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# STATE OF NEW HAMPSHIRE

## PUBLIC UTILITIES COMMISSION

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**March 22, 2018 - 1:05 p.m.** **DAY 4**
Concord, New Hampshire **Afternoon Session ONLY**

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

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

Sandy Deno, Clerk

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

**Reptg. Residential Ratepayers:**
D. Maurice Kreis, Esq., Consumer Adv.
Brian D. Buckley, Esq.
Pradip Chattopadhyay, Asst. Cons. Adv.
James Brennan, Finance Director
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Paul B. Dexter, Esq.
Alexander F. Speidel, Esq.
Stephen Frink, Dir./Gas & Water Div.
Al-Azad Iqbal, Gas & Water Division

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

# I N D E X

WITNESS: STEPHEN P. FRINK

P R O C E E D I N G S

(Hearing resumed at 1:05 p.m.)

CHAIRMAN HONIGBERG: Mr. Sheehan, ready to go?

MR. SHEEHAN: Yes, sir.

CHAIRMAN HONIGBERG: You may proceed.

CROSS-EXAMINATION

BY MR. SHEEHAN:

Q. Good afternoon. I'm going to run through the same topics you did this morning with some follow-up. First, Keene.

The docket in which Liberty bought Keene acknowledged that the Company would probably be looking to consolidate and grow; correct?

A. That's correct.

Q. In fact, the largest -- some of the largest energy users in Keene are not on the propane air system, such as the hospital, Keene State, Markem and some of the other manufacturers.

A. That's true.

Q. If Liberty were able to get those three or

four customers onto a new system, CNG or LNG, that would more than triple the output of the system as it is today, or roughly triple.
A. Well, it would -- the system today couldn't accommodate those customers. So, basically it would replace the system and triple the capacity.
Q. Right. And you understand that the plan is to essentially build a ring around Keene with new pipe and go into where these large customers are.
A. I haven't actually reviewed the physical plans, but --
Q. But the point being there's a lot of growth potential in Keene.
A. That's what I have read, yes.
Q. Okay. Your objection to the rate consolidation is the issue of subsidy, that the EnergyNorth customers will pay for what is now the Keene deficiency.
A. Yes.
Q. And as we talked about, it's a relatively small number for the EnergyNorth customers, a couple dollars a year, and it could be a

relatively large savings for the Keene
customers; correct?
A. Yes.
Q. Keene customers will have whatever the number is, 20, 30 percent reduction in their distribution rates if they move to EnergyNorth.
A. There's your bill analysis in rebuttal testimony that indicates that. I don't -- I'm not sure what the -- where the cost of gas numbers came from. I understand the delivery rate because that's existing temporary rates, but...
Q. And the difference there in distribution rates, as Mr. Clark testified, the fuel cost he projects will be comparable. The CNG is comparable to the existing. I can't remember if he said slightly more or slightly less.
A. He said it would be slightly less was his testimony.
Q. And if those costs turned out to be slightly higher than projected, there's still a big delta in distribution rates. So the Keene customers may still benefit even if the fuel

cost ends up being a little higher than projected.
A. Yes.
Q. There's room there.
A. Yes.
Q. And certainly if the Company started designing its large permanent facility and saw that the entire delta would be erased by those fuel costs, the Company wouldn't go forward, or it would be unwise to go forward; correct?
A. Correct.
Q. And that's something that would be discussed at future, as we propose, cost of gas hearings.
A. You're talking about the investment in the supply plant?
Q. Correct.
A. Okay.
Q. Is it Staff's position that any extra cost put on the EnergyNorth customers makes it -- would support you rejecting or recommending that the consolidation not occur, that there's no de minimus threshold?

A. No. No. Actually, it's not that Staff is opposed to the consolidation of rates. And as with iNATGAS, we recognize that in early years there could be higher deficiency as a result. But over time, if it provides a positive return, then that's typically evaluating -- well, as you know, expansions and other things, we look -- the Commission looks for a 10-year payback. So if it's subsidized for a few years, but ultimately benefits customers, then Staff would be supportive of that.

