STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 25, 2022 - 9:01 a.m.
21 South Fruit Street
Suite 10
Concord, NH

RE: **DG 22-020**
NORTHERN UTILITIES, INC.:
Petition for Approval of Step Adjustment.

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay

Tracey Russo, Clerk

APPEARANCES: **Reptg. Northern Utilities, Inc.:**
Patrick H. Taylor, Esq.

Reptg. New Hampshire Dept. of Energy:
Paul B. Dexter, Esq.
(Regulatory Support Division)

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

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EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Petition for Approval of Step Adjustment	*premarked*
2	Revised Step Adjustment Filing	*premarked*
3	Settlement Agreement and Attachment filed in Docket DG 21-104	*premarked*
4	**RESERVED FOR RECORD REQUEST** *(For NH DOE to file the Final Audit Report related to this Step Adjustment)*	(103), 110

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning. I'm Chairman Goldner. I'm joined today by Commissioner Chattopadhyay. We're here in Docket DE 22-020 for a hearing regarding Northern Utilities, Incorporated, Petition for Approval of Step Adjustment.

Let's take appearances, beginning with the Company.

MR. TAYLOR: Good morning. Patrick Taylor, Chief Regulatory Counsel, appearing on behalf of Northern Utilities, Inc.

CHAIRMAN GOLDNER: Thank you. And the New Hampshire Department of Energy.

MR. DEXTER: Good morning. Paul Dexter, appearing on behalf of the Department of Energy.

CHAIRMAN GOLDNER: Very good. For preliminary matters, I have Exhibits 1 through 3 that have been prefiled and premarked for identification. Is this correct? Are there any objections? And is there anything else we need to do recovering -- is there anything else we need to cover regarding exhibits?

MR. TAYLOR: Not from the Company's perspective.

MR. DEXTER: None from the Department.

CHAIRMAN GOLDNER: Okay. Thank you.

Are there any other preliminary matters, before we have the witnesses sworn in?

MR. TAYLOR: Yes. I would just request some time from the Commission today, given that this is a docket that is separate or you might even say "broken off" from the rate case, I would ask the Commission's permission to do some direct with a couple of our witnesses today, to give some background and establish a baseline for why we're here today, discuss the calculation before the Commission, and just get some of that on the record, because some of it may have not have come over from the other -- from the other case.

CHAIRMAN GOLDNER: Okay. Any objections, Mr. Dexter?

MR. DEXTER: No. I think that would be helpful.

CHAIRMAN GOLDNER: Okay. Okay, that sounds good.

Anything else that we need to cover?

[No indication given.]

CHAIRMAN GOLDNER: No? Seeing none. Let's proceed with the witnesses.

Mr. Patnaude, would you please swear in the panel.

(Whereupon ***Christopher J. Goulding***, ***Kevin E. Sprague***, ***Christopher J. LeBlanc***, and ***Daniel T. Nawazelski*** were duly sworn by the Court Reporter.)

MR. TAYLOR: All right. I will start with Mr. Goulding. I'll first do the qualification of the witnesses, and then move to direct examination of the witnesses.

CHRISTOPHER J. GOULDING, SWORN

KEVIN E. SPRAGUE, SWORN

CHRISTOPHER J. LeBLANC, SWORN

DANIEL T. NAWAZELSKI, SWORN

DIRECT EXAMINATION

BY MR. TAYLOR:

Q Starting with Mr. Goulding. Please state your name, employer, and the position that you hold with the Company, and your responsibilities in that position?

A (Goulding) My name is Christopher John Goulding.

I'm the Director of Rates and Revenue Requirements for Unitil Service Corp. My responsibilities include all rates and regulatory filings related to the financial requirements of Northern and Unitil Corp.'s other subsidiaries.

Q Hearing Exhibit 1 is the Company's initial filing in this case. And included in this exhibit are initial direct testimony that you co-sponsored with Mr. Sprague and Mr. LeBlanc, as well as supporting Schedules GSL-1 through GSL-5. Was your initial direct testimony and the supporting schedules prepared by you or under your direction?

A (Goulding) Yes, it was.

Q Do you have any corrections to your initial direct testimony and supporting schedules that you'd like to make on the stand today?

A (Goulding) Yes, I do. In Schedule GSL-1, it inadvertently included the retirements in the "Install" column, instead of just plant additions. The Company corrected this inadvertent error in Revised Schedule GSL-1, which was filed on June 8th, 2022, and included in Hearing Exhibit 2.

Q Any other corrections to the initial direct testimony, other than subsequent revisions?

A (Goulding) No, that's it.

Q Do you adopt your initial direct testimony and supporting schedules as your sworn testimony in this case?

A (Goulding) Yes, I do, subject to the revisions described in our revised direct testimony and its accompanying schedules.

Q Hearing Exhibit 2 includes your revised direct testimony. Was this revised direct testimony prepared by you or under your direction?

A (Goulding) Yes, it was.

Q Hearing Exhibit 2 also includes Revised Schedules 1 through -- Revised Schedules GSL-1 and GSL-5, as well as additional Schedules GSL-6 through GSL-10. Were these schedules prepared by you or under your direction?

A (Goulding) Yes, they were.

Q And do you have any correction to your revised direct testimony or the attached schedules?

A (Goulding) Yes, I do. I have some one correction that has no impact on the calculation of the rates. If we turn to Hearing Exhibit 2, Bates

Page 020, and you look in the first column labeled "Total Investment Year", Column (a), in between Line 4 and 5, there's an amount of "$211,872,045". This amount should not be on this schedule. It equals the sum of Line 4, minus Line 5, and represents the beginning net plant number. There was a check to confirm the amount reconciled to the final rate base used in the revenue requirement. And it should have been removed prior to filing the schedules.

Q Thank you. Do you adopt your revised direct testimony, Revised Schedules GSL-1 and -5, as well as the additional Schedules GSL-6 through GSL-10, as part of your sworn testimony in this case?

A (Goulding) Yes, I do.

Q Mr. Sprague, I'm going to ask you some similar questions.

Please state your name, employer, the position that you hold with the Company, and your responsibilities in that position?

A (Sprague) My name is Kevin Sprague. I am the Vice President of Engineering for Unitil Service Corp.

Q Hearing Exhibit 1, as I discussed with Mr. Goulding, is the Company's initial filing in this case. Included is initial direct testimony that you co-sponsored with Mr. Goulding and Mr. LeBlanc, as well as supporting schedules. Was your initial direct testimony and the supporting schedules prepared by you or under your direction?

A (Sprague) Yes, it was.

Q Do you have any corrections to your initial direct testimony or schedules that you want to note today?

A (Sprague) No additional changes at this time.

Q Do you adopt your initial direct testimony and supporting schedules as your sworn testimony in this case?

A (Sprague) Yes, I do.

Q Hearing Exhibit 2 includes your revised direct testimony, as well as supporting schedules. Was this revised direct testimony and the supporting schedules prepared by you or under your direction?

A (Sprague) Yes, it was.

Q Do you have any corrections to your revised testimony or the supporting schedules that you'd like to make on the stand today?

A (Sprague) No additional changes at this time.

Q And do you adopt your revised direct testimony and schedules as part of your sworn testimony in the case today?

A (Sprague) Yes, I do.

Q Mr. LeBlanc, you probably see where I'm going. Please state your name, employer, and the position that you hold with the Company, and your responsibilities in that position?

A (LeBlanc) My name is Christopher LeBlanc. I'm employed by Unitil Service Corp. I'm Vice President of Gas Operations. And I have overall responsibility for the operation, maintenance, and construction of Northern's distribution system.

Q Hearing Exhibit 1 includes initial direct testimony that you co-sponsored with Mr. Sprague and Mr. Goulding, as well as supporting schedules. Was your initial direct testimony and the supporting schedules prepared by you or under your direction?

A (LeBlanc) Yes, it was.

Q Do you have any corrections to your initial direct testimony and the supporting schedules that you'd like to make today?
A (LeBlanc) Not at this time.
Q Do you adopt your initial direct testimony and supporting schedules as your sworn testimony in this case?
A (LeBlanc) Yes, I do.
Q Hearing Exhibit 2 includes your revised direct testimony. Was the revised direct testimony prepared by you or under your direction?
A (LeBlanc) Yes, it was.
Q And the supporting schedules that accompanied that, were those also prepared by you or under your direction?
A (LeBlanc) Yes.
Q Do you adopt your revised direct testimony and revised schedules as part of your sworn testimony in this case?
A (LeBlanc) Yes, I do.
Q Thank you. And, finally, Mr. Nawazelski, would you please state your name, employer, the position that you hold with the Company, and your responsibilities in that position?

A (Nawazelski) Good morning. My name is Daniel Nawazelski. I am the Manager of Revenue Requirements for Unitil Service Corp. In this capacity, I am responsible for the preparation and presentation of distribution rate cases, and in support of other various regulatory proceedings.

Q Did you submit direct written testimony in this matter?

A (Nawazelski) No, I did not.

Q Did you assist in the preparation of the testimonies and the schedules included in Hearing Exhibits 1 and 2?

A (Nawazelski) Yes, I did.

Q Are you able to provide sworn -- well, are you able to provide answers to the Commission today, as necessary, in connection with the materials included in these hearing exhibits?

A (Nawazelski) Yes, I am.

MR. TAYLOR: I have nothing else, in terms of qualifications. So, I would just ask the Commission's permission to move on to direct?

CHAIRMAN GOLDNER: Very good.

BY MR. TAYLOR:

Q Mr. Goulding, please refer to Hearing Exhibit 1. Can you please explain, at a high level, what is included in that exhibit?

A (Goulding) Sure. In the Company's last base rate case, DG 21-104, Northern had proposed a multiyear rate plan, with three annual step adjustments, for certain non-growth capital additions in 2021, 2022, and 2023.

So, the Company proposed to make its initial filing for 2021 additions on March 31st, 2022. Hearing 1 is that filing, which was submitted before the parties reached settlement in the rate case.

Q Is the step adjustment revenue requirement calculation methodology proposed in the Company's initial filing different than the methodology used to calculate the revenue requirement that's presented for the Commission's consideration today?

A (Goulding) Yes. The Company's initial step adjustment filing, which was made prior to the Settlement Agreement, utilizes what is known as the "list approach".

Q And can you describe the "list approach", and explain why the Company proposed that as its initial method?

A (Goulding) Yes. Under the "list approach", the annual step adjustment's revenue requirement is based on a list of qualifying capital additions in the relevant investment year, which, in the Company's initial filed rate plan, included all non-growth investments.

The Company proposed a "list approach" in DG 21-104, and in its initial step adjustment filing, because that is the methodology that had historically been used for the Gas Division, and similar to what we agreed to with the parties in a prior settlement for the 2017 rate case.

Q What was the revenue requirement associated with the list approach, as presented in the initial filing?

A (Goulding) The revenue requirement was $2,355,084, which you can see in Hearing Exhibit 1, Bates Page 2237, Line Number 17.

Q And, after submitting the Company's initial filing, the parties to DG 21-104 negotiated and submitted a comprehensive Settlement Agreement to the Commission for its approval. Did the Settling Parties agree upon a different methodology for determining the step adjustment revenue requirement?

A (Goulding) Yes. The parties agreed to a "change in net plant" methodology, and is similar to the methodology utilized in the recent UES step adjustment, and that has historically been utilized when calculating step increases for electric utilities in New Hampshire.

Without speaking for the other Settling Parties, there was also a general understanding among the parties that the Commission preferred a "change in net plant" approach to the "list approach".

I will note that the Company also agreed in settlement to reduce the number of its requested steps from three to one.

Q And applying the change in net plant methodology, what is the revenue requirement associated with 2021 non-growth plant additions?

A (Goulding) The revenue requirement associated with 2021 non-growth plant additions is $1,397,227, which is approximately $960,000 less than the Company has requested in the initial filing. Just to avoid any confusion, the $1,397,227 amount excludes the revenue increase of $157,739 associated with the post-test year amortization that was agreed to in the Settlement approved in DG 21-104. The combined total is the requested amount of $1,554,966.

Q And did the Company also agree to a rate case stay-out in connection with the Settlement Agreement?

A (Goulding) Yes. The Company agreed to stay out until 2024.

