



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

Docket No. DE 19-064

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities  
Distribution Service Rate Case

**DIRECT TESTIMONY  
OF  
STEVEN E. MULLEN**

April 30, 2019

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry,  
4 New Hampshire.

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

6 A. I am employed by Liberty Utilities Service Corp. (“Liberty”) as Director, Rates and  
7 Regulatory Affairs. I am responsible for rates and regulatory affairs for Liberty Utilities  
8 (Granite State Electric) Corp. (“Granite State” or “the Company”) and Liberty Utilities  
9 (EnergyNorth Natural Gas) Corp. (“EnergyNorth”) in New Hampshire, and Liberty  
10 Utilities (Peach State Natural Gas) Corp. in Georgia.

11 **Q. Please state your professional experience and educational background.**

12 A. In 2014, I was hired by Liberty as the Manager, Rates and Regulatory, and was promoted  
13 to Senior Manager in August 2017 and to my current position of Director in July 2018.  
14 In addition to managing the Rates and Regulatory Affairs department, I am responsible  
15 for the development of regulatory strategy, interacting with regulators and other parties  
16 on behalf of Liberty, review and preparation of testimony and other aspects of regulatory  
17 filings, and internal approval of rate changes for EnergyNorth and Granite State, among  
18 other duties.

19 From 1996 through 2014, I was employed by the New Hampshire Public Utilities  
20 Commission (“Commission”) in various roles. Through 2008, I held positions first as a  
21 PUC Examiner, then as a Utility Analyst III and Utility Analyst IV. In those roles, I had

1 a variety of responsibilities that included field audits of regulated utilities' books and  
2 records in the electric, telecommunications, water, sewer, and gas industries, rate of  
3 return analysis, review of a wide variety of utility filings, and presenting testimony before  
4 the Commission. In 2008, I was promoted to Assistant Director of the Electric Division.  
5 Working with the Electric Division Director, I was responsible for the day-to-day  
6 management of the Electric Division, including decisions on matters of policy. In  
7 addition, I evaluated and made recommendations concerning rate, financing, accounting,  
8 and other general industry filings. In my roles at the Commission, I represented  
9 Commission Staff in meetings with utility officials, outside attorneys, accountants, and  
10 consultants relative to the Commission's policies, procedures, Uniform System of  
11 Accounts, rate cases, financing, and other industry and regulatory matters. From 1989  
12 through 1996, I was employed as an accountant with Chester C. Raymond, Public  
13 Accountant, in Manchester, New Hampshire. My duties involved preparation of financial  
14 statements and tax returns, as well as participation in year-end engagements.

15 I graduated from Plymouth State College with a Bachelor of Science degree in  
16 Accounting in 1989. I attended the NARUC Annual Regulatory Studies Program at  
17 Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School  
18 sponsored by Florida State University. I am a Certified Public Accountant and have  
19 obtained numerous continuing education credits in accounting, auditing, tax, finance, and  
20 utility related courses.

1 **Q. On whose behalf are you testifying today?**

2 A. I am testifying on behalf of Granite State.

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

4 A. My testimony provides support for Granite State's request for approval of step  
5 adjustments to recover the revenue requirement associated with non-growth related  
6 capital additions placed in service during years following the test year. Such step  
7 adjustments should also include a provision for increases in property taxes that are  
8 beyond the Company's control. In addition, I briefly discuss some regulatory matters  
9 involving filing dates for rate and other filings, the examination and review of which  
10 would serve all parties well in terms of process improvements and possible workload  
11 reduction and efficiency gains.

12 **II. REQUEST FOR STEP ADJUSTMENTS**

13 **Q. Please describe how the current regulatory structure for Granite State impacts its  
14 earnings during the time that takes place between rate cases.**

15 A. Since Liberty Utilities' acquisition of Granite State in mid-2012, Granite State has filed a  
16 distribution rate case every three years: in 2013, 2016, and now in 2019. The prior two  
17 rate cases resulted in permanent rate increases based on historic test years, accompanied  
18 by step increases for plant placed in service during the year following the test year. The  
19 most recent rate case, Docket No. DE 16-383, also provided for step increases associated  
20 with a limited portion of the investment related to selected capital projects comprising  
21 only a portion of the annual capital spending.

1 **Q. What is the largest source of downward pressure on a utility's earnings between**  
2 **rate cases?**

3 A. The largest negative impact on a utility's earnings between rate cases is the regulatory lag  
4 between the time capital investments are made and the beginning of the recovery of the  
5 revenue requirement associated with those capital investments, particularly when those  
6 investments are considered non-revenue producing or non-growth related. That revenue  
7 requirement includes a return on and of (a/k/a depreciation expense) the investment as  
8 well as associated costs, such as property taxes.