Q. And you've seen that in the testimony Mr. Clark did do projections through his Phase 1, 2, 3, 4, 5 of what the cost would be and what the potential revenues would be, and they are positive; correct?

A. I have seen that analysis and I have seen that they produce positive results, yes.

Q. And he was the first to acknowledge that they are estimates because we don't have particular customers that will sign up for their particular loads, and we have not spent the money and time to do the real detailed

engineering that it would require; correct?
A. That would definitely be part of it, yes.
Q. And the same "chicken and egg" problem we had with Hanover-Lebanon, where it's hard to talk to customers until you know you have the right to talk to customers. Fair enough?
A. Fair enough.
Q. And you mentioned briefly, and so did Mr. Hall, the precedent -- the Commission precedent approving rate consolidation, where there were substantial subsidiaries by the acquiring entity; correct?
A. I don't know if the testimony goes into how substantial those were. But I know it varies. There have been substantial --
Q. There is a quote from one of the cases in Mr. Hall's testimony, where it has the rates of the acquiring water company, I think it was Pennichuck -- and the acquiree, which was Pennichuck East -- and one was $14 per whatever, and the other was a dollar-something per unit, which is three or four times difference. Do you acknowledge that would be a substantial cost shift, at

least based on those high line numbers?

A. Yes, I'll accept that.

Q. And you said water is different because you have no choice with water.

A. Right. There are many water systems that have failed, systems that the Commission has taken into receivership. And you seek to find someone who has the resources and ability to take that system over. And in cases like that, it's typical that they get to make that investment and recover those through their overall rates.

Q. And not to be flip, but if a system had to be shut down, you can drill a well.

A. Not necessarily.

Q. In some areas you can't.

A. Generally when a developer puts in a water system, it's so he'll have greater density. He can browse those lots, and there's not the space to put in a well, or it violates the regulations.

Q. Fair enough. And there are options -- strike that.

And absent consolidation, if the

Commission does not approve our request, the options are: Do nothing, and the Company continues to lose money; file a rate case, which would hike the Keene rates, and you may dispute how much, but certainly 20, 30, 40 percent, whatever the number is; or close the system down. Is that a fair list of options?

A. Well, another option is the Company could file for consolidated rates and demonstrate that this does indeed provide a benefit.

Q. And obviously you don't think we've met that.

A. No, I do not. Plus, I would want to see more details. The saying goes, "The devil's in the details." I'd like, you know, what's in those costs. Will it be included in the DCF?

Q. To the extent there's a subsidy now of 25 cents a month, and we are able to grow Keene, that will shrink as we add more customers.

A. Again, it depends on the cost of adding those customers. We're here discussing iNATGAS, Staff adjustment for that, because costs were something very different than what was originally anticipated. Timing. I look at the temporary CNG facility. That was supposed to go into service back in December 2016 and be located behind the marketplace facilities, and that wound up being a much bigger project, a much bigger undertaking, at a much greater cost than was originally envisioned. And those things happened.

Q. The Hanover-Lebanon franchise that the Commission just approved, approved EnergyNorth rates for those customers; correct?

A. That's correct. Yes.

Q. And there's no question that whatever the cost of Hanover-Lebanon, it's not going to be the same as any particular area of the existing system. It might be more, it might be less; right?

A. Are you talking about distribution or --

Q. Yes.

A. Well, you would think that the cost of installing a pipe is fairly uniform. Obviously it depends on -- in Concord and Manchester, it tends to be more now, but that's -- I would expect installing pipes in Lebanon and Hanover would be a fairly average cost of what it is to install pipe anyplace else.

Q. My point was simply that with a system as large as ours, there are going to be costs that vary, for whatever reason. Some part of the system's older and requires more repairs. Some part of the system is newer and has more capital on the ground. And that's part of --

A. That's part of ratemaking, yes.

Q. Part of ratemaking. And in the Hanover-Lebanon situation, Staff was okay with that distribution cost being the same as EnergyNorth's --

A. Right.

Q. -- distribution rate.

A. Yes.

Q. And that's exactly what we are proposing in Keene, that Keene pay EnergyNorth distribution and its own cost of gas, which would be unique to Keene.