Q And Hearing Exhibit 2, that comprises the Company's revised step adjustment filing, is that right?

A (Goulding) Yes. This incorporates, among other things, the change in net plant approach agreed to by the parties in the DG 21-104 Settlement Agreement.

Q If you could refer to Hearing Exhibit 2, Bates Pages 018 to 019? This is the Revised Schedule GSL-1 2021 Cost Summary. Can you please explain what's included in that revised schedule?

A (Goulding) Just give me one second, I might have

-- okay. Schedule GSL-2 includes budget input sheets and construction authorizations for projects placed in service in 2021; Schedule GSL-3 includes cost records for specific 2021 projects; and Schedule GSL-4 includes cost records for blanket 2021 projects.

Taken together with Revised Schedule GSL-1, these schedules provide a full cost record for both growth and non-growth investments in the 2021 investment year.

Q Thank you. And you reference "Revised GSL-1". That shows the total '21 plant additions and costs of removal, among other items, correct?

A (Goulding) Yes. Revised, yes.

Q Same exhibit, Hearing Exhibit 2, Bates Page 020, this is Revised Schedule GSL-5, entitled "2022 Step Adjustment". Can you just explain what's shown in this schedule?

A (Goulding) Sure. Revised Schedule GSL-5 shows the calculation of the revenue requirement requested by the Company for recovery through the step adjustment, utilizing the method agreed to by the Settling Parties in DG 21-104.

Q And, of the projects included in Revised GSL-1,

what is the Company seeking to recover?
A (Goulding) The Company is only seeking the recovery of the revenue requirement associated with the non-growth change in net plant, plus recovery of the post-test year project amortization, and those amounts are included in Column (c).
Q And can you please explain the methodology used to calculate net plant in Revised Schedule GSL-5?
A (Goulding) Yes. The methodology, which the parties agreed to in DG 21-104 in the comprehensive Settlement Agreement, set forth in Lines 1 to 11, the Company starts with the net "Utility Plant" balance approved in DG 21-104, Line Number 1. Line Number 2 and 3 are "Plant Additions" and "Retirements" for 2021, getting you the "Ending Utility Plant" for 2021. And these amounts are assigned to growth and non-growth additions within Columns (b) and (c). Line 5 is the "Beginning Accumulated Depreciation" balance. Line 6 provides the annual "Depreciation Expense" booked in 2021 by the Company. This amount includes depreciation expense associated with the 2021 additions as

they were placed into service, as well as the depreciation expense for all vintage investments prior to 2021.

Q Okay. So, the roughly 8.6 million in depreciation expense, shown at Line 6, Column (c), is not related solely to the approximately 16.6 million in non-growth plant additions shown on Line 2?

A (Goulding) No, it is not.

Q Why is it necessary for the Company to include 2021 additions, as well as vintages prior to 2021 that have not fully depreciated?

A (Goulding) The cost recovery proposal that the parties agreed to in settlement was a "net plant" approach, which captures the annual change in net plant associated with non-growth. It would go against both the Settlement Agreement and commonly accepted ratemaking step increase philosophy to exclude prior vintage depreciation expense roll-forward when calculating the net plant.

Q All right. Just going down a little bit further, can you please explain what Lines 7, 8, and 9 are?

A (Goulding) Seven (7) is "Retirements", which is also shown on Line 3, and then get us out of the retirement entry, and then actual 2021 cost of removal, salvage and transfers are included there, to derive at the "Ending Accumulated Depreciation" amount on Line 9.

Q On Line 10, "Ending Net Utility Plant", is the difference between "Ending gross Utility Plant" and the -- and then "Ending Accumulated Depreciation", is that right?

A (Goulding) That's correct.

Q And Line 11 is the "Change in Net Utility Plant" allocated between growth and non-growth projects?

A (Goulding) That's correct.

Q In Docket DE 22-026, which was Unitil Energy Systems' step adjustment docket, the Commission propounded a record request at the hearing. Do you recall that request?

A (Goulding) Yes, I do.

Q And that request essentially was -- or, asked that the Company assume the "Beginning Utility Plant" figure, which is shown here on Revised Schedule GSL-5, Line 1, Column (a), that it included no growth component, and then asked that

the Company calculate the revenue requirement assuming no additions were made in 2021, then calculated the revenue requirement for non-growth assets added in 2021, and then sum those two numbers. Does that match your recollection?
A (Goulding) Yes, it does.
Q And the Commission also asked, alternatively, that the Company subtract 2021 growth plant additions from the total change in net plant, and calculate the revenue requirement, correct?
A (Goulding) Yes.
Q And did the Company respond to those requests by performing the requested calculations?
A (Goulding) Yes, we did.
Q And, in your opinion, do the alternative calculations provide an accurate method for determining change in net plant for purposes of establishing the step adjustment revenue requirement?
A (Goulding) No. This is an inaccurate method for calculating the Company's change in net growth -- net and non-growth net plant in 2021. And the calculation effectively assigns all depreciation expense to non-growth plant additions, which

would include prior to 2021 vintage depreciation expense, which is not consistent with the Settlement or past historic step increase practice.

The methodology agreed to by the parties in the DG 21-104 Settlement Agreement appropriately allocates depreciation expense to the investment that produced the costs, example, growth and non-growth investments. Assigning the growth-related depreciation expense to non-growth investments creates a mismatch in cost assignment to the non-growth revenue requirement, and thus arbitrarily reduces the investment in which the Company is allowed a return.

Q Okay. Thank you for that explanation. Looking at Lines 13 and 14, can you please explain the calculation of return and taxes on the change in net plant?

A (Goulding) The calculations on Line 13 and 14 is multiplying the pre-tax rate of return approved in DG 21-104 by the change in net plant, to get the return and taxes associated with the return on the net change in net plant.

Q And please explain Lines 15 through 17, which complete the revenue requirement calculation?

A (Goulding) Per the terms of the Settlement Agreement in, again, DG 21-104, the Company is allowed recovery of depreciation expense on non-growth additions, state property taxes on non-growth additions, and the amortization expense on certain post-test year projects that was a separate item within the Settlement Agreement.

Q And can you also please explain the calculation behind the 574,258 of depreciation expense on non-growth additions that's shown on Line 15, Column (c)?

A (Goulding) Yes. So, that calculation is multiplying the non-growth plant additions of $16,597,063, times the average depreciation rate for the system that was approved in the last rate case of 3.46 percent.

Q Can you explain the difference between the amount on Line 15 and the amount provided on Line 6, the roughly $8.6 million?

A (Goulding) As I explained earlier, Line 6 includes all vintage year depreciation expense, which is accurate and appropriate to do when calculating the change in net plant. On Line 15, for revenue requirement recovery purposes, the Company is afforded the annualized depreciation expense on non-growth additions. The annualized depreciation expense is not currently recovered in the Company's last base rate case, because that one was a test year related to 2020. So, there's no double-recovery, because these are 2021 capital additions -- or, plant additions.

Q Okay. Thank you. And I know you've already gone over this, but what is the revenue requirement or the revenue increase being requested by the Company in this step?

A (Goulding) The total revenue requirement increase is on Line 18 of GSL-5, Page 1. And it's "$1,554,966".

MR. TAYLOR: Thank you. I have further questions for these witnesses.

CHAIRMAN GOLDNER: Okay. Thank you for walking through that. And we'll turn to cross-examination, and Attorney Dexter.

MR. DEXTER: Thank you, Mr. Chairman. I want to start with just a couple of follow-ups on what we heard this morning.

CROSS-EXAMINATION

BY MR. DEXTER:

Q So, Mr. Goulding, you started off by referencing Exhibit 2, Bates Page 020. And you explained the figure which appeared between Line 4 and Line 5, in Column (a), $212 million. And I think you said that it "didn't really belong there", that I guess it should be ignored or erased.

Could you explain again what that figure is, and whether or not it's useful to the calculation of the change in net plant that's displayed on this schedule?

A (Goulding) Yes. So, what it is is it's the beginning net plant number. So, if you compare that number to the "Ending Net Utility Plant" number on Line 10, the difference is the change in net plant. So, it's just a different way to look at the calculation. But it essentially equals Line 4, "Ending Gross Utility Plant", minus the beginning -- or, excuse me, it equals Line 1, the "Beginning Utility Plant", minus Line 5, "Beginning Accumulated Depreciation". The sum of those two items equals "$211,872,045".

Q So, it's not an incorrect number. It's actually -- it could be considered useful in the calculation of net plant, from what I understand what you're saying?

A (Goulding) Yes. These schedules could be arranged in a different way, where you could have this amount that is shown and assisting the calculation, but it has no impact on the overall calculation based on the presentation.

Q Okay. And, if you were to assign a label in the column under "Description", just so I have it right, what would you call this $212 million figure?

A (Goulding) "Beginning Net Utility Plant".

Q Okay. And then, so, Beginning Net Utility Plant, minus Line 10, "Ending Net Utility Plant", give you "change in net plant", on Line 11. Do I have that right?

A (Goulding) That's correct.

Q Okay. All right. Thanks. In your direct testimony live here today, you mentioned a couple of times, you know, the "list approach" versus the "net plant approach" that the Company presented in the rate case, and in this case, step adjustment case. And I think you said that the Company started with a "list approach" in the underlying rate case, DG 21-104, do I have that right?

A (Goulding) That's correct.

Q Okay. And the list that you're talking about in the underlying rate case is actually the same list that we have here in the step adjustment, at Exhibit 2, starting on Bates Page 018. Is that right?

A (Goulding) Yes. That's correct.

Q And, so, it's a "list", in the sense that all the projects are listed. But, in fact, it's the Company's entire capital expenditures for 2021 in both instances, and by that I mean both the underlying rate case, when it was -- both the underlying rate case and in the step adjustment phase, right?

A (Goulding) Yes. So, the original "list approach" proposed by the Company included all non-growth capital additions.

Q Right. And the list that starts at Exhibit 2, Page 18, actually has the growth projects listed as well, in the detailed lines, like Line 1 through, I don't know, 75, or whatever it is,

right? They're on there, correct?
A (Goulding) Yes.
Q And then, they're designated -- the projects are designated between "growth" and "non-growth" about five or six columns over from the left, correct?
A (Goulding) That's correct.
Q And, so, what I wanted to ask you was, when you get to the bottom of the list, this is now Bates Page 019, there's a section that's called "Capital Additions Percentage Split", it says "Growth 17 percent" and "Non-Growth 83 percent". Do you see that on Bates 019?
A (Goulding) Yes, I do.
Q Are those percentage splits simply -- not "simply", but are they calculated by sort of sorting the projects up above by "growth" and "non-growth", and summing up all the relevant addition numbers?
A (Goulding) That's exactly what it is.
Q Okay. So, it's not an allocation based on the historical splits or anything?
A (Goulding) No, not at all. It's grabbing all the Gs, summing them up, and grabbing all the

non-Gs -- or, NGs and summing them up.
Q Okay. So, since both methods, the "list approach" and the "net plant approach" work from the same list, can you explain, in a few sentences, the fundamental difference between the "list approach" that was presented in the underlying rate case and this "net plant approach" that the parties agreed to in the Settlement?
A (Goulding) Yes. So that what happens is, under the "net plant approach", depreciation expense that runs off is taken into account, so we reduce the eligible investments by the depreciation expense associated with the non-growth investments. So, you're taking into account the fact that your net plant is going down for purposes of calculating the return.
Q When you say "your net plant is going down", what do you mean by that?
A (Goulding) If we had no additions at all, and we started off with $300 million of net plant at the beginning of the year, and had just $10 million of depreciation expense, we would end up with $290 million of net plant. So, there's the

decrease from the 300 million to 290 million.

So, we're taking that into account when we're calculating the return on the capital additions that we're putting into service in 2021.

Q And, so, this is, in a sense, this "net plant approach", is sort of a -- I guess I'd call it a "partial rate base update", would you agree?

A (Goulding) It's similar, yes.

Q And, when I say "partial", I mean, because the largest component of rate base, generally speaking, is net plant. But there are other elements of rate base that aren't updated in this approach, is that right?

A (Goulding) That's correct.

Q And some of those elements would include materials and supplies, customer deposits, and I guess the biggest item would be deferred taxes, which are a rate base deduction, correct?

