and June would be the compliance rates. The rates for the period of July, August, September, and October would be the rates with the CIBS increase also included on both sides.

Q So, would it be correct to summarize that, when this case is completed and we have new rates for effect November 1st, those will correct this issue in the underlying base rates, is that right?

A (Bonner) Yes.

Q To the tune of roughly a million dollars?

A (Bonner) Yes.

Q And then the LDAC will be adjusted downward to the tune of roughly 320,000 to make up for the fact that this mistake had occurred from May 1st until October 31st. Is that correct?

A (Bonner) Yes.

Q Okay. So, does that -- with those two legs of the stool, does that take care of this year-end billing determinant issue in your mind? Is there anything else we have to do to the rates to correct that issue?

A (Bonner) No. That should take care of the issue.

Q Okay. Thank you. So, you had mentioned there were four elements, now we're back on comparing exhibits, Updated Exhibit 80 to original Exhibit 80. And so, I'd like you to proceed to

one of the next four elements please.
A (Bonner) That was certainly the most significant element. So, in terms of between 80 and 86, the rate design effect does not have an effect, but the tax reform does. And the tax reform on original Exhibit 80 reflected the Company's placeholder that it had when it did its original compliance filing.
A (Mullen) If I could just, I think you meant to refer to "original Exhibit 86", I believe?
A (Bonner) I'm sorry, original Exhibit 86. Thank you. Original Exhibit 86 had the tax reform effect that was in the Commission's order in May -- it was effective May. It was actually issued in April.
Q Okay. So, I'm confused again. So, let's start over. So, we've taken care of the year-end billing determinant issue. And so, then if I could ask you again to pick one of the other four issues that you talked, and tell us which issue it is? And then, again, we're starting with Exhibit 80. We're talking about the difference between the Exhibit 80 back in July and Exhibit 80 as updated.

A (Bonner) Okay. Exhibit 80 in July and Exhibit 80 as updated is really only affected by the year-end bill count adjustment.
Q Oh. Okay. Good. So then, to get to the other three issues, we will move to Exhibit 86?
A (Bonner) Eighty-six (86) will get us through part of it, yes.
Q Okay. So, let's talk about Exhibit 86 then. And explain the differences between the July version and the updated version.
A (Bonner) The same difference that applied to Exhibit 80 also applies to Exhibit 86, with one additional change. That additional change has to do with the change in the tax reform effect.
Q Could you elaborate on that?
A (Bonner) Sure. The original tax reform effect was approximately about a $2.4 million annual downward adjustment. The revised tax reform effect, as supported by Mr. Mullen's August 9th testimony, is approximately about $2.7 million.
Q And the $2.4 million figure that you mentioned is what we referred to during the body of the case as the "placeholder", is that right?
A (Bonner) That's correct.

Q And then Mr. Mullen's August 9th filing became the more in-depth calculation, is that right?

A (Bonner) Yes.

Q Okay. So, maybe it's time then to turn to the August 9th tax filing, and we can go through that one in some detail. And that's been marked as "Exhibit 89".

And, Mr. Mullen, to do that, I'd like to direct you to Bates Page 017 in your August 19th **[**9th**?]** filing.

A (Mullen) I'm there.

Q And could you explain maybe -- well, maybe you could start with a general overview of what your proposal was for handling the reduced tax rates?

A (Mullen) Well, what I started with was the placeholder amount that was embedded in the Commission's order. And if we're looking at Bates 017, and at the top of the page you'll see a Column A. Column A recreates what that -- what that amount was, and that comes down on Line 11, the "2,394,065". That was comprised of two major components, which show on Lines 9 and 10.

Line 9 was the difference in the gross-up, and the "$10.3 million" amount on Line 4, which was an amount that the Company and the OCA had agreed in a proposed settlement, and that's what it was based on. And that was the difference in the gross-up using the new tax rates versus the old tax rates, and that's the "1,694,407". Line 10 was the other item that was included in that placeholder amount, and that was taking the excess deferred income taxes and amortizing them over just over 39 years, and that became a number just under $700,000 on an annual basis. Adding those two together comes to the roughly $2.4 million.