9 **Q. Please demonstrate the impact of regulatory lag on a utility's earnings.**

10 A. This can best be demonstrated by way of example. Assume a utility places \$10,000,000  
11 of non-growth related capital investments into service in a year with no mechanism for  
12 rate recovery related to those investments. As a rule of thumb, the revenue requirement  
13 for utility capital investments can be roughly estimated by multiplying the capital  
14 investments by 15 percent, which provides for such items as depreciation, property taxes,  
15 and the impact of deferred taxes. For that \$10,000,000 of non-growth related capital  
16 investments, the associated revenue requirement would be \$1,500,000. So all else being  
17 equal, those investments in a utility's plant and equipment would reduce earnings by  
18 \$1,500,000. That reduction to earnings occurs each year there is no method for rate  
19 recovery, i.e. the years between test years. This is one of the primary reasons why  
20 utilities that are investing in their system and replacing existing infrastructure need to file  
21 frequent rate cases. Putting that into perspective, as further described in the joint  
22 testimony of Joel Rivera, Anthony Strabone, and Heather Tebbetts, Granite State has

1 made significant capital investments which have been placed in service during 2017 and  
2 2018 for which there has been no cost recovery, and that is a primary reason for the filing  
3 of this request for an increase in distribution revenues.

4 **Q. You mentioned property taxes as one of the cost items included in the revenue**  
5 **requirement associated with new plant investments. Have property taxes increased**  
6 **on previously existing plant investments?**

7 A. Yes. Property taxes are the primary funding source for municipalities’ budgets. For  
8 many municipalities, utility property comprises a large portion of the towns’ tax base and  
9 is a very significant funding source for the State of New Hampshire. So even if no new  
10 capital investments are made, utilities often see their property tax bills increase.

11 **Q. Have Granite State’s property taxes increased since its last rate case?**

12 A. Yes. That case, Docket No. DE 16-383, had a 2015 test year. Property tax expense in  
13 2015 was \$3,459,410. For the test year in this case, 2018, the total property tax expense  
14 was \$4,673,568, an increase of \$1,214,158, or 35.1 percent. The table below shows the  
15 year-over-year increase from 2015 through 2018.

Year	Property Tax Expense	Annual Increase (\$)	Percent Increase
2015	3,459,410		
2016	3,663,259	203,849	5.9%
2017	4,478,562	815,303	22.3%
2018	4,673,568	195,006	4.4%
	Total Increase	1,214,158	35.1%

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1 **Q. Was Granite State granted any step adjustments for plant investments placed in**  
2 **service after 2015?**

3 A. Yes, but for only some of those investments. During 2017 and 2018 the Company was  
4 approved for step increases related to: 2016 plant investments, a portion of its 2017  
5 investment in its Pelham Substation and getaway cable projects, and capital investments  
6 placed in service related to the Reliability Enhancement Program. However, the property  
7 tax recovery in those step adjustments only amounted to approximately half of the overall  
8 increase, leaving approximately \$600,000 of property tax increase as a reduction to the  
9 Company's earnings. As compared to the amount of the Company's request in this  
10 proceeding for a temporary distribution revenue increase, property taxes alone account  
11 for a significant portion of the earnings shortfall.

12 **Q. Given your comments above, what is the Company requesting?**

13 A. As explained above, plant investments placed in service in the years outside of test years,  
14 particularly non-growth related capital investments, have a significant impact on Granite  
15 State's earnings. Another significant cost pressure comes from property taxes, which are  
16 beyond the Company's control. While these costs are certainly not new in the overall  
17 regulated utility area, they end up causing frequent filings of distribution rate cases,  
18 which result in a significant burden not only from the Company perspective, but also with  
19 respect to the time and effort required by the Commission, its Staff, the Office of  
20 Consumer Advocate ("OCA"), and other potential parties. With each rate case comes  
21 hundreds of thousands of dollars of rate case expenses incurred by Staff and all parties to  
22 prepare, review, and prosecute those cases. Such rate case expenses ultimately end up

1 being paid by Granite State's customers. Thus, the Company would like to explore with  
2 Staff and the OCA ways to lengthen the time between rate cases, while providing a  
3 reasonable opportunity for the Company to earn a reasonable rate of return. A multi-year  
4 plan that includes a provision for step adjustments related to plant investments, along  
5 with addressing changes in property taxes, would be a step in the right direction. This  
6 would allow the Company to focus on operating the business while also reducing rate  
7 case expenses being incurred on a frequent basis. In addition, with large endeavors such  
8 as grid modernization currently being explored, the Company, Staff, and the OCA could  
9 devote more time and attention to exploring and planning for the future of the electric  
10 industry.