A (Goulding) There's deferred taxes, and then there's also the excess deferred income taxes, which would be a rate base deduction also, but those are flowing back as part of the rate case, so, they're going down.

Q But they're not -- they're not reflected in this net plant approach, correct?
A (Goulding) No, they're not.
Q Okay. And, before we get into some questions about the specific projects that were done in 2021, I wanted to ask you a little bit more about the rates that are proposed. Could you -- is it correct that the rates that are proposed by the Company today for approval can be found on Exhibit 2, Pages 25 and -- I'm sorry, 26 and 27?
A (Goulding) Yes. That has the requested rates.
Q And those requested rates are in Column (I), under "Permanent Rates Step Adjustment September 1st, 2022", is that right?
A (Goulding) That's correct.
Q Okay. And, looking at Column (A), we have different rates for all the various customer classes, correct?
A (Goulding) Yes. That's correct.
Q And, looking up at the little box at the top of the page, above Columns (I) and (J), we see that these rates were designed to collect the step adjustment revenue requirement that you mentioned earlier of "1,554,966", correct?

A (Goulding) That's correct.

Q And, in looking at the various rates in Column (I), I see that none of the rate changes occur in the "customer charge" element of the bills for any of the classes, is that right?

A (Goulding) That's correct. In the Settlement Agreement, Section 6.3, in the DG 21-104 rate case, the revenue -- it called for the revenue requirement increase to be collected proportionally through the volumetric charges for all the rate classes. So, the customer charge was not changed.

Q Okay. And that Settlement that you referenced, I think that is Exhibit 3, if I'm not mistaken, that also required that the revenue requirement from the step adjustment be assigned to the various rate classes in proportion to each class's underlying test year revenues. Do you have that right?

A (Goulding) That's correct.

Q And is that distribution between the classes shown on Exhibit 2, Bates 025?

A (Goulding) Yes. So, that top calculation that you were referring to before, between (I) and

(J), and it's showing a 3.37 percent increase for all revenues. So, each class is being increase by 3.37 percent.

You'll see on Rate -- for "Rate R-10", Line 14, it appears to be "3.33 percent", instead of 3.37 percent. But we had to take the Rate R-5 and the R-10 class as a whole to design the increase. So, it's not exactly 3.37 percent for R-5 and R-10. But, if you combine the R-5 and R-10, Residential Heating/Residential Heating, Low Income, it comes out to that 3.37 percent increase.

And, if you continue to look down the page, in that Column (L), you'll see all "3.37 percent" increases.

Q Okay. And the amount of money collected from each class is shown one page earlier, on Bates 025, is that right?

A (Goulding) That's correct.

Q Okay. And, back to 26, I'm jumping around a little bit. Exhibit 2, Bates 026, there are other columns on here. On the right-hand side, there's a column labeled "Step Adjustment August 1st, 2023", and I see that the distribution rate, for example, for the Residential Heating class, goes down a little bit. Can you explain why that is?

A (Goulding) Yes. So, as part of the Settlement Agreement, we had agreed to recover the annual revenue requirement over an 11-month period. So, what we've included here is, in those columns that say "Step Adjustment August 1st, 2023" is, is to remove the 11-month recovery, the annual recovery over an 11-month period, and change it back to a recovery over a 12-month period.

Q And you're not seeking approval for that August 1st, 2023 change here today, is that right?

A (Goulding) So, we're just -- we're including it here as a proof to show how the math will work.

Q And you'd expect that the Company would propose a rate change for effect August 1st, 2023 sometime in the Summer of 2023, is that right?

A (Goulding) I think it could be a compliance filing, a filing that comes out of the order here. But the calculation would not change. Those would be the rates being adjusted back for an August 1st recovery.

Q If there were an interim change in distribution rates, not that we're anticipating one, though, that this calculation would be different, wouldn't it?

A (Goulding) Correct. If there was an exogenous event or a tax change that resulted in a distribution rate change or another law that came into play, then these rates would not be accurate.

Q Okay. Would decoupling effect the base rates between now and August 1st, 2023?

A (Goulding) No, it would not. Because all of the step adjustment is built off of the test year billing determinants. So, it's just updating to add in one more month of billing determinants within the calculation. So, what it does is it starts with the permanent rates effective August 1st, 2022, and increases all those rates for the $1,554,966.

Q And, if I understand, any adjustments made for decoupling, when that clause takes effect, are not made in base distribution rates, correct?

A (Goulding) Could you restate that or --

Q Yes. When the decoupling mechanism kicks in, if

you will, after a year, any adjustment for decoupling will not be made in base rates, but will be made through the Local Distribution Adjustment Charge, correct?
A (Goulding) It's its own separate mechanism. I think it's the Revenue Decoupling Adjustment Clause. I think it was part -- a component of the distribution charge, but it's separate from these distribution rates.
Q Right. Okay. Okay, I'd like to turn to the testimony in Exhibit 2, which is the step adjustment testimony, at Bates Page 011. And there, that testimony indicates that the capital spending forecast for Northern Utilities for 2021 was $30 million, but actual plant additions ended up being $20.6 million, and I'm rounding. But, if someone on the panel could explain what led to that decrease, please, in actual versus forecasted capital additions?
A (Sprague) So, in any given year, the -- we're kind of comparing two different numbers here. One is an actual spending number, one is the amount that's closed to plant. So, we're not -- we're not really comparing two spending numbers

to this.

So, what happens, in this case, is -- was, you know, what happens in many years, there are some projects from previous years that don't get closed to plant until, say, in this case, 2021, there's projects that are started in 2021 that don't get closed till subsequent years.

Q So, what I shouldn't conclude or the Commission shouldn't conclude from that testimony that the capital budget was -- or, capital spending was, like, underspent by 50 percent or anything like that?

A (Sprague) No.

Q Okay. All right. Thanks for that clarification.

Okay. So, I wanted to ask some questions about a few specific projects that are included on the list. The first one that I wanted to ask about is -- so, I need to go to the list, which is Exhibit 2, Bates 018. And the second line on the list is called "New Gas Services". And it has an authorization, over -- about two-thirds of the way over, in the $2.2 million range, and it has a plant in service amount of only $6,000. And, so, I have a couple of questions about that line.

First of all, I guess, based on our earlier discussion, because this line has a "G" next to it, meaning it's a "growth project", that it has no impact on the revenue requirement and the rates proposed in this step adjustment. Is that right?

A (Sprague) That is correct.

[Court reporter interruption regarding the microphone.]

BY THE WITNESS:

A (Sprague) That is correct.

BY MR. DEXTER:

Q Okay. So, I suppose I shouldn't ask about it, but I'm going to anyway, because I have some questions about it.

So, if I wanted to go to the authorization for these projects, for the "New Gas Services" project, where would I find that?

A (Sprague) So, that would be part of Schedule GSL-2. I'm just making sure that I have the right one. On Page 4 of that schedule.

Q Okay. And, for purposes of the hearing room, I have that as Hearing Exhibit 1, Bates Page 023.

And it's a sheet that's entitled "Northern New Hampshire Construction Authorization", under "Description", it says "New Gas Service", and the budged amount is $2,283,000, is that right?

A (Sprague) That is correct.

Q Okay. And could you explain what "New Gas Services" are?

A (Sprague) This is a blanket project that we budget, based upon a combination of past history and expected new customer additions. So, these are customers that do not exist now. So, these are new, new services to new customers.

And, to maybe head you off a little bit, the authorized amount is for the entire year. So, this is -- being a budget project, this is budgeted at what we consider in our capital budget system at the parent level. So, there may be many different particular projects or work orders that actually fall under this particular authorization.

So, in comparing back to the previous schedule that you were looking at that showed that we spent about $6,000, but had an authorization of $2.3 million, that particular project was only one construction work order underneath this authorization.

Q When you say "down at the parent level", would this 2.8 **[**2.3**?]** million include projects outside of New Hampshire?

A (Sprague) No.

Q Okay.

A (Sprague) No, this is budgeted for New Hampshire.

Q Okay. Now, on this sheet, again, this is Exhibit 2, Bates Page 023 -- Exhibit 1, Bates Page 023, in the left-hand column, where it says "Action Date", all the dates there are for 2019. And, yet, this step adjustment is for plant additions in 2021.

Could you explain why the -- what the "2019" date represents?

A (Sprague) So, the "2019" date is the date at which this particular authorization was approved. But. Going back to my previous discussion about the individual work orders, so that there was a work order that was taken out in 2019, but was not closed to plant until 2021.

Q Okay. And I was trying to find the cost detail for this project. And I understand that this is a "blanket project", I think I understand this to be a "blanket project". And, so, therefore, I expected to find the cost information somewhere in Exhibit 1, under Schedule GSL-4. And I know it's only -- only going to show "$6,000", but I wasn't able to find that. Could you take a moment and tell me where that cost backup is?

A (Sprague) I do not see it in that. It is not provided in that cost record --

Q Okay.

A (Sprague) -- in GSL-4.

Q Yes. So, I'm looking in the neighborhood of GSL-4, which is Exhibit 1. And I'm around Bates Page 300 -- I'm at Bates Page 640, sorry, I'm at Bates Page 649, which is the beginning of Schedule 4, which is for the blankets. And, so, I thought I would find it, like, in this area. Is that right? Is that where it would have been, if it were provided?

A (Sprague) Generally, yes.

Q Okay. Because the backup is presented in the same order as the projects show up on the list, generally speaking, correct?

A (Sprague) Correct.

Q Okay. But, for purposes of this case, included in the step adjustment is only the figure of six and a half thousand dollars, right?

A (Sprague) But, again, this is a growth project. So, it's not part of the step adjustment.

Q Okay. It's not in the revenue calculation at all?

A (Sprague) Correct.

Q Revenue requirement calculation?

A (Sprague) Correct.

Q Okay. All right. We'll move on from gas services.

I wanted to ask about another project, I think this one is also a growth project. So, I want to go back to the list, which is Exhibit 2, Page 18. And I want to ask about Line 43, which is entitled "South Village Tuscan". And I also want to ask about Line 55, which is labeled "Tuscan Village - Medical". Could you explain what these projects are and why they're listed as "growth projects"?

A (Sprague) Those were mains extensions within Tuscan Village.

Q And Tuscan Village lies in the Town of Salem, is that right?

A (Sprague) That is correct.

Q And, when you say "main extension", can you explain what that is?

A (Sprague) So, "main extension" would be new mains installed to reach new customers.

Q And the Tuscan Village is a new development, is that right?

A (Sprague) That is correct.

Q Were their customers on the site of what's now Tuscan Village in the past?

A (Sprague) Yes.

Q And I guess what I'm asking is, the difference between extending mains to a new complex like Tuscan Village, versus extending mains to, for instance, the Epping project that took place over the last couple of years where the Company never served before. It sounds like the Company has served the area of Tuscan Village, in Salem, for many years. I'm just curious how this fell in the "growth" column versus the "non-growth" column?

A (Sprague) So, this would have been an expansion of the development as it's been growing. So, this would be, yes, we have mains into the development as a whole, but the development continues to expand further and further across the piece of property where we do not have mains, and adding new customers.

Q Is this considered a "large" project by the Company? Is the expansion down there considered "large"?

A (LeBlanc) Yes. This is a -- this is a multiyear expansion project into Tuscan Village. And the way our construction for our distribution system is implemented, it's in conjunction with the build-out from the local developer. So, we have mains into Tuscan Village, and we coordinate the installation of our gas infrastructure in accordance and in conjunction with his build-out of that development. So, we have multiyears where we're installing new mains as they build out that large-scale development. If that makes --

Q Does that require the expansion of existing mains as well?

A (LeBlanc) Yes. Because we install our existing mains as they put in new road infrastructure and new houses. So, it's a phased approach to that build-out.

Q Okay. Do you know over what period of time the Tuscan Village expansion is projected?

A (LeBlanc) Not off the top of my head, no, I don't. I know it's a multiyear phased approach for the installation. And we've been installing pipe there since, I believe, 2020.

Q Okay. Do you have active customers there in Tuscan Village now?

A (LeBlanc) I believe we do.

Q Okay. So, again, on the Tuscan Village two projects, if I were to scroll over to the right-hand side of Page 18 of Exhibit 2, there's a column called "Budget". And both of these projects have a budget of "$3,360,439". Could you explain why both projects have the same budget?