In putting this testimony together, I said "Okay. So, there's a few different things that have to happen with this." We have to reflect the -- we have to make sure all the tax rates are correct, and we have to also reflect what was in the Commission's order in the rate case, as compared to the $10.3 million increase that this was originally based on.

So, in Column B, you'll see it says, on Line 3, "@New Hampshire 7.9%". That is the

2018 tax rate for Business Profits Tax in New Hampshire. The original that was in Column A was based on 8.2, which was the rate that was in effect for 2017. So that item, and if you happen to have a copy that's printed in color, I tried to highlight what changed in each column. So, on Line 7, you will see that the gross-up number has changed slightly, the gross-up rate, which results in a revised gross-up increase. So that was the one change that happened in that column.

In Column C, the $10.3 million was reduced to "8,460,508". Now that number is different than what the "8,060,117" from the Commission's order, but that's because the 8,060,117 also included an adjustment for iNATGAS, which was a separate add-on at the end. That I have treated separately on here, because the taxes associated with that in the Commission's order were also treated separately. So, I had to do this in a way that mirrored what the Commission did in its order.

So, in looking at this, then the change that's made in Column C, and you'll see in

Footnote 1 it says "Does not include reduction for iNATGAS", because that's done on Page 2 of 3. So, Column C just reduces the increase that this change in the gross-up is based on to conform with how the Commission's order was put together.

In Column D, and there's some extensive discussion of this in my testimony, I've removed the annual amortization of the excess deferred taxes, because of requirements in the tax law about using the Average Rate Assumption Method versus the Reverse South Georgia Method. So that number has been pulled out.

And then Column E just calculates the differences associated with that.

Section 2 on this attachment takes a look at the test year tax expense that was embedded in the Commission's order, and that was based on the tax rates that were in effect during the test year, which were the higher tax rates. In Section 2, I recalculated what that tax expense would be based on the old tax rates and, on Line 21, you'll see there's a reduction to income tax expense of $1.3 million. This calculation was not part of what was embedded in the $2.4 million placeholder. So, it had to be separately added to this.

In Section 3, I take the adjustments that were -- that are in Section 1 and Section 2 and I compare those to the $2.4 million placeholder, which, on Line 30, when you do all the addition and subtraction, comes down to a number of "2,685,870", which is basically in place of the 2,394,065.

On Line 31, that's the incremental difference between the placeholder amount and the recalculated amount. That's the change on an annual basis to income taxes.

On Line 32, when I filed this testimony, I calculated a $435,000 amount for the one-time benefit of tax reform. That number now, based on other calculations that have been done and the discussions that we've had with Staff, has been superseded by the number that is now on Exhibit 86 of about -- a number of about 1,661,000. And that is the impact that's built into the recoupment calculation for the months of January through April.

So, at the time I did this, I had a certain methodology that I used. However, based on discussions we had with Staff and some of the testimony that was done in the July hearing, that 435 that I have is now superseded by a larger number.

Exhibits -- At Pages 2 and 3, Page 2 supports the adjustments to the Commission's calculation of the iNATGAS tax adjustment. Basically, it amounts to about a $36,000 change from what was in the Commission's order. And Page 3 just shows the development of the various tax factors to help everybody follow along.

Q So, if I can follow up with just a couple of questions on that. Is it correct that the figure that appears on both Line 10 and in your summary box on Line 27, having to do with excess deferred income taxes, is it correct that the treatment of what to do with those excess deferred taxes will be handled in the Company's next rate case? Is that the proposal today?

A (Mullen) That is the proposal. The proposal is basically, although we had started doing that, further review of the requirements of the tax law made it advisable that we recommend that we stop doing that, and go through and do the study for I'll say ARAM, which is the Average Rate Assumption Method, to make sure that there's no problem with compliance with the tax law.

So, the total amount of excess deferred taxes will remain as a rate base reduction until that time. And once we have the study done, we'll have -- and we file our test year, that will be a 2019 test year, we can evaluate how to go forward with that at that point, and make sure that there are no potential impacts of the tax law.

Q Okay. And basically, the issue in the next rate case will be over what period to return, if any, what period to return those benefits to customers over?