A. Yes.

Q. There are a couple Keene issues that you raised several times, one being the so-called "production costs." And we looked at a page in the settlement that said the production costs would be amortized over five years, I believe.

A. Recovered, right, over five years to the Keene cost of gas.

Q. And then later in the settlement agreement it talks about the Keene-specific cost of gas that would include production costs.

A. Right.

Q. And I think there's been a confusion over what we're referring to when we use the term "production costs," and it might be the fault of the settlement agreement.

So I'd like to ask you, when you're looking at that first reference to "production costs" that would be included in the cost of gas, what do you interpret that to mean?

A. I interpret that to be the production costs that were not allowed for recovery in a prior cost of gas proceeding, and the Company is now seeking to recover over five years

through the Keene cost of gas.
Q. You're aware that we originally proposed to recover those costs in distribution rates in that matter; right?
A. Yes.
Q. And I think we have a schedule here, but it was to recover them over three years. Do you recall that?
A. Yeah, I do recall that.
Q. And as part of the settlement agreement, we agreed with the OCA to move them to the Keene-specific cost of gas so that only the Keene customers would pay for those Keene-specific costs. Do you understand that?
A. Yes.
Q. And your objection to those costs are what?
A. You can look at my Staff report filed in DG 16 --
Q. 812.
A. -- 812. That explains what my objection is.
Q. Okay. And part of that is you did not think the Company should have spent what turned out to be about $150,000 for the response of all

the various fire departments and, I forget the number, costs related to the 24/7 coverage of the facility. Is that the bulk of the cost that you --

A. That's the bulk of the cost. I think my stronger objection is to the manning of the plant 24/7, that that's a -- I thought it was, in that filing, I thought it was more like $186,000.

Q. You're aware that on the response cost, there's a statute that compelled us to pay those costs.

A. In the investigation into that, I believe the safety director had a different interpretation of the rules and didn't feel that what they were -- the PHMSA rules that allow -- that would have allowed for recovery of those costs was not -- that this incident didn't qualify.

Q. I'll agree with you there was a disagreement between the way the Company read the statute and the Safety Division did. The statute, for the record, is 154:8-a II-a. And it's a question of what is a hazardous material under the statute versus what's a hazardous material under PHMSA law. I'm not going to ask you for an interpretation. But that's what you recall the dispute being between --

A. Yes, that's it.

Q. And the other cost, the "24/7 cost" we call them, your objection to including those is that there was a small risk of another event and that these costs were rather high. Is that fair to say?

A. Yes. Again, as part of my Staff report on that cost of gas, there's a lot of detail in that as to why Staff objected. And I prepared that report as to why I objected. And we had technical sessions. We sat down with the engineers, and none of that was presented as part of this proceeding. I tried to get at that somewhat. But our chief -- our director of safety isn't here and your engineers aren't here. But from my participation and from what we heard from the Company, Mr. Brouillard, who prepared that response, it seemed like a high expense for a very low reduction in risk.

Q. And you got Mr. Brouillard's data responses where he basically lays that out. We've made improvements to the system. We think there's a small risk, but we think it's still a real risk, so we're going to continue manning 24/7.

A. Yes, Exhibit 55.

Q. Okay. Fair to say Mr. Brouillard knows more about the safety risks of that system than you do; is that fair?

A. Yes, it is.

Q. And is it also fair to say that, although a small risk, the harm that would flow would be very large if we had another event like we did in December of 2015?

A. If you had a similar event, yes.

Q. And in the 2015 event, there was massive amounts of carbon monoxide produced, and there was at least one person removed unconscious from a store, having passed out. You're aware of that?

A. I'm aware of what I read in the investigation and the enhancements that were done, the cause -