



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DE 18-XXX

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Sale of Electric Water Heater Rental Program

JOINT DIRECT TESTIMONY

OF

ERIC M. STANLEY

AND

STEVEN E. MULLEN

February 7, 2018

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List of Attachments

Attachment	Title
Attachment EMS/SEM-1	Transaction Description w/Appendices

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1 **I. INTRODUCTION**

2 **Q. Please state your names and business addresses.**

3 A. (EMS) My name is Eric M. Stanley. My business address is 15 Buttrick Road,
4 Londonderry, New Hampshire.

5 (SEM) My name is Steven E. Mullen. My business address is 15 Buttrick Road,
6 Londonderry, New Hampshire.

7 **Q. By whom are you employed and in what capacity?**

8 A. We are both employed by Liberty Utilities Service Corp. (“Liberty”), which provides
9 services to Liberty Utilities (Granite State Electric) Corp. (“Granite State” or the
10 “Company”) and Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth”).

11 (EMS) I am the Manager of Energy Efficiency and Customer Programs at Liberty. My
12 primary responsibilities are the planning, development, and implementation of Liberty’s
13 electric and gas energy efficiency programs in New Hampshire.

14 (SEM) I am the Senior Manager, Rates and Regulatory Affairs. I am responsible for
15 rates and regulatory affairs for Granite State and EnergyNorth.

16 **Q. Please state your educational backgrounds and professional experiences.**

17 A. (EMS) I received an MBA from Southern New Hampshire University in 2015 and a
18 Bachelor’s of Science degree in Business Administration from the University of New
19 Hampshire in 2000. Since 2012, I have worked as Liberty Utilities Manager of Energy

1 Efficiency & Customer Programs in New Hampshire, responsible for all program
2 planning, strategy, marketing, reporting, and analytics. Prior to this role, I worked at
3 National Grid from 2001 to 2012 in a variety of capacities including most recently as the
4 Manager, Marketing Strategy – Energy Efficiency from 2009 to 2012 where I was
5 responsible for developing energy efficiency marketing strategies across Massachusetts,
6 New Hampshire, New York, and Rhode Island. From 2007 to 2009, I was the Manager
7 of Gas Residential Advertising, responsible for all customer growth direct marketing
8 activities. From 2004 to 2007, I was a Senior Marketing Analyst responsible for new
9 product and gas growth marketing activities. From 2001 to 2003, I was an Energy
10 Efficiency Analyst, responsible for planning and evaluation activities related to the
11 Company's Massachusetts gas energy efficiency programs. From 1999 to 2001, I was an
12 Analyst for Ellacoya Networks responsible for competitive and market intelligence
13 research.

14 (SEM) I graduated from Plymouth State College with a Bachelor of Science degree in
15 Accounting in 1989. I attended the NARUC Annual Regulatory Studies Program at
16 Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School
17 sponsored by Florida State University. I am a Certified Public Accountant and have
18 obtained numerous continuing education credits in accounting, auditing, tax, finance, and
19 utility related courses. From 1989 through 1996, I was employed as an accountant with
20 Chester C. Raymond, Public Accountant in Manchester, New Hampshire. My duties
21 involved preparation of financial statements and tax returns, as well as participation in
22 year-end engagements. From 1996 through 2014, I was employed by the New

1 Hampshire Public Utilities Commission (“Commission”) in various roles. Through 2008,
2 I held positions first as a PUC Examiner, then as a Utility Analyst III and Utility Analyst
3 IV. In those roles, I had a variety of responsibilities that included field audits of
4 regulated utilities’ books and records in the electric, telecommunications, water, sewer,
5 and gas industries, rate of return analysis, review of a wide variety of utility filings, and
6 presenting testimony before the Commission. In 2008, I was promoted to Assistant
7 Director of the Electric Division. Working with the Electric Division Director, I was
8 responsible for the day-to-day management of the Electric Division, including decisions
9 on matters of policy. In addition, I evaluated and made recommendations concerning
10 rate, financing, accounting, and other general industry filings. In my roles at the
11 Commission, I represented Commission Staff in meetings with utility officials, outside
12 attorneys, accountants, and consultants relative to the Commission’s policies, procedures,
13 Uniform System of Accounts, rate cases, financing, and other industry and regulatory
14 matters.

15 In 2014, I was hired by Liberty as the Manager, Rates and Regulatory and was promoted
16 to Senior Manager in August 2017. I am responsible for rates and regulatory affairs for
17 EnergyNorth and Granite State Electric. My duties involve review and preparation of
18 testimony and other aspects of regulatory filings, interacting with regulators and other
19 parties on behalf of Liberty, approval of rate changes for EnergyNorth and Granite State,
20 development of regulatory strategy, and assisting the Director of Rates and Regulatory
21 with management of the department.