A (Mullen) What period and through which method. As a result of the study, we'll have an idea of whether we should be using the Average Rate Assumption Method or whether we would be using

the Reverse South Georgia Method.
Q Okay. And turning to Line 31, that would be intended to be a base rate change, is that right?
A (Mullen) Correct.
Q Okay. And so, that amount doesn't appear on Exhibit 88, your summary page, correct?
A (Mullen) That's correct.
Q But that would have to be built into the rate base model that Mr. Bonner talked about that will calculate the ultimate rates approved in this case. Is that your understanding?
A (Mullen) Yes. For rates that will be effective beginning November 1.
Q Okay. So, Mr. Bonner, you had mentioned there were four issues that were corrected for. I think we've covered two of them now, the year-end customer count/billing determinant issue and tax reform. The other ones you mentioned were "Keene consolidation" and "rate design".
A (Bonner) Yes.
Q So, let's take Keene consolidation first. Could you explain --

A (Bonner) Sure.
Q -- the issue behind the Keene consolidation and how it impacts the schedules before the Commission today?
A (Bonner) If everyone will turn to Exhibit 85. The purpose of Exhibit 85 was to answer the question of the difference between the $3 million originally asked for by the Company in recoupment based on the preferred method and the number that was approved in the rate case. As a result of preparing this, the Company uncovered the contributory effects of why it made that difference. There were three of them. And I'm going to turn to Exhibit 85, and looking at the section beginning with Line 21.
When the Keene customers are incorporated into EnergyNorth's rates, their revenue contribution is actually going to go down, compared to what it was under the rates they were paying prior to the rate case. This is shown on Line 22, which has the Keene revenues at the permanent rate level. And Line 25, which has Keene revenues at the former Keene rates. The difference between those two

numbers, Line 25 minus Line 22, is the number that shows up on Line 29. And that's "$455,362". This effect is just a -- essentially, a natural byproduct of doing the rate consolidation.

The reason why we had to treat this thing a little bit special is that, based on the recoupment calculation, if you just do it using the mathematics of permanent rates minus the rates that were in effect in the temporary rate period, actually produces about the $455,362 more revenue. In effect, the idea behind the recoupment calculation is to set the clock back in time as if the rates were in effect in July. But Keene was not paying the permanent rates in July. It always continued to pay its own. So that difference has to come out of the recoupment calculation, otherwise the recoupment will be overstated.

Q And on Exhibit 88, you've referenced that as a reduction through the LDAC of "455,362" in the middle of the bottom block of numbers. Is that right?

A (Bonner) That's correct.

Q Okay. Anything else on the Keene issue or did that cover it?

A (Bonner) No. That is actually the major effect of the Keene issue.

Q Okay. And so, then, finally, you had mentioned "rate design impacts". Could you explain that issue please.

A (Bonner) Sure. The remaining two big differences between the $3 million calculation and the $1 million calculation have to do with two effects.

Take the billing unit one first, because that one's just a little bit simpler to understand. The billing unit effect between the actual billing units that were used -- or sorry, that occurred during the period of July 2017 through April 2018 were higher than the numbers in the test year. Those numbers produce a revenue effect of about 652,000, because EnergyNorth is on a growth, we're adding customers every year, between one and two thousand of them. So that produced a material effect.

The second effect we discussed at the last hearing had to do with the rate design, and -- sorry, let me just back up one minute.

The difference in the billing unit shows up on Line 33 of Exhibit 85, and also again on Exhibit 88, in the middle block, at the very -- at the fourth line down.

The other effect was a little bit harder to quantify. As part of the case, the Commission changed the rate design for Rate R-3, the Residential Heating class, which is the dominant rate class that produces the bulk of the revenue in the Company's revenue requirement, by dramatically lowering the customer charge, by approximately about 40 percent. We had discussed this at the last hearing, but we weren't thinking about the problem completely correctly.

May and June are actually light sales months. But the effect is exactly the opposite, in terms of its revenue effect, because the bulk of the revenue loss in May and June is due to the lower customer charge. So, the amount of revenue loss attributed to the volumetric piece in those months is relatively small and the fixed customer charge is relatively large. This produced an effect of $655,274. And it was the reason why I had to prepare a second page and third page to Exhibit 80, was to actually calculate this effect.