A (Sprague) Yes. This is for the same reason as the "New Gas Services" above. This is -- the budget number that you see there is for the parent level mains extension capital budget. So, that would include all of the mains extensions for that particular year. And, then, underneath

that, there would be individual projects.
Q And I see sort of the same phenomena a few lines down, if I go to Line 58 through 62, there's a bunch of projects that don't seem related to me, but maybe they are, and they all have the same budget of "3,372,830".
Could you explain why they would all have the same budget?
A (Sprague) Yes. Because they're all mains extensions.
Q They're all main extensions.
A (Sprague) So, if you look at the fifth column over, which is titled "Budget Number", you see all of those start with a "JAB"? That's the budget code for "mains extensions". And then, you can see each of them have a subsequent number "JAB15", "17". "20", "21", "22". Those are all separate projects, separate mains extensions, that were originally budgeted at a parent level.
Q Okay. And the budget figures don't calculate -- don't factor into the calculation of the revenue requirement or the rates at issue, correct?
A (Sprague) Correct. These are growth-related projects.

Q They're what projects?
A (Sprague) Growth-related projects.
Q Oh. But, even if they weren't, none of the budget figures in that column factor in --
A (Sprague) The budget figures, no.
Q Okay. So, again, sticking with the list, I wanted to ask some questions about a non-growth project this appears on Line 44. And it's entitled or titled "Railroad Ave. Gonic System Improvement". It has a install amount of over $5 million. And it was authorized at about $2.3 million, if I'm reading this right. Could you explain what this project is?
A (Sprague) Yes. If you'll indulge me for a minute, just to kind of bring everybody around to the same place. Back in our 2017 rate case, I believe that was 17-070, the Company first brought up a concern about the capacity in the Rochester area, and presented a case for our inability to add new customers without going through a rather lengthy process to increase the capacity to Rochester. Rochester is at the tail-end of our New Hampshire system, served by a single pipe. So, at that point in time, we had

proposed several projects, that ultimately were wrapped into the step adjustment at that time that then PUC Staff and the Company and the OCA agreed to, and the Commission ultimately approved. And that step adjustment was focused around an upgrade to what we call the "Dover-Somersworth High Line", and a reinforcement -- kind of a phased reinforcement throughout the Rochester system, which included upsizing some mains, doing some uprates, doing some regulator station upgrades to increase pressure.

So, this project, this Railroad Ave. Gonic, the one right after it in the list, "Rochester Reinforcement Phase 3", and I believe it's Line -- just make sure I'm pointing you to the right project, and Line 29, are all projects that are focused on increasing the capacity to the Rochester area.

So, now that -- so, now that we've kind of got through that, so, this particular project was -- was to extend higher pressure further into Rochester. And the path that we had chosen, at budget time, was a path that essentially took us across a bridge. When we got into the detailed design of that bridge, that bridge ends up being actually a curved bridge, that we could not hang on, because of the curve of the bridge. So, then, we looked at drilling under and doing a horizontal directional drill to install under the river.

Because of the curve of the bridge, the drill, no matter what side of the bridge we put it on, would put the drill essentially going underneath residential homes, and we couldn't do that.

So, then, we felt that the -- we came back and decided to install it in a different location, which, from a system standpoint, ends up providing more benefit to the system, but the challenge is, is where we needed to tie into at our Axe Handle Brook Station, that is located on one of Northern's old manufactured gas sites. So, the material in the ground had to be handled as hazardous material, 100 percent of it needed to be taken away, disposed of. This different route ended up with a different drill under the Cocheco River and us hanging on a bridge.

So, really, the project that was budgeted and the scope that was budgeted is not ultimately the scope that ended up happening.

Q Okay. And I want to break that down a little bit, if I could, because I think a lot of what you said is included in the construction authorizations. So, I want to go to Exhibit 1, Bates Page 130. And I'm at a Construction Authorization for Railroad Ave. Gonic system Improvement, dated "February 20th, 2020", and an amount of about 2.4 million. Is that the right Construction Authorization for the original project?

A (LeBlanc) The original authorization was for 2 million --

[Court reporter interruption.]

BY THE WITNESS:

A (LeBlanc) 2,362,474.

BY MR. DEXTER:

Q Right. And I just want to make sure everyone is looking at the right document. So, again, I'm at Exhibit 1, Page 130, which is also GSL-2, "Page 111 of 265"?

A (LeBlanc) That is correct.

Q Okay. So, this authorization was written or took place in 2020, correct?
A (LeBlanc) That is correct.
Q Okay. And is this the authorization for the first part of the project that you described, Mr. Sprague, the one that ultimately wasn't completed because of the curve in the bridge?
A (LeBlanc) Yes, it was.
Q Okay. And then, on the next page, this is Bates 131, there's -- it looks to me, the authorization up on top -- well, the budgeted amount is still 2.4 million, but the new authorized amount is 5,019,000, correct?
A (LeBlanc) That is correct.
Q And this one is dated "February 23rd, 2021", is that right?
A (LeBlanc) That is correct.
Q Okay.
A (Sprague) If you -- maybe something that will help you is, if you look right under where it says "Budgeted Amount", you'll see where it says "Type", and it says "Revision", and the "Sequence" is "2", so, if you'll notice, the authorization number is the same, the budgeted

amount is the same, because those haven't changed. But this is a revised authorization for this particular project.

Q So, the "Revision" and the "Sequence 2" appears on Bates 131, or Page 112 of 265. So, that would indicate that it was a revision?

A (Sprague) Correct.

Q Okay. All right. And, in the text below, it describes -- well, let me withdraw that question and start again.

When did the -- when did costs begin to incur for this project that ultimately ended up in the step adjustment that we're talking about today? Was it 2020 or 2021?

A (Sprague) So, there were --

A (LeBlanc) The majority of this construction took place in 2020.

Q And did any construction occur at the original site that Mr. Sprague talked about with the curved bridge?

A (LeBlanc) No, it did not.

Q Okay. So, where, in the process, were you costwise when the decision was made to go from the first location to the second location? In other words, was any costs incurred at the first location that's included in the step adjustment?

A (Sprague) Yes. There was probably some design cost that happened to identify -- when we were designing that original drill under, around the curved bridge.

Q Okay. Do you know how much?

A (Sprague) Not off the top of my head.

Q Okay. And I want to get to the cost detail later. So, maybe some of that will become clear when we get to that. Would you -- okay. Well, we'll wait till we get to the cost detail.

So, then, moving to the revised authorization, there is some discussion in the text about the environment -- I guess about two things. One was a horiz -- "HDD", is that "horizontal drill", what's the second "D"?

A (LeBlanc) "Horizontal directional drill".

Q "Horizontal directional drill". And then, there's also some discussion about the "Handle Brook Station" and "contamination". And I know you touched on that briefly, Mr. Sprague. But it sounds like those were two driving cost factors for the $5 million -- approximately $5 million?

A (LeBlanc) That is correct.
Q Okay. So, let's deal with the first one first. The horizontal directional drill, can you explain what that is and why it was necessary?
A (LeBlanc) The horizontal directional drill was used to cross the Cocheco River. So, it's, basically, we're drilling the new pipeline underneath the riverbed.
Q And is that considered preferable, from a cost or an environmental standpoint to some other option?
A (LeBlanc) So, each HDD is -- or, each crossing of a river or a waterway is different. But HDD does have less impact to the river itself. And, in this instance, where we crossed, there was no bridge that we could have used as an alternative. So, directional drill was really our only methodology for crossing that rive and getting to the regulator station.
Q Okay. And the regulator station, is that the "Axe Handle Brook Station" that you're talking about?
A (LeBlanc) That is correct.
Q Okay. And explain please why it's important for this -- this is a new pipe, I guess, right, for

this new pipe to tie into the system at the regulator station?
A (LeBlanc) That pipe to the regulator station significantly increased the capacity and the pressure for the Rochester area.
Q Which was the whole point of the project to begin with?
A (LeBlanc) That is correct.
Q Okay. And the regulator station happens to be located at a former manufactured gas plant, is that what I heard you say?
A (LeBlanc) That is correct.
Q Okay. And, so, is that what led to the increased costs that were related to environmental caution, if you will?
A (LeBlanc) That is correct. There were significant contaminated soils on that site that had to be remediated and corrected as part of the construction that were unanticipated.
Q Okay. And those costs are included in this $5 million project, right?
A (LeBlanc) That is correct.
Q Okay. And, if I were to go to the Company's LDAC, I know in the past there has been recovery

from manufactured gas plant remediation. Does anyone up there on the panel know if that clause still exists or has that run its course?

A (Goulding) No. It still exists. And it's a component of the LDAC.

Q Okay. And can you explain or assure us, at the Department, and those at the Commission, that these costs would have been segregated such that they wouldn't have gone also through that LDAC component?

A (Goulding) Yes. If these costs are capitalized as part of this project, they would not get booked to the account that gets recovered through the environmental surcharge that's included as part of the LDAC.

Q Then, I guess another question would be why? You know, why? Why wouldn't these costs be capitalized, rather than handled as a manufactured gas cleanup site?

A (Sprague) Typically, the costs that run through the LDAC are the normal survey, maintenance, test wells, that type of -- that type of ongoing maintenance gets charged to that. Typically, work associated with a specific capital project tend to get charged to that capital project.

Q Okay. So, I wanted to look at the cost detail a little bit for this project. And I believe I can find that at Exhibit 1, starting at Bates Page 047 -- 447, sorry. It's going to take me a minute to get there. And I'll give you the schedule number when I get there. Unless you have it already?

MR. TAYLOR: If its page is "447", it's Schedule GSL-4. Nope. Actually, that's not right.

WITNESS SPRAGUE: No. I believe it's Schedule GSL-3. And it's "Page 163 of 365" is where it starts. And I apologize, I dropped off the network. So, I don't have the actual exhibit in front of me.

BY MR. DEXTER:

Q Yes. Okay. So, I think I'm there. I'm at, like you said, "Page 163 of 365", which is GSL-3. And I have it as Bates Page 447. And the first entry for this project is "Collins Pipe", for "$1,368". Am I in the right place?

A (Sprague) Yes. I see that, yes.

Q How do I know I'm in the right place? How do I know that this is the beginning of this project that we're talking about, this "Railroad Ave. Gonic System Improvement"?

A (Sprague) So, if you look at the -- comparing back to the authorization, the authorization number is "20043". And, on this page, you'll see there's a number that begins "N-020043", that's the authorization number. Then, it says"-", and then the number after that is the work order number.

Q What's the number after that please?

A (Sprague) The one that I'm looking at is "00203417".

Q Okay. All right. So, this actually starts at the very top --

A (Sprague) Correct.

Q -- of 447? So, I was wrong. The first entry is not "Collins Pipe". That's for the vouchers. The first entry is "Payroll-ST", I assume that's "straight time"?

A (Sprague) Correct.

Q Okay. All right. And, so, the key is that "N" number, has both the authorization number and the project number?

A (Sprague) Correct.
Q Okay. Yes. Okay. So, this is the detail. And, if we scroll through the next ten pages, at the bottom I'm going to find a number of about 5.2 million, right?
A (Sprague) I apologize, I lost my place. Yes.
Q Okay.
A (Sprague) Yes.
Q All right. So, the first item is fairly small, that's "Payroll". Is that Company payroll?
A (Sprague) That is correct.
Q Okay. And the second item is "Payroll" also, for overtime. The third item is "Materials & Supplies", also very small. So, why don't we skip that one. We'll get to the next one, which is "Vouchers". This has a lot of big numbers in it, and a lot of names. I wanted to ask you about that a little bit.
A (Sprague) Sure.
Q Could you explain, generally -- "vouchers" are outside services and materials, is that right?
A (Sprague) That is correct.
Q Okay. What generally would I find in this column? You know, what do these names mean,

generally speaking?

A (LeBlanc) "Collins Pipe" would be materials associated with the job. Also, you would see in there "contract labor" used for the installation, as well as any other outside services that were associated with the construction project, police details, vendors for materials, vendor for non-destructive testing, and the largest number would be for the actual construction labor for the installation.

Q Is that the "NEUCO" number?

A (LeBlanc) That is correct.

Q Okay. So, what's "NEUCO"?

A (LeBlanc) "New England Utility Constructors".

Q Okay. So, that's the actual construction labor?