1 **Q. Have you previously testified before this Commission?**

2 A. Yes. We have both testified in numerous proceedings before the Commission.

3 **Q. On whose behalf are you testifying?**

4 A. We are testifying on behalf of Granite State.

5 **Q. What is the purpose of your testimony?**

6 A. Our testimony provides details of the Company's proposed sale of its Electric Water
7 Heater Rental Program (the "Program") to Grand HVAC Leasing USA, LLC. ("GHL").

8 **Q. Please provide a brief description of the Program.**

9 A. The Program has been in existence for several decades and has been administered by
10 Liberty and the predecessor owners of Granite State. Under the Program, Granite State
11 provides electric water heating rental equipment, maintenance, and emergency service to
12 1,502 electric water heater units amongst its residential and small business customers.
13 Participating customers are charged a monthly fee via their bill for participating in the
14 program and are ensured that any type of maintenance or emergency repair work to the
15 rental equipment will be fully covered and serviced by the Company. Liberty currently
16 relies on a network of service providers to fulfill service delivery to its participating
17 customers.

1 **Q. Please provide details about the proposed sale transaction, including details about**
2 **GHL.**

3 **A.** The sale details, including background on GHL, are included in Attachment EMS/SEM-
4 1, the Transaction Description. In summary, the proposal is for Liberty to transfer
5 ownership of the assets of its Electric Water Heater Rental Program to GHL in exchange
6 for compensation of the full, deemed net book value of the remaining program assets at
7 the date of the transaction close, as determined mutually by Liberty and GHL.

8 GHL is the American subsidiary of Grand HVAC Leasing Ltd, a Canadian company, and
9 specializes in delivering bundled HVAC and water heating solutions to residential,
10 commercial, and multifamily customers and housing providers throughout North
11 America. GHL provides alternative solutions for customers to acquire heating, water
12 heating and cooling equipment upgrades, conversions and replacements, as well as
13 bundling protection against service and labor parts, and delivering scheduled and
14 preventative maintenance work. GHL works with government and non-government
15 organizations to manage installation, ongoing servicing, proactive maintenance, and
16 replacement of water heating and HVAC assets. GHL is a member of the Energy
17 Solutions Center and the Ontario, British Columbia, and Manitoba non-profit housing
18 authorities and has a strong track record of customer satisfaction and retention. GHL has
19 lengthy experience partnering with utilities in North America to acquire similar
20 equipment rental program assets.

1 **Q. Is the rental of water heaters through the Program a regulated activity?**

2 A. No. The rental of water heating equipment is not a core utility function, and the monthly
3 rates paid by customers are not included in the Company's tariff. The existing rental
4 rates of \$8 or \$9 per month, depending on the size of the tank, have been unchanged
5 since at least the 1990s, and perhaps longer. Although the Program is not a regulated
6 activity, it has always been accounted for as an above-the-line activity. Thus, the costs of
7 the Program, including the capital cost of the water heaters, the operation and
8 maintenance expenses, and the rental revenue received from customers have all been
9 taken into consideration in distribution rate cases.

10 **Q. If the Program is not a regulated activity, why is the Company seeking approval of**
11 **the sale transaction?**

12 A. Having been accounted for above-the line, the water heaters are part of Granite State's
13 rate base. New Hampshire Revised Statutes Annotated ("RSA") 374:30, I, in relevant
14 part, reads:

15 Any public utility may transfer or lease its franchise, works,
16 or system, or any part of such franchise, works, or system,
17 exercised or located in this state, or contract for the operation
18 of its works and system located in this state, when the
19 commission shall find that it will be for the public good and
20 shall make an order assenting thereto, but not otherwise...

21 As a component of rate base, the water heaters are considered part of Granite State's
22 "works or system" so Commission approval of the transaction is required. If all of the

1 Program's costs and revenues had been recorded below-the-line, Commission approval
2 would not be required.

3 **Q. Why has Granite State decided to sell the Program?**

4 A. The primary reason is that water heater rentals and service are not core functions for
5 Granite State. The Company is not structured to provide water heater maintenance and
6 replacements, so those functions are performed by contracted vendors. It has become
7 increasingly difficult at times, particularly in some of the more rural areas of our service
8 territory, to provide service in a timely and efficient manner. In addition, as the monthly
9 rental charges have remained unchanged for decades, the Program operates at a loss. The
10 sale of the Program to GHL, a company that includes water heater rentals and service in
11 its lines of business, will not only ensure timely and efficient service to customers, but
12 will provide them access to other offerings from GHL that they may find beneficial. The
13 sale of the Program will allow the Company to focus its resources on core activities and
14 remove a source of net financial loss.