So, the effect of rate design was approximately about the same as the billing units, and they were both very large. They contribute approximately about $1.2 million of the difference. The remaining 450,000 is attributed to the revenue shift from Keene to EnergyNorth customers.

Q Now, Mr. Bonner, on Exhibit 85, those two numbers that are similar, one of them is in parentheses, one of them is not. I happen to have the color version, they're both green. Both of those go in the same direction, if you will, is that right?

A (Bonner) That's correct. I kept the negative number only so that it would tie back to Exhibit 80, on Page 3.

Q So, in both instances, the result of the refined recoupment calculation would provide

Liberty an additional roughly $650,000 versus the recoupment calculation that was in the original order. Is that true?
A (Bonner) For each element, yes.
Q For each element. And one basically was due to rate design, as you said, the shifts in the rate design for those two months, correct?
A (Bonner) Correct.
Q And the other is the recognition or the capturing of the fact that there was sales growth during the temporary rate period. Is that correct?
A (Bonner) Yes.
Q And according to the statute, the higher rates, the approved rates get applied to those new sales, correct?
A (Bonner) That is correct.
Q Okay. So, are there any -- is it correct that there are no other corrections put forth before us today in these papers?
A (Bonner) Only one more, which is also highlighted on Exhibit 85. Exhibit 85 has a text piece that accompanies it to help explain the spreadsheet schedule to which it's

attached. One of which we have discussed, which is the permanent rates, which kind of flows through everything, all the exhibits that were previously in the case, which includes 79, 80, 81, 82, and 86.

The other one had to do, and this one worked in the opposite direction, is that the temporary rate calculations in the earlier schedules had the wrong rate schedules used. On July 1st, 2017, the Commission actually approved two rate increases at the same time. The first had to do with the temporary rates. The second had to do with the 2017 Cast Iron/Bare Steel adjustment.

In the previous spreadsheets that supported Exhibits 79, 80, and 84, the numbers that were actually used in the computation were the higher CIBS rates, which produced a too small amount -- sorry, the rate increase attributed to the temporary side was too small. So, it actually raised everything by about $800,000. And I had to make -- that was more of a mathematical issue, as opposed to being a structural one, such as the change in the rate

design.
Q And did that change affect Exhibit 80 and 86?
A (Bonner) Yes.
Q And is it correct, turning to Exhibit 80, to original Exhibit 80, that that change would effect the top box labeled "I", is that right?
A (Bonner) Yes.
Q And so, that's been corrected on the top box, I, of Exhibit 80 Updated?
A (Bonner) Correct.
Q And the same thing would be true for Exhibit 86?
A (Bonner) Yes.
Q Okay. So, are there any other corrections or refinements or improvements that you know of that you could make to the calculations presented today that would -- that should be made?
A (Bonner) No, there are not.
Q And if I could try to summarize all this, in order to make these various corrections, the Company will be proposing new base rates that reduce the existing base rates on an annual basis by about a million dollars because of the

year-end billing determinant issue. Is that right?

A (Bonner) Yes.

Q And then, the Company will be proposing LDAC rates to reduce -- to pass back $280,000, as shown on Exhibit 88. Is that correct?

A (Bonner) That's correct.

Q And that will -- the LDAC calculation will take into account the various things that are listed there. The tax reform issues, the -- well, I won't read them all, but they're all listed on Exhibit 88. Is that right?

A (Bonner) That's correct.

Q Okay. And with all those changes, then the Company will be in a position to move forward with rates as of November 1st?

A (Bonner) That's correct.

DIRECT EXAMINATION

BY MR. DEXTER:

Q Okay. So, Mr. Frink, I had intended to ask you quite a lot of those same questions. But I won't do it, as I think Mr. Bonner did a very complete job. Do you have anything you want to add to the presentation that Mr. Bonner made?

A (Frink) I would like to say, give some credit where credit was due. The year-end customer count error was actually identified by Utility Analyst Al-Azad Iqbal. And as you heard, it's a very significant catch, in that it saves ratepayers over a million dollars a year for the entire time these rates are in place. So, it was a very complicated compliance filing. Mr. Bonner's schedules are impressive, and complex and very lengthy. And it took a lot of hard work to determine -- to find that particular error. And Mr. Bonner immediately recognized it and corrected it, but it was due to an outstanding performance by our utility analyst.