A (LeBlanc) That is correct.

Q Okay. And you said "Collins Pipe" is for the pipe?

A (LeBlanc) Materials, yes.

Q Okay. And what's "JDH Inspection"?

A (LeBlanc) So, this was a steel line, which required 100 percent non-destructive testing. JDH does all of that, radiographic examination of our welds.

Q Testing the steel welds, is that what you said?
A (LeBlanc) That is correct.
Q Okay.
A (LeBlanc) A visual inspection of the welding process itself.
Q Okay. Okay, I was looking for the vendors that would have been incurred as a result of the hazardous materials situation that you said you encountered at the former manufactured gas plant. Which vendors would those be?
A (LeBlanc) I may not have a complete list, because I'm going from memory, but "AECOM" --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (LeBlanc) -- "AECOM" would be one of them; "US Ecology" would be another one; I believe "NRC East". And there may be a few more as I go through the vendor list. Those are the three I recognize.

BY MR. DEXTER:

Q Okay. And, so, the vendor list totals, on Bates 452, of almost 3.5 million. And just doing quick math of those vendors you mentioned, I get a figure of around 250,000. Does that sound about right? I'm just trying to get an idea --

A (Sprague) Subject to check.

Q Sure. I'm just trying to get an idea on how significant the costs were that were incurred because of the dealing with the manufactured gas plant.

A (Sprague) And there were some other costs that were incurred that are probably, I don't want to say "hidden", but every one of the workers that worked on the site had to be trained, they call it "Hazwoper Training". So, that's a 40-hour training. So, all of the NEUCO crews that were there, working on the site, doing the digging, had to have that training. So, that training, and that time, and that labor is probably worked into what NEUCO provided to us. The people that are doing the inspection, the same thing. Essentially, anybody that was on the site had to be trained in identification and dealing with the hazardous waste. Yes.

A (LeBlanc) I'll add to NEUCO. A lot of the remediation costs for the hazmat would be NEUCO labor itself. For 100 percent haul-away for their trucking, that would all be embedded into the NEUCO labor costs. NEUCO provided a safety monitoring system. So, they had someone there on-site monitoring the environmental conditions full-time. Those costs were embedded into the NEUCO invoicing as well, as well as the additional labor that NEUCO would have provided as part of the excavation or mediation process.

So, a lot of those environmental costs would be in the NEUCO invoices.

Q Okay. All right. And, Mr. Sprague, you had mentioned, I think, if I understood what you said, that, although this was the second site that was chosen, second route for this pipeline -- well, let me back up. How long a piece of pipe are we talking about here in this project?

A (LeBlanc) Approximately 4,400 feet.

Q So, a little under a mile, it sounds like?

A *(Witness LeBlanc indicating in the affirmative).*

Q Okay. So, you had indicated that the second route that was chosen ended up providing additional benefits, as compared to the first route. And I'm paraphrasing, but do I have that right?

A (Sprague) That is correct.
Q Can you explain what those benefits are?
A (Sprague) So, the benefit is really a capacity and pressure benefit. The project, as it ended up, essentially extended the higher pressure further into the Rochester system than originally planned.
A (LeBlanc) And there was another benefit as well, too. The secondary route allowed us -- went by a section of our distribution system where we had a regulator station that was scheduled for replacement, an upgrade at some point in time. This new route allowed us to extend the IP system and eliminate that regulator station. So, it avoided that -- avoided that future cost for replacing that station.
Q I think you had said something about an "IP". What does that mean?
A (LeBlanc) "Intermediate Pressure System".
Q Okay. All right.
CHAIRMAN GOLDNER: Mr. Dexter, I was just checking in. It's 10:30. So, usually, we give the stenographer a break about now. Do you have much more to go?

MR. DEXTER: No. I have a few more questions on this project. And I wanted to ask about another project in the Plaistow area. It's at the bottom of the list. It's called "Plaistow System Improvement Phase 2". That, I think, will be a shorter line of questioning. So, maybe 20 minutes, and I'll be done.

CHAIRMAN GOLDNER: Okay. So, maybe let's take a break until 20 till, and that way Mr. Dexter can wrap up around 11:00. And we can -- we'll still target concluding the hearing by noon.

MR. DEXTER: Okay.

MR. TAYLOR: I was just going to say, Commissioner, before we go off the record. Our witness, Mr. Sprague, has a hard stop at 12:00. He does have to leave at that time. So, I'm glad to hear that we're going to shoot to end at 12:00, but I did want to give you that heads up, just to plan questions accordingly, I guess.

CHAIRMAN GOLDNER: No problem. Sadly, if we run past 12:00, we'll go to -- or, you know, if we run up against 12:00, we'll have to go to written closings then, which I know is not popular. But I don't think the Commissioners have more than 30 or 40 minutes' worth of material. So, we should be okay.

MR. TAYLOR: Okay.

CHAIRMAN GOLDNER: Okay. Thank you. We'll come back in ten minutes.

MR. DEXTER: Okay.

CHAIRMAN GOLDNER: Off the record.

(Recess taken at 10:29 a.m., and the hearing resumed at 10:40 a.m.)

CHAIRMAN GOLDNER: All right. We'll go back on the record.

So, Mr. Dexter, just a question, as we work through some of these new Commission procedures. One thought would be, as you're -- I think you're developing a record here for perhaps some kind of disallowance or recommendation. You mentioned before, maybe we should start with a preliminary statement.

But I think the overarching thought, and I wanted to get your comments on is, you know, would it make sense for the -- for the Department of Energy to provide recommendations up front, either verbally or in writing, so that the parties and the Commission have time to respond to any sort of recommendations or disallowances the Department might have?

MR. DEXTER: Yes. I mean, I think I mentioned this at a case involving another utility last week. In situations like these step adjustments, where sometimes we make recommendations that are substantive for disallowances, which I don't think is where we're heading in this case, I think it probably would be useful for the Commission to know from the outset where we were heading in the hearing. And, so, that's why I recommended a short opening statement. I didn't do it this time. And I don't believe we're recommending any disallowances.

But, I think, in a situation where the schedules are so tight, like these step adjustments, where there is not time for Department testimony or there isn't need for Department testimony, I think it does sort of leave everybody in the dark, maybe, as to where we are.

Now, that being said, the companies and

the Department Staff talk, you know, before the hearings to address issues, where time allows. So, there was a little bit of that that went on in this case. I know that doesn't include the Bench. So, it doesn't really help you.

So, I wouldn't recommend anything formal. But, in cases, in certain cases, I could see where an opening statement would be helpful.

CHAIRMAN GOLDNER: Okay. Yes, my thought, just to add onto that, would be if you have -- if the Department of Energy has something substantive, in terms of disallowances, that you plan on moving forward with, it would be helpful for the Commission to have that ahead of the hearing, so that we can also, you know, develop our own questions, and follow-up and so forth.

If it's -- if there's nothing substantive, I think an opening statement with "here's some areas of concern" could certainly be helpful to us.

So, we can continue to develop it. But I just wanted to get your thoughts, in terms of how we can move forward efficiently. So, --

MR. DEXTER: Sure. And, of course, a

lot of that depends sometimes on the answers one gets, you know, at the hearing. So, you don't necessarily, you know, you don't know exactly what the recommendation was going to be. And that's why, I guess it was the recent Liberty step adjustment, where I asked for the opportunity to quantify it after the hearing, which we did. And, so, I think that worked out, helpful. I think that way, at least you had the recommendation and a number attached to it. And that's probably something we wouldn't have been able to do before the hearing, but we could have given you a general idea.

CHAIRMAN GOLDNER: Oh, I think that worked very well. And I think today I deduced, when I asked if there were any other preliminary matters, and you didn't recommend an opening statement, I deduced that you probably didn't have anything substantive, unless your line of questioning found something. So, I think we ended up in the same place, but I wanted to get your thoughts on that.

But, so, without any further adieu, because I know that time is limited, Mr. Dexter, if you can proceed, and try to wrap up by 11:00, I think we could wrap up the hearing by noon.

MR. DEXTER: Yes. And I think it's particularly important that the Commission get a chance to ask any questions it has of Mr. Sprague while he's here. So, I'm going to wrap this up very quickly.

BY MR. DEXTER:

Q So, I'm still on Exhibit 1, the cost detail for the Rochester project. Sorry, I got off my -- off the right page here. I just need a moment.

Okay. So, we were on Bates Page 452. We were talking about the vouchers. And those totaled almost $3.5 million. I've been scrolling down for the other costs that were significant for this project. And the next big one I see is "Construction E&O Overheads", $1.3 million, and then "Construction Overheads", $327,000, for a total of about 1.6 million in construction overheads. Can you explain briefly what those are?

A (Sprague) Those are the -- those are the overhead loadings. "E&O" stands for "Engineering and Operations" related overheads. So, for instance, our engineering group does not charge projects directly. Our time is allocated across all projects, at a certain allocation factor. Same with -- same with some of the management-level and operating groups.

The next one is the rest of the overheads, the non-engineering/operations overheads, the plant accounting, other centralized service type of overheads, that get applied equally on a dollar basis across all projects.

Q Does 1.6 million in overheads on a $5 million project strike you as, you know, consistent with what we would expect to see on all projects?

A (Sprague) Yes.

Q Does the level of overheads vary depending on whether or not it's a heavily voucher project versus a heavily internal payroll project?

A (Sprague) It can. Certain portions of the overheads are allocated different ways. Some are allocated based upon hours, some are based upon vouchers. So, depending on which the overheads are, they do get allocated differently.

Q Okay. And then, the last major category I see is

"Interest Capitalized", I see it's about $55,000. Is that what we call "AFUDC"?

A (Sprague) Yes.

Q Okay. And I had asked you earlier about any dollars that would have been spent on the first route that was selected, but didn't go forward. Where, in these ten pages of costs, would those -- would those have shown up? Would that have been vouchers or would that have been internal?

A (LeBlanc) So, that would be outside engineering services. It would be in vouchers, and some of the costs associated with Process Pipe, is our outside engineering firm that does design work for us. So, there would have been engineering costs for that original HDD, as well as the change in scope, they would have engineered the new route and the new HDD crossing, and all of those costs would have been associated with that.

Q And, again, you don't know that amount, do you, as compared -- again, of the 5.2 million, do you know how much of that was spent on the route that wasn't chosen?

A (LeBlanc) No. No, I do not.

A (Sprague) I would not expect it to be a substantial amount.

Q Could you explain the thinking behind capitalizing that to the route that eventually was chosen, as opposed to maybe writing that off or doing something else with those costs?

A (Sprague) So, the total amount that we paid Process Pipe for this, for the design work associated with this entire project, was about $18,000. So, you know, that kind of gives you the level of external engineering that we used on, you know, the entire project, the entire $5 million project.

Our past history is, any vouchers, any external services that we use, with respect to a project, get charged to the project. There's, you know, we try to minimize it, but, unfortunately, from time to time, best laid plans don't always work. And, in this case, that was -- that was one of them.

So, in our case, it was engineering work that was needed to determine that it didn't work, couldn't work. And, you know, we believe it should be charged as part of this project.

Q And, ultimately, the purpose that the Company was trying to achieve was achieved under the second route, correct?
A (Sprague) Correct.
MR. DEXTER: Okay. All right. In the interest of time, Commissioner, I'm not going to ask about the Plaistow project, but I did want to go back to Mr. Goulding with just one question on the revenue requirements calculation.
BY MR. DEXTER:
Q And I believe that's Exhibit 2, I think it's Page 20. And, understanding that this schedule was agreed to by all parties in settlement, I'd like to ask Mr. Goulding why it's not appropriate that Line 15, "Depreciation Expense", on the plant additions, is -- well, let me ask you this, first of all. Is that a full year's depreciation expense on the plant additions?
This is, again, Line 15, in Exhibit 2, Bates 20.
A (Goulding) Yes. It's a full year depreciation expense on the capital additions to get that level in rates, because going forward we'll have annual depreciation expense associated with those

plant additions.

Q Right. And my question was, would it be -- obviously, all those additions weren't done on January 1st. So, why wouldn't it be appropriate to build in a half-year depreciation expense into the step adjustment?