15 **Q. Did Granite State consider alternatives to selling the Program?**

16 A. Yes. The Company considered raising the monthly rental charges and terminating the
17 Program. Both actions are specifically allowed under the terms of the existing customer
18 agreements. However, both actions would have created potential hardships for
19 customers. First, the Company believes it may need to raise rental fees quite drastically
20 in order to change the financial trajectory of the program to be cash flow positive, but
21 raising customer rates may lower customer participation further which could in turn

1 require the company to have to raise rental rates even further. Second, in regards to
2 terminating the program, the Company believes many customers count on the program to
3 provide needed emergency repair work and service and want the assurance of having a
4 dependable, reliable partner there to assist them without the uncertainty of an unknown
5 emergency repair cost that they may not be able to reasonably afford. The Company does
6 not want to terminate the program and put customers in the position of suddenly being
7 burdened with this risk without a viable option available to them if they so choose to
8 continue.

9 **Q. How will customers be notified of this Program change?**

10 A. After approval of the sale agreement by the Commission, Liberty and GHL will
11 implement a sequence of direct mail letters to customers over a period of weeks in order
12 to provide proper notification of the planned Program transition and to allow customers
13 reasonable time to decide on continuing with the Program under GHL or opting out.
14 Liberty's Program manager will be available to directly answer any customer questions
15 and will be accessible via the Company's dedicated Program hotline phone number.
16 Also, outreach via phone and door hangers will be performed to customers who do not
17 respond to any of the direct mail letters distributed.

18 **Q. Will current participants in the Program be required to remain in the Program?**

19 A. No. Customers will have the option to remain in the Program and become customers of
20 GHL or terminate their participation. Liberty and GHL will determine an official
21 program transition date by which existing Program participants will need to decide on

1 whether they want to continue in the Program or not. However, GHL will onboard any
2 customers that come back to GHL post transition date, without penalties.

3 **Q. What happens if a customer chooses to terminate their participation in the**
4 **Program?**

5 A. If a customer chooses to terminate their participation prior to the agreed Program
6 transition date, the customer will have two options. First, a customer can purchase the
7 existing rental hot water heater “As-Is” at a price equal to the higher of the following
8 amounts: (a) the fair market value of the hot water heater, or (b) the “book value,” which
9 is the value the Company has given to the hot water heater in its accounting records. The
10 second option is that a customer can decide to have the hot water heater removed. If a
11 customer chooses the second option, the Company will coordinate the draining,
12 disconnection, and removal of the water heater from the customer’s property and will
13 cover the costs associated with this work.

14 **Q. What if a customer does not indicate a choice?**

15 A. Customers who want to continue to be served in the program under GHL will need to
16 formally communicate their affirmation via execution of GHL’s equipment rental
17 agreement and payment procedures. Phone and door hanger outreach will be performed
18 to customers who do not respond to any of the direct mail letter communications
19 distributed in order to affirm their intentions to continue in the program or not.
20 Customers who transition over to GHL will continue to receive the same service and

1 support they are currently being provided by Granite State, but will be billed directly by
2 GHL for the rental hot water heater.

3 **Q. How will the transfer of customer information be handled?**

4 A. Liberty will transfer to GHL via a secure file transfer protocol the names, site and mailing
5 address, phone number, and current water heater rental rate of program participants who
6 have chosen not to opt-out of the program at the time of the program close date.

7 **Q. What is the proposed timeline for the sale and Commission approval of the**
8 **transaction?**

9 A. Liberty and GHL anticipate a two to three month program transition period following
10 approval by the Commission of the proposed sale. Based on GHL's experience acquiring
11 similar programs with other utilities, Liberty and GHL expect this to be adequate time to
12 facilitate a full customer transition, including setup of new contracts and billing
13 arrangements with customers who wish to continue with GHL. The Company requests
14 approval of the sale of the Program by March 31, 2018, to limit the amount of time after
15 this filing for the transaction to be completed, given the transition period for customers
16 following Commission approval, and to limit the amount of operating losses that might
17 otherwise be incurred by the Company.

1 **Q. Has the Company previously briefed Commission Staff and the Office of the**
2 **Consumer Advocate (“OCA”) of its intention to sell the Program?**

3 A. Yes. We met with both Staff and the OCA on a couple of occasions during 2017 and
4 notified them of our intent to transfer the Program to an entity that has water heater
5 rentals as part of its core business model and the reasons supporting such a transfer.

6 **Q. Is the sale of the Program in the public interest?**

7 A. Yes, the sale of the program is in the public interest as Liberty is ensuring that customers
8 can continue to receive an affordable equipment rental option that offers dependable and
9 reliable maintenance service. GHL can make these services available to customers
10 moving forward and can offer a greater variety of options, which Liberty is not in the
11 position to fulfill. Lastly, Liberty is not receiving a windfall or encountering a loss from
12 the sale transaction, but rather is just receiving the full, deemed net book value of the
13 assets, that is, a breakeven transaction.

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.

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