And other than that, I would say that these rates that are before you and the LDAC rate does appropriately adjust for the tax impact, the savings from the tax reform, and appropriately makes the Company whole for the recoupment between temporary and permanent rates based on actual billings.

Q And just one more note. On the base rate portion of this, the billing determinant issue, that error was incorporated into the compliance rates, what we've been calling the "compliance rates" that were filed right after the order, back on May 1st or May 2nd, is that right?

A (Frink) Correct. The order came out on April 27, and the rates were effective May 1. These were the rates that were put in place on May 1. And then we received the compliance filing that backed up this.

Q Yes. I have that in front of me. It's actually dated "May 18th".

A (Frink) Okay.

Q And in the normal course of events, the Staff would review the compliance filing and sign off on it, and send a letter back to the company indicating that the rates were in compliance. Is that the normal course?

A (Frink) That is correct.

Q And isn't it correct that, in this case, Staff did not send back a letter approving the compliance rates?

A (Frink) No. Once the rehearing occurred, this was addressed as part of this whole process.

Q So, I think we had a double negative there, I just want to ask you more directly. Did Staff sign off on the compliance rates?

A (Frink) It did not.

Q Thank you. And, Mr. Frink, we've had a lot of meetings with the Company and the OCA over the past couple of months, would you agree with that?

A (Frink) I certainly would.

Q Would you -- we've reached a lot of settlements at the Commission. Would you characterize these meetings as "settlement negotiations" or would you describe them more as "technical sessions"?

A (Frink) They were primarily technical sessions. I would say the testimony regarding in response to 18-001, the impact on revenues due to the change in tax rates, was somewhat of a negotiation. Mr. Mullen made a proposal, the Company made a proposal. We didn't necessarily agree with what was in his proposal. And some of those items were -- that have been put in place in these rates in the compliance filing and the recoupment is being done the way Staff believes they should have been done. And we're in agreement that that results in fair and just rates.

And there was one item that was the Company has been carrying a deferred expense on their books since their prior rate case related to an audit done by Liberty Consulting Group. And that amount, the proposal on how to treat these savings, Mr. Mullen suggested that that should be recovered through the LDAC. And we agreed that they would recover -- they would write off the 210,000 deferred expense that they're carrying and get to recover 160,000. So, that's, when you look at the summary and you see that 160, that's where that comes from.

Q But, generally speaking, the issues concerning recoupment and the Exhibit 80 and the Exhibit 86, and the year-end customer count adjustment, you wouldn't characterize those as "settlements", would you?

A (Frink) No. They're not settlements.

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

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

MR. KREIS: I do not.

CHAIRMAN HONIGBERG: Mr. Sheehan, was there anything else you wanted to follow up on? I don't think we have a lot of questions. But was there anything else you thought you needed to do up front?

MR. SHEEHAN: No. I thought they covered it pretty well.

CHAIRMAN HONIGBERG: Commissioner Bailey.

BY CMSR. BAILEY:

Q What rate element will be adjusted to reduce the base rates by a million dollars?

A (Bonner) Actually, with the exception of the residential customers, whose customer charges are fixed in all the scenarios at the prescribed level in the order, all the elements actually have some, are adjusted in the rate design model.

Q So, every rate is going to change on November 1st?

A (Bonner) Yes.

Q Do we have a tariff that shows us that?

A (Bonner) I believe we do.

Q Has Staff seen it?

MR. SHEEHAN: Mr. Simek is the one in charge of drafting the actual rate pages in the tariff, and they have been prepared. And with conversations with Staff, they opted to wait for a hopeful approval on it. It hasn't been filed. Those would typically be filed after an order from the Commission saying "this is good", and then out comes the rate sheets. But, if they're not done, they're 99 percent done and ready to go.

CMSR. BAILEY: Well, has there been an agreement on what the rates are going to be, what each rate element is going to be? Or is that just something that's still going to have to be checked after --

MR. DEXTER: That's, from Staff's viewpoint, that's something that still will have to be checked, as is typically done after a rate decision. But we're hoping it will go much quicker than what we faced in May.