A (Goulding) If we were getting concurrent recovery, then I could see that being an appropriate mechanism. But these are plant additions that were put into service in 2021, and we're now including recovery of the depreciation expense with those investments effective, basically, on August 1st, 2022. So, we have a seven-month recovery lag from when the investments went in, into service, and when we began to collect depreciation expense on those. But we have been realizing depreciation expense since those investments went into service.

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

CHAIRMAN GOLDNER: Thank you, Mr. Dexter. Let's turn to Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Good morning.

So, to keep things moving swiftly, what I'm going to do, let's go to -- let me just do this, Exhibit 2, and let's work with the Excel files. Okay? And I think, let's go to Exhibit 2, Revised Schedule GSL-5, Revenue Requirement.

And I'm assuming these questions are -- just a moment -- are meant for Mr. Goulding or Mr. Nawazelski. But feel free, if others can chime in, to help me with this.

So, what I'm going to do, I'm just going to go through a thought experiment here, okay, using that file. And I will -- I will indicate that I understand that this schedule, which is -- I'm going to go with "P1", okay? That is -- that is part of the Settlement. And, so, I fully understand that. Maybe because I wasn't part of the other docket, 104, I think it was, I forget the year, but the rate case.

But just I really appreciate the fact that you're moving to this "net plant approach", but I still have some questions. I want to be sure that I'm understanding how this is done. And I'm going to try and create an alternative scenario here. And I don't -- it's not about you telling me why it's right or wrong at the beginning. At the end, I will give you the option, because that's how I will frame the questions, okay?

BY CMSR. CHATTOPADHYAY:

Q So, if you look at that file, for a moment imagine that Column (e), you have it in front of you?

A *(Witness Goulding indicating in the affirmative).*

Q That is simply about, you know, there were no plant additions in that particular, you know, so, nothing happened in 2021, nothing got added, okay? If you were assuming that, then there won't be any plant additions, right?

A *(Witness Goulding indicating in the affirmative.)*

Q The "19.929755" wouldn't be there. Okay. So, if I take it out. And then, if you think in terms of there might be some changes to the depreciation expense later, but right now we'll just skip that. We'll go all the way down to your Line Number 17, and that, too, let's take it out, the 157,739, okay? Because you're looking at only what wasn't added, so, I'm going to take that out.

So, can you confirm that Line 18 then, cell E18, is minus 943,000?

A (Goulding) Yes. But, I think, if you're going to take out the Line 2, "Plant Additions", you'd also want to take out the Line 8, "Cost of Removal, Salvage and Transfers".

Q You're saying, because that -- are you talking about, let's say, 642,000 --

[Court reporter interruption.]

CMSR. CHATTOPADHYAY: Sorry.

BY CMSR. CHATTOPADHYAY:

Q So, I asked, are you talking about "$642,545"?

A (Goulding) Yes.

Q Okay. Can you give me a reason why? The cost of removal, salvage and transfers, that are generally associated with, in my opinion, and I'm not an accountant, just thinking through it, of, you know, plans that you already had, and you were taking care of how they were going down or, you know, all of that. So, why is that -- why are you eliminating it?

A (Goulding) Those cost of removals are associated with the plant additions for the year. So, when we go do plant additions, sometimes there's cost of removal associated with those plant additions. So, they go together. So, if there's no plant additions for the year, then there will be no cost of removal being expended by the Company for that category of costs.

Q So, you incur those costs only if you add plant? I mean, are there cost of removal, salvage and transfers that are associated with your existing operations that happen naturally on there? You know, I'm just asking, forget about the plant additions, we're creating a scenario here that is -- that you have done no additional investments.

But then, I'm asking -- I'm still kind of confused why that $642,545 may not happen with your business?

A (Nawazelski) So, typically, this might not always be the case, but I would say the vast majority of the time, when we're going out and checking on the system, if there was a part that we need to replace, that would be the addition, right? And you'd then, if there was a cost of removal or a salvage associated with that inventory, then you would charge it at that time as well.

So, I think what Chris is saying is, typically, we're not going out, even if we weren't to make plant additions, we're not actively going out as a company and having cost of removal or salvage costs in any given year. So, if you wanted to have an apples-to-apples comparison, if you were to remove additions, you should also remove cost of removal and salvage.

Q Okay. So, you're saying cell E7 and cell E8 to be removed?

A (Goulding) If you remove cell E -- A7, you would also have to remove it from Line 3 also.

Q Right. Because -- okay. So, let's do that. That's your addition to the scenario that I was thinking of, okay?

So, I want to confirm I'm doing it right. So, I'm taking out cell E17 and taking out cell E22, and I'm taking out cell E23, correct?

A (Nawazelski) Correct.

Q Okay. So, did you get revenue requirement increase negative 1.005014 million?

A (Goulding) Yes. A revenue requirement decrease of $1,005,014.

Q Okay. Okay. Now, just forget about what we did, okay? This is a thought experiment. Let's think in terms of there is new investment happening, okay, and it turns out that it can be broken up into two columns, call it "growth" and "non-growth" or whatever else you might want to call it. One of them, that is Column G, is going to be relevant later.

So, can we now walk through -- so, with respect to -- just a moment.

How would you view, if something like this is happening, how will you view the retirements? Would it be, those numbers, the ones that you show in your -- you showed in your -- I think that's the problem when you go to a live Excel. Those, can you just give me those numbers, if you have it?

A (Goulding) Yes. So, those numbers would stay in. And, at the end of day, they really have no impact on the overall change in net plant, because you're including it on Line 3 and including it on Line 7.

Q That's for "retirements". But I'm talking about "cost of removal" now.

A (Goulding) So, cost of removal would be, for growth, negative $40,873.30.
Q Okay. So, it's $40,873?
A (Goulding) Yes.
A (Nawazelski) Yes.
A (Goulding) And, for the non-growth, it was negative 601,671.
Q 601,671, okay. Just a moment.

[Short pause.]

BY CMSR. CHATTOPADHYAY:

Q So, I am still very baffled by this notion that depreciation expense, okay, is being split the way you are proposing it. I know that that may be part of the Settlement. But, if you look at that number, for example, if you go down to cell F21, that is maybe more than half of your ending, you know, utility plant in Column F. And I'm not an accountant, I'm just, as an economist, I find it kind of odd why that would be the case.

I would think that, if you -- if you have depreciation expenses that, you know, in row, I'm using your numbers now, 15, which is Excel row 34, okay? To me it would look -- seem like, when you're thinking about new plant being added, and forget about what had -- that's the assumption here. So, don't look at, you know, the other, basically, what's been going on from before, just look at it separately. To me, it would seem like the more -- or, the reasonable approach would be to, let's say, go with half of the depreciation expense that is being shown in row 15, and plugged that in to cell F20. So, let's just do that.

And I will give you the opportunity to tell me why that's wrong. But, if we do that, so, let's go to cell F21, put equal to 0.5 times cell F34. Okay? And this is predicated on my assumption that, as far as the rate base is concerned, I don't know exactly when those plants were added. So, just assume it's in the middle of the year. So, that's how I kind of came up with that number, and extend that to even the non-growth piece. So, just drag the cells to go with the -- do the same thing for cell G26 -- sorry, 21, okay?

Having done that, I also want to make sure I'm following this. If you go to cell E21, which is the depreciation expense, that includes everything, right, I mean, including 2021? So, there is probably some adjustment there that needs to be done, if I want to keep it clean to everything else that's happened before 2021, correct?

A (Nawazelski) What dollar amount are you talking? Are you speaking to the 10.4 million, or are you --

Q Yes. The 10.4, that number, because that includes 2021 as well, just as, you know, an assumption, a reasonable assumption. We can just take out the cell F21 and cell G21 from that, to give me a sense of what depreciation expense would have been if you were looking at everything until 2020, okay?

A *(Witness Goulding indicating in the affirmative).*

Q So, let's do that. I'm just going to go into the cell there. And I will subtract F21, and I will subtract G21. Now, I'll hit enter. Do you get 10 -- sorry, 10068340?

A (Nawazelski) Yes, we do.

Q Okay. So, having done that, let's go to row 37 of the Excel file, or row 18, okay?

A *(Witness Nawazelski indicating in the*

affirmative).
Q Okay. So, you have -- confirm whether you get, in cell E37, minus 971738?
A (Nawazelski) Correct.
Q Do you get, in cell G37, 2364208?
A (Goulding) Yes.
Q So, let's hit -- let's go to the cell just below cell G37, and I'll do a new calculation, which is cell G37, minus cell E -- sorry, plus, because it's a negative number, plus cell E37. And, once you're done, are you getting 1.392470? And that includes the 157,739, okay? And, so, I'm just curious why the right number shouldn't be "1.392470", the way I framed it?
Is that also a reasonable way to look at this? And, if not, please explain why?
A (Goulding) Well, at the end of the day, what you're doing through that calculation is, basically, assigning that 2021 -- or 2000 -- excuse me. The vintage -- prior to 2021 vintage investment depreciation expense, which was calculated as 10,068,340, all against the additions, the non-growth 2021 capital additions. And, if you, just as kind of something to look

at, if we go to Page 3 of this schedule -- excuse me. Yes, Page 3 of this schedule, this shows the accumulated depreciation for 2021, the $10,413,124 that we started with. And you can see there's a depreciation expense particularly related to Services, Account 380; Meters, Account 381; Meter Installation, 382, and those are primarily not -- are growth-related investments.
Q Sorry, say that again? They are primarily --
A (Goulding) Related to growth-related investments. Because, obviously, if you add a customer, you have to add a meter and a service and so forth. So, out of that $10.4 million, $4.1 million of that depreciation expense is growth-related. So, I don't think it's appropriate to assign all of the depreciation expense against the non-growth additions.
Q So, explain it to me in a different way. Like, I think what I have asked you to go through, we have numbers F -- sorry, cell F21 and cell G21, as I understand what you're trying to say, those numbers aren't right. And what I'm saying, if you can completely separate out this notion that, you know, somehow what you've been doing is

linked to what additionally you're doing -- you end up doing, except for the fact that you need to also calculate the beginning -- sorry, the depreciation expense for everything that's happening without any additions being put, and you have to calculate it differently, because that's what we walked through.

And give me an explanation why this is not right, if that's what you're saying? So, I think, for me, I need the explanation of why the numbers for 2021, in cells F21 and cells G21, aren't the right numbers? And I didn't hear you explain that. So, I would appreciate if you can frame it in that manner.

A (Goulding) The calculation that you walked through, the mathematics of it work. So, I can't dispute that cell F21 and G21 are not an accurate calculation.

I'm referring to, when we're calculating the change in net plant calculation associated with the non-growth investments, that's not what this is doing. At the end of the day, this is taking the total change in net plant, minus the growth net plant for the year.

And you're representing, through this calculation, that that is the change in net plant associated with non-growth investments. So, at the end of the day, it's assigning all prior vintage year -- vintage of 2021 year depreciation expense against the non-growth additions for purposes of calculating the revenue requirement.

A (Nawazelski) And, if you were to be applying all that prior vintage growth depreciation expense, I think, from a ratemaking philosophy, I would say that it would also be appropriate to then include the growth additions in that as well, and sum up all three of those lines on Line 18, which would result in a revenue requirement of approximately $1.8 million. And that approach would be similar to -- somewhat similar to the Company's Capital Cost Adjustment Mechanism that we have approved in our Massachusetts Electric jurisdiction.

Q But that $435,344 is associated with growth, you know, projects. And the idea is, with the decoupling and all of that, that, if you have new customers, you end up making, you know, you end up actually earning that, you get those rates. So, I'm not convinced that I agree with you.

But I think I just wanted to walk through this. And I understand your point that, Mr. Goulding, you were making. But I'm going to leave it at that.

Very quickly, I think I have it, let's go to Exhibit 2, Bates Page 026, and let me go there. Bates Page 026. Yes, and I may have missed this when you were explaining it. But, if you go to the last -- the "Step Adjustment August 1st, 2023", that column, so, and if you look at the percentage changes, it's "3.37", except for the R-10, Residential Heating Low Income, is "3.33".

Can you provide an explanation what's going on? Maybe you already did, but I missed it.

A (Goulding) Give me one second to open up the file. So, the driver of that difference, on why it's not exactly 3.37 for R-5 and R-10, we do capture them as a combined total. But the mix of the percent of customer charge revenue to the percent of usage revenue, it's not the same for R-5 and R-10. It's very similar, but that slight variation results in, when you're applying the increase to both classes together, you get a slight difference in the overall increase in the revenues.