11 **III. DUE DATES FOR RATE AND OTHER FILINGS**

12 **Q. Please provide your general comments regarding due dates of rate-related and other**  
13 **required filings.**

14 A. Over just the past five years, the regulatory reporting requirements of Granite State and  
15 EnergyNorth have grown to where, on a combined basis, the weekly, monthly, quarterly,  
16 annual, and event-driven required filings total between 500 and 600 per year, equaling  
17 nearly two filings per day. Those reporting requirements have been established by rules,  
18 laws, Commission orders, settlement agreements, and other measures over the years,  
19 which have for the most part included due dates either in mid-month or on the last  
20 day/first day of a month. While the total number of reporting requirements have  
21 increased, it has also resulted in an increase in the number of reports due simultaneously.  
22 In addition, directives from the Commission, whether by order or secretarial letter, to file

1 supplemental information in dockets, special reports, or other documents typically also  
2 include mid-month or end of month due dates. While the use of overlapping due dates is  
3 most likely coincidental, it creates a significant burden on the utility. In addition,  
4 particularly with respect to rate-related filings, the overlapping due dates also create  
5 burdens for the Commission, its Staff, and the OCA to review and analyze those filings  
6 simultaneously, recognizing that Liberty is not the only utility submitting filings at any  
7 particular time.

8 **Q. Regarding rate filings, could you provide some recent examples of overlapping due**  
9 **dates?**

10 A. The following rate-related filings were made by Granite State with due dates between  
11 March 15 and April 1:<sup>1</sup>

- 12 • Annual Reliability Enhancement Program/Vegetation Management Program
- 13 (“REP/VMP”) Reconciliation filing;
- 14 • Annual Retail Rate Reconciliation filing;
- 15 • Step Adjustment filing in Docket No. DE 16-383; and
- 16 • Annual Storm Fund filing.

17 The first three items were all for rate changes effective May 1, 2019.

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<sup>1</sup> This list does not include filings that are also due during the same time for EnergyNorth, which also require the involvement of many of the same personnel as Granite State’s filings.

1 **Q. Where did the due dates for those filings originate?**

2 A. The due dates for the REP/VMP filing and the Storm Fund filing originated in a  
3 settlement agreement in Docket No. DG 06-107. The due date for the Annual Retail Rate  
4 Reconciliation filing was originally in November as established in DR 98-120, but it was  
5 revised to May by Commission order in Docket No. DE 14-340 and has remained due in  
6 May since that time. Finally, the due date for the step adjustment filing in Docket No.  
7 16-383 was in an approved settlement agreement in Docket No. DE 16-383.

8 **Q. With those overlapping filings, what have you witnessed?**

9 A. In addition to the increased activity that such overlapping filings causes in various  
10 departments of the Company, I have also witnessed the impact to those on the receiving  
11 end of the filings in terms of review of the filings, scheduling of hearings, conducting  
12 discovery, the issuance of orders, etc. Having worked at the Commission for a number of  
13 years, I am keenly aware of the pressures such overlapping filings can cause for the  
14 Commission, particularly when other utilities' requirements are taken into account.

15 **Q. Taking your above comments into account, what are you recommending?**

16 A. Recognizing the burden that overlapping filings can cause for those on both ends of the  
17 regulatory structure, and while recognizing that some of the overlapping dates stem from  
18 laws or Commission rules, the Company is recommending:

- 19 • A discussion take place to explore revising the due dates of filings, such as the  
20 Annual Storm Report and the Annual Retail Rate Reconciliation;

- 1           • The Company, Staff, and OCA should meet to review existing reporting  
2           requirements and deadlines and determine if certain requirements (including due  
3           dates) can be revised, combined, or eliminated;
- 4           • When establishing procedural schedules and due dates, all parties should remain  
5           mindful of other existing requirements that place significant burdens at both ends  
6           of the reporting structure. This would involve consideration of the establishment  
7           of due dates that vary from the typical mid- and end of month timelines.

8           By taking the above measures, the Company is hopeful of developing reporting timelines  
9           that work well for all involved and spread the workload to allow everyone to work more  
10          efficiently, which is in everyone's best interest.

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

12       A. Yes, it does.