CMSR. BAILEY: Okay.

MR. DEXTER: Because we think we've identified all the elements, and, in fact, that's why I asked the Company my last question, "whether or not there are any other issues that they saw might pop up?" And the answer was "no".

CMSR. BAILEY: Okay. Thank you.

BY CMSR. BAILEY:

Q Mr. Mullen, does this fully resolve your motion for reconsideration? Or, was it reconsideration, clarification, rehearing? The motion that's pending?

A (Mullen) Yes. If we go through everything that's been presented here today, that will resolve our motion for rehearing.

Q Okay. Thank you. And, Mr. Frink, are you satisfied that, with all of these adjustments, the revenue increase that the Company will collect over its 2016 test year will amount to the $8.03 million -- $8.06 million that we approved?

A (Frink) Well, what you approved was 8.06 for July through December. It was 5.666 after the new tax rate. With the holder in place, it was 5.66. Now, that number -- that holder has gone up by approximately 300,000. Now that the

Company has done the analysis and made their filing, that is now -- the correct rate is 5.666, plus less 300,000, basically.

Q So, their revenues should increase by 5.3 million, roughly, over the test year?

A (Frink) No. It should increase by 5 million --

Q 900?

A (Frink) -- 360,000 dollars **[**$5,360,000**]**, approximately.

Q Oh. Okay. Yes. That's what I meant.

A (Mullen) Commissioner Bailey, if I can maybe give you some comfort about the $8 million amount from the Commission's order?

Q Yes.

A (Mullen) If you refer to Exhibit 87, that was one of the ones filed on October 10th, I believe.

Q Okay.

A (Mullen) This sheet brings everything out, and it compares temporary to permanent. And it's different from Exhibit 84 in that it adds four months in 2019, so you have a full year. And I believe this was a record request that you had in the July hearing.

Q Yes.
A (Mullen) If you look in the -- I'll call it like the third major box of numbers, which is really Section -- Roman Numeral Section VI, "2018 Revenue Impact", all the way over, on the right-hand column, you'll see a number of "8,060,117". So, after going through all the adjustments that Mr. Bonner made, and all the gyrations that have gone through, when you compare permanent and temporary rates, you come right to the number in the Commission's order.
Q And then, after that, you still have to apply the tax?
A (Mullen) The tax reform, and that's being dealt with either through the LDAC or whatever adjustments we make to the rates. But this shows that, putting tax reform aside, all the rate adjustments and design and all that will get you right to that number in the Commission's order.

CMSR. BAILEY: Great. Thank you very much. That's all I have.

CHAIRMAN HONIGBERG: Commissioner Giaimo?

CMSR. GIAIMO: I'm good.

CHAIRMAN HONIGBERG: Yes. I have no questions. So, I assume there's no follow-up from any of the counsel?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. I think you gentlemen can return to your seats. I want to go off the record for a minute before we talk about exhibit numbering. So, off the record.

(Off-the-record discussion ensued.)

CHAIRMAN HONIGBERG: All right. So, we're done with testimony. We have exhibits that are pending the striking of ID. Those are 80 Updated, 86 Updated, 87, 88, 89, and 90. We'll strike the ID on all of those and those are full exhibits.

Is there anything else we need to do before the parties sum up?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. Mr. Kreis.

Actually, I know you laugh, we may

not actually need to do this, because we're sort of still in the middle of things. We're going to be back on Monday to talk about other issues, and we may not even have to do a summation then.

But does somebody have anything else they need to say before we break for today and resume on Monday?

[No verbal response.]

CHAIRMAN HONIGBERG: All right. I didn't think so.

MR. KREIS: Other than to thank Al-Azad Iqbal for the catch that Mr. Frink referred to. And he enjoys the admiration and respect of the OCA as well.

CHAIRMAN HONIGBERG: There's a lot of hard work that's gone into this on a lot of people's behalves. And we can see that, we can see how much thought has been put into it, because this is hard. And so, everybody is working hard to get it right, and we appreciate that. And we want to make sure that we get it right today, and on Monday, and every day after that.

So, with that, we will adjourn for the day and we'll see you all again on Monday. Thank you.

(Whereupon the hearing was adjourned at 3:03 p.m.)