And we had to combine them together, because they are charged the same rate. And, if we didn't do it like that, we would get different rates for R-5 versus R-10.

Q Thank you. So, let's go to this Page 18 and 19 of the same -- Bates Page 018 and 019 of the same exhibit. So, I have a -- I just want to make sure that I understand, that the calculation that you did in the bottom of Bates Page 019, splitting the capital additions, growth into non-growth, okay, that is only using information for the additions, you know, the plant additions, right, for 2021?

A (Nawazelski) That is correct.

Q Is there a way for you to figure out what that percentage usually is, if you go all the way back to your prior years and all of that? I mean, why is it -- why should we assume it's -- the breakup is 17/83 when you do the schedules? So, I just, you know, just give me some clarity on that.

A (Nawazelski) Give me one second.

A (Goulding) I do have some history on the splits. And one of the record requests that we provided in DG 21-104, the rate case, I don't have a reference to the actual request, it provided the actual spending, by year, from 2019 to 2020, and then a forecast of '21 to '25. And, historically, it actually had been lower. The growth was actually higher. So, we had a low growth capital additions number in 2021. So, it's a little bit different than it has been historically.

Historically, the percent of non-growth investments has been in the range of -- it ranges, if I go back to 2009, we had a high of 79 percent, and then, at some point in the middle, we had a low of 55 percent. But I think it depends on what kind of work was being done, too. A lot of those years include the Pipe Replacement Program, where we replaced the cast iron investments -- or, cast iron pipe. So, that kind of skewed the numbers a little bit. And I believe that was completed in 2018 or '17.

A (Sprague) Seventeen.

Q So, the last question I have is, again, related to this, and maybe because I still don't have clarity. You're looking at the split, using 2021 data, and applying, in your approach, I'm not commenting on whether I agree or not agree, but when you split the depreciation expense, you use the 2021 split. So, I'm curious, why should, you know, when you're going back to the depreciation expense that is about previous years, why the split should be the one that you got for 2021? Why shouldn't it be some other number?

But, if you have any comments, and I'll stop there.

A (Nawazelski) I think you could certainly make an argument to use a different approach. As a part of this comprehensive Settlement Agreement, the parties agreed to that. And I think, for ratemaking simplicity as well, there was a value to just using the most recent history that we had given on those plant investments in that period.

CMSR. CHATTOPADHYAY: Thank you. I think I -- please understand that I'm, generally speaking, I'm very happy that this, the "net plant approach", was used. I do have difficulty in sort of understanding the terms. So, for example, said "list approach", but the same list was used here. So, maybe a different term should be used for what was put in place previously. But I think I understand the difference here. And I actually -- I would commend Unitil for going in this direction.

Thank you.

CHAIRMAN GOLDNER: Okay. I just have a few questions.

BY CHAIRMAN GOLDNER:

Q And I'll start, before we return to the famous Exhibit 2, Bates Page 020, because the party's not over yet, sadly, if we go to Exhibit 3, Bates Page 008, under 5.3, in the step adjustment, I'm just trying to understand, Mr. Goulding, I think you hit on this before, but I didn't quite understand your answer.

There's three items in 5.3 that are allowed under the Settlement: There's the "Pre-Tax Rate of Return applied to the annual Change in Non-Growth Net Plant", no problem; "Depreciation Expense", no problem; "State Property Taxes", no problem.

And, then, in your spreadsheet and in

your schedules, you also show that Line Number 17, "Amortization on Post-Test Year Projects", which I don't see listed in 5.3?

A (Goulding) That shows up in 5-5 -- or, 5.5.

Q 5.5. So, I'll move down to 5.5. Okay. So, that was a specific, you know, line item that you negotiated in the Settlement for a specific?

CHAIRMAN GOLDNER: Amount. Okay, I see where that is now. Okay. Thank you. That makes sense.

I would encourage that to be in 5.3 in future settlements. But I see where it is now.

Okay. And then, a question for the DOE real quick. And I know, Mr. Dexter, you're not testifying. But I just didn't see in the docket anywhere that an audit had been completed for this step. And I know that that's typical in steps.

And I didn't know if you would be addressing that in closing, or when an audit would be expected to be completed?

MR. DEXTER: The audit was completed. The Final Report was issued August 1st.

CHAIRMAN GOLDNER: Okay.

MR. DEXTER: And, you know, it's about 30 pages long. But I read through it, and understood that there was a lot of checking of invoices and projects, to make sure that the properly *[sic]* contractor hourly rates were applied, and that overheads were applied accurately, and things of that nature.

On the basis of that Audit Report -- let me phrase that differently. The Department is not going to make any recommended changes to the filing on the basis of that Audit Report.

CHAIRMAN GOLDNER: Okay, thank you. I had missed that in the filing. So, I appreciate that clarity.

BY CHAIRMAN GOLDNER:

Q Okay. To just wrap up here, we'll return to the famous Exhibit 2, Bates Page 020, or the spreadsheet, whichever you prefer.

And I just want to describe what I think is happening. And Mr. Goulding is going to get a "déjà vu" moment here, because I think we've had this discussion before. But I just want to kind of take it home, in terms of what Commissioner Chattopadhyay was talking about.

I'll reiterate here that, when I look at what the Company did, in terms of the step, it's simple, it's easy to understand. It's well thought through. So, that's much appreciated by the Commission. I'll start with that.

What I think is happening here is that, you know, the Company calculated a change in net plant of about $10.2 million. Then, it looked at the fact that the plant additions for 2021 were 16.6, and tried to put that $16.6 million genie in a $10.2 million bottle. In order to do that, you said "Well, let's find a simple way to do it. So, we'll look at the actual plant additions, in terms of growth/non-growth, 17/83 percent. Well, we'll stuff the genie into the bottle using 83 percent."

That's how you come out with 8.5, and then the rest of the calculation is streamlined. And there's nothing illogical about that process. I mean, I understand what you did and why you did it. So, I appreciate the record request, walking us through it before, and I think I understand what's happening. So, I would say, on the face, a sensible approach.

Just to layer on what Commissioner Chattopadhyay was talking about, you know, it's -- I would not recommend using a proxy, when the actual numbers are available. And what I mean by that is that, if you do what Commissioner Chattopadhyay is talking about, and you look in investment year 2021, and you say "Okay, well, let's just assume that no capital had been added in that year", that's your baseline. Then, you say "We know we added 16.6 million in non-growth assets", you do the calculations there. That's what Commissioner Chattopadhyay is doing, you get a slightly different number. It's not hugely different. It's 150 or $200,000.

But, I think, from an accuracy perspective, in my opinion at least, and I want to give the Company an opportunity to comment, it is more logical to not use a proxy, to just say "we know what happens if the base year, no capital is added, we know we've added 16.6 million", and then just run through the calculations year-on-year in transition.

So, I want to give the Company an opportunity to comment. And I would say, maybe not so much for this, for this particular docket, because I understand this is a settlement, and this was a settlement calculation. But, just in terms of the Company's impression or idea, in terms of running the calculation differently moving forward.

A (Goulding) So, I think what happens is, what that modification to the calculation does is it assumes that, because you are applying all the depreciation expense for the prior vintage year, basically, to the non-growth capital additions, it assumes that all growth capital additions, in year one, are supported by customer revenues 100 percent. And it's not always the case, because you do have a situation where, when we add on a large customer or a new customer, we have a CIAC model that looks at their contribution over the 10- or 20-year period, and make sure they're NPV positive.

So, as your investment declines, you have your revenues coming in. So, the beginning years, you might be deficient. But, over the life of the asset or the investment being made, you do have adequate revenues coming in to support that investment.

So, I think that's one of the things that comes up from the modification to the calculation, is that's the major assumption there.

Q And you're probably one step ahead of me. So, I just want to kind of bring it back and make sure I understood what you're saying, because I think I'm missing a step.

If you draw your baseline, saying that "the Company had made zero investments in that period", you run your calculations, and you get whatever it turns out to be, a negative, your change in net plant would decline by about $10 million, Mr. Goulding, as you suggested earlier.

Then, when you add in the non-growth, forget about the growth, that's not a helpful -- that's not helpful information for what we're trying to do here, you just add in the non-growth, 16.6 million, with a little bit of depreciation, and you add that to your change in net plant, you do get a slightly different number. But I don't understand why that more simple calculation wouldn't be more accurate?

And I think you're trying to explain it to me. But, if you could try one more time, because I don't think I understood what you were saying.

A (Goulding) If we had no growth additions at all, I think that would be an accurate calculation. But we do have growth additions. So, those growth additions are not 100 percent supported by new revenue -- new customer revenues in year one. Over the life of the investment, or this 10- or 20-year period, depending on if it's a residential customer or a commercial customer, they are NPV positive. So, there's enough revenues coming in to support those investments.

But, by making the tweak or the adjustment to the calculation that's been made, and to apply all the depreciation expense to the non-growth additions, or to reduce the non-growth additions, we are assuming that there is -- all growth additions are covered by new revenues. That's the only way it can occur.

CHAIRMAN GOLDNER: Okay. I think that's the answer, the goal of a step, and what we're trying to accomplish, and laying all that out. So, I appreciate the complexity of what everyone did in the Settlement to try and piece all this together. And we will launch an IR docket to understand this a little bit better. But I just wanted to take the opportunity, while the experts were on the stand today, to understand your perspective a little bit better. So, I appreciate the time on that.

Commissioner Chattopadhyay, do you have any follow-up questions?

CMSR. CHATTOPADHYAY: I was going to respond to what you were just talking about.

Again, what you're trying to capture is that the inability of those growth projects in the beginning years to, you know, give you everything that you expect from it. And, so, it's, to me, it's not about depreciation, *per se*, it's about need to recognizing that and sort of -- and acknowledging it in the calculation somehow.

So, it's going to the same point where Commissioner Goldner was going, in terms of I think it's very helpful that I'm at least learning from what you're sharing with us. And this would be useful in the future, when we think in terms of, you know, the IR docket. Okay.

Thank you.

CHAIRMAN GOLDNER: Okay. Very good. Just a follow-up, before we move to redirect.

Mr. Dexter, we reviewed the file. We do not have the audit in the file. So, if the DOE could please follow up with putting it in the file, we would appreciate it.

MR. DEXTER: Yes. It was not filed in the docket.

Would you like to treat it as a record request? Would that be an appropriate way to get it in?

CHAIRMAN GOLDNER: Thank you, sir. Yes. That would be -- that would be perfect.

[Record request reserved.]

CHAIRMAN GOLDNER: And, when you were talking before, Attorney Dexter, you were -- it had been filed in the rate case docket, is that where it was landing? Or was that just in the DOE's files?

MR. DEXTER: I don't believe it was filed in any docket. I think the practice has been, where the Commission, in certain orders, have required an audit be filed, then we file it in the docket.

That didn't appear in the procedural order that set this case off. So, the audit went forward. The Company has it, because they always get it. But it wasn't filed in the docket. I think that's the thinking.

CHAIRMAN GOLDNER: Okay.

MR. DEXTER: But we'd be happy to file it as a record response.

CHAIRMAN GOLDNER: Thank you. Yes, and we, as were preparing for this hearing, we realized that we had missed that in this particular proceeding. So, I would say, as a regular matter, we would always -- the Commission would always like the audit filed.

In this particular case, we'll make the record request here and straighten this out. But, as a practical matter, in the future, we'd always like to see the audit please.

MR. DEXTER: Sure.

CHAIRMAN GOLDNER: So, okay. Thank you very much. Let's move to redirect.

MR. TAYLOR: So, I realize we are running very short on time. And I'm just wondering if I can have five minutes to confer with my people? And then -- because I may have some redirect, it will be very concise. But I just need to confer with my experts first. So, if I could just, you know, have five minutes, that would be a real help?

CHAIRMAN GOLDNER: Sure. Yes. I think the Commissioners will just stay here. And then, when you're ready, we can just resume.

MR. TAYLOR: That sounds good.

CHAIRMAN GOLDNER: Is that okay?

MR. TAYLOR: Thanks.

CHAIRMAN GOLDNER: Yes. Okay. Thank you.

(Recess taken at 11:38 a.m. for Atty. Taylor to confer with Witness Goulding and Witness Nawazelski, and the hearing resumed at 11:43 a.m.)

CHAIRMAN GOLDNER: We can go back on the record. Mr. Taylor.

MR. TAYLOR: I'm going to have a brief redirect for Mr. Goulding and Mr. Nawazelski.

CHAIRMAN GOLDNER: Please proceed.
MR. TAYLOR: And I'll actually let the witness guide me a little bit here.

REDIRECT EXAMINATION

BY MR. TAYLOR:
Q So, earlier in the hearing, Mr. Dexter had asked you a question about a rate change that the Company anticipates next August, August 2023. Do you recall that?
A (Goulding) Yes, I do.
Q And what was the exhibit that was being referred to in that case?
A (Goulding) That was Hearing Exhibit 2, Bates Page 026 and 027. And it's GSL -- Schedule GSL-7.
Q I'm sorry, what was the Bates Page again?
A (Goulding) Bates Page 026 and 027.
Q And I'm sorry, and can you identify the change that was discussed earlier in the hearing?
A (Goulding) There was a question revolving around what we were seeking approval today, because we have a step adjustment for rates effective September 1st, 2022, and then there's a column over, in (K) and (L), which shows the rates effective "August 1st, 2023". And the difference

is, the first section, for the current, the rates proposed for September 1st, those are recovering the step increase, the annual step increase over an 11-month period. So, the Column (K) and (L) rates are adjusting the rates to ensure that the revenue requirement is recovered over a 12-month period beginning August 1st, 2023. So, we're removing that adjustment that recovers the revenue requirement over 11 months.

And there was a question about what we were seeking approval of here. And we were seeking approval of the rates effective September 1st, 2022, along with all of the revenue per customer targets that show up in Schedule GSL-8.

And, in terms of these August 1st, 2023 rates and revenue per customer targets, I understood Attorney Dexter's comment about "if there was other rate changes or distribution rate changes that occur, that these would no longer be valid rates." So, I'd request that the Commission request that we file a compliance filing 60 days prior, that, if there was no rates -- no other distribution rate changes --

[Interruption due to fire alarm activation.]

CHAIRMAN GOLDNER: We'll go off the record.

(Due to the fire alarm activation, the hearing was recessed at 11:47 a.m., and, after receiving the "all clear" notification, the hearing resumed at 12:03 p.m.)

CHAIRMAN GOLDNER: Okay. We'll go back on the record.

BY MR. TAYLOR:

Q So, sorry. Just to pick up where we were. Mr. Goulding, you were suggesting a compliance filing.

A (Goulding) Yes. So, I was looking -- we were looking at as administratively efficient to file both the rates for September 1st, 2022, and August 1st, 2023, along with those revenue per customer targets, which are in GSL-8. And the request would be that we have -- we make a compliance filing 60 days prior to August 1st, and those rates would match what's in here.

Obviously, if there was a distribution

rate change, then that would not -- then, those rates would change.

Q So, just to be clear, just so I understand. The compliance filing is efficient, because we know what the change is going to be now. But we know that -- but it's 12 months away, or it's in the future, in any event. And, so, we don't want to just simply change the rates without telling the Commission. So, the idea would be to file a compliance filing, and this would be a downward adjustment of rates, correct?

A (Goulding) That's correct.

Q And then, that would set the rates at what is shown in the schedule, is that correct?

A (Goulding) That's correct. And, for -- the reason why it works for Northern is because there's only one step increase. We don't have another, a subsequent step increase.

Q And, again, just to clarify, if there were to be something in the nature of an exogenous event, a tax change, something like that that is contemplated, it would change the -- would cause a change in rates, then we would not make a compliance filing. We would actually incorporate the change in rates next August into a different rate filing, is that right?

A (Goulding) That is correct.

MR. TAYLOR: I have no further questions.

CHAIRMAN GOLDNER: Okay. Very good.

MR. TAYLOR: I would ask, before we go to closing, unless you have any further questions for Mr. Sprague, the fire alarm did delay our hearing a bit, and he has come back. But I do know that he has an appointment that he needs to get to. So, I would ask if he could be excused now, that would be great.

CHAIRMAN GOLDNER: Yes, please. Thank you, Mr. Sprague.

WITNESS SPRAGUE: Thank you.

CHAIRMAN GOLDNER: Okay. Without objection, we'll strike ID on Exhibits 1 through 3, admit them as full exhibits.

And hold the record open for the record request, Exhibit 4, which was the audit from the DOE.

*(**Exhibit 4** reserved for record request.)*

CHAIRMAN GOLDNER: And we'll move to closing, beginning with the Department of Energy, and Attorney Dexter.

MR. DEXTER: Thank you, Commissioners. I will keep this short.

The Department of Energy is supportive of the rates proposed for effect September 1st, 2022. We believe the calculation of the rates conforms to the Settlement that we signed just a few months ago in the underlying rate case. We believed that this step adjustment, which incorporates the "net plant approach", is preferrable to the "list approach" that the Company submitted in the rate case, mostly because the list included the entire capital budget or non-growth capital budget. We believe there might be a place for a step adjustment involving a smaller, specified list, without going through the net plant exercise. But that's not what we have here. That's something that we can discuss in the investigative docket on step adjustments when that comes around.

We are not supportive of a simple compliance filing for August 1st, 2023. While I haven't specifically researched the statutes, my understanding is that base rate changes, generally speaking, go to hearing. It may just be a simple rate reduction, if nothing happens with distribution rates between now and 2023. But a lot can happen in a year. And I don't see a huge harm, you know, if it turns out to be a simple hearing.

So, we would recommend approval of the rates for September 1st, 2022, but not approval of the rates for August 1st, 2023, subject to a compliance filing. We think the Company ought to come in at that time and explain the rates.

I wanted to offer an answer to Commissioner Chattopadhyay's question about the historic split between growth and non-growth. I think I found that answer in the Company's testimony in the underlying rate case. And I'll throw this out there, and, if the Company wants to correct it, they can.

But, if you were to go to the Sprague/LeBlanc testimony from 21-104, and go to Page 16, there is a chart that shows actual spending brokered between growth and non-growth.

And I believe the results are along the lines of what Mr. Goulding indicated, that the growth was higher in prior years than what's shown here for 2021, more like a 30 percent allocation -- not "allocation", but a 30 percent spending on growth.

It seems to the Department that the calculation presented in the first column of the step adjustment, which is Exhibit 2, the page we've been talking about all day, Exhibit 2, Page 20, that the first column, I say the "first column", Column (a), which is the revenue recalculation on the total capital budget, the capital investments and the total change in net plant, doesn't seem to generate much controversy. It seems that a lot of the discussion and the questions get to Columns (b) and (c), where we're trying to allocate between growth and non-growth.

The reason I point out the obvious is, and I've said this in many step adjustment hearings, it's important that the Company not receive recovery for growth investments, because there is no adjustment to the revenue calculation that comes out of a rate case. In other words, test year revenues, you know, subject to minor adjustment, become factored into the rate calculation. And, so, if we're going to allow, you know, adjustments for future events on the plant side, if we don't also adjust revenues, then it becomes a -- an imbalanced step adjustment.

So, one of the things that I think we ought to explore in the IR docket is using a Column (a) approach, but maybe adding a line in for additional revenue that was achieved in that step year. For example, today, we heard the witnesses say that there was significant investment down in Tuscan Village, and customers are there and there is new revenue. That might be a more direct way to approach the step adjustment situation. So, I just throw that out as a thought.

We will file the audit as a record response, as requested. And, in summary, we would recommend approval of the rates proposed for September 1st, 2022.

CHAIRMAN GOLDNER: Okay. Thank you, Attorney Dexter. And we'll move to the Company, and Attorney Taylor.

MR. TAYLOR: Thank you, Commissioners. Thank you for your time today, and your thoughtful questions. And thank you, also, to the Department of Energy for its time today, and its recommendation in favor of our proposal.

In Order 26,650, in Docket DG 21-104, the Commission had indicated that the Company's step increase "may be allowed, if the method of calculating the step is appropriate and the resulting rate increase is reasonable." The testimony presented by the Company's witnesses, in writing and at hearing today, demonstrate that the method agreed to by the parties in the Settlement is reasonable, appropriate, and consistent with accounting practices and traditional ratemaking principles. Moreover, the methodology agreed to by the parties results in a revenue requirement that is reasonable.

The Company's filing is compliant with the Settlement, and it provides a significant amount of information supporting the purpose and reasonableness of the Company's 2021 non-growth capital projects and additions.

There's been no argument or evidence presented today that the Company's 2021 projects for non-growth investments were unreasonably or imprudently incurred.

To address the calculation that we've spent a lot of time on today, and in prior dockets, as the Company's witnesses have explained, the Company does believe that it's appropriate to allocate costs, in this case, depreciation expense, to the category of investment that produced the costs. It's simply a statement of fact that depreciation expense includes vintage year investments that must be allocated appropriately between growth related investments and non-growth related investments. This is consistent with utility accounting practices and consistent with ratemaking principles, and this is the methodology that was agreed to by the Settling Parties, and, therefore, incorporates a reasonable and accurate approach.

Assigning all depreciation expense to non-growth investments does not result in an accurate calculation for the change in non-growth net plant. And that's because the associated depreciation expense will be overstated. And, as a result, the revenue requirement for the 2021 change in non-growth net plant will be arbitrarily reduced.

The Settlement in DG 21-104, which the Commission has authorized largely found to be just and reasonable, was the product of multiple days of negotiations. And the components of the Agreement were carefully calibrated and negotiated among the parties to achieve balance among the parties' interests.

And, so, to, and I don't get the sense from the Commission that this is the case, but to impose any sort of different methodology at this time would upset the settlement expectations of the parties, who are very sophisticated, very competent parties, the DOE and the OCA, and they had hired experts, and we all looked at this together, really kicked the tires on it, and determined that this was a just and reasonable approach.

And I think that, based on the conversations today, as a general matter, I think that there is a sense that the "change in net plant approach" is appropriate. There may be some small difference of opinion as to calculate it. But I do think that we've demonstrated today that what we've presented is a reasonable way of doing it. And I think that's what the Commission should consider. It is something that the parties settled upon.

So, we understand that the Commission intends to examine step adjustment methodologies in a separate investigatory docket. And we certainly will be enthusiastic participants in that, and we welcome it. I certainly think it makes sense to try to determine a uniform approach across utilities. And, so, some of the questions we've discussed today I think are appropriately left for that docket.

In this docket, I would ask that the Commission take the product of the Settlement negotiations among the parties, determine it to be reasonable, and approve the Company's proposed revenue requirement for its step adjustment.

I will ask that -- or, I guess remind the Commission that this is something that we have requested for effect on September 1, which I realize is not very far in the future. So, I don't know if there's any sense that that's not going to happen, but we are requesting that this be -- that we have an order that will allow the rates to take effect on September 1.

And, beyond that, we appreciate the Commission's time.

CHAIRMAN GOLDNER: And just a question on that.

When would the Company need the order, in order to implement the rates on September 1st? It would be great if the answer was "September 29th", but probably not.

MR. TAYLOR: That would -- we would need to talk to our Billing Department --

CHAIRMAN GOLDNER: Okay.

MR. TAYLOR: -- to determine that. There's sometimes some wiggle room of a couple days, but not more than that. And it depends, from month to month, just how many days that is.

So, I don't have an answer for the Commission.

CHAIRMAN GOLDNER: Okay. We might, in

this case, consider a two-part order, that gets an answer on the main question by the 1st, and then takes care of some of these lingering details and disputes later on. So, we may do something like that in this case. Our attorney is out until Monday. So, it will be close for us to be able to finish on time. But we'll endeavor to do so, understanding that it would be a lot easier to have an answer by the 1st. So, we'll target the 1st, and having it to you by then, and put something in the file, if that's not, for some reason, not going to happen.

MR. TAYLOR: Very good. Appreciate it.

CHAIRMAN GOLDNER: Okay. Is there anything else today?

[No verbal response.]

CHAIRMAN GOLDNER: All right. Very good. So, I'll thank everyone, in particular, the witnesses. We'll take the matter under advisement, and we'll issue an order. We are adjourned.

(Whereupon the hearing was adjourned at 12:18 p.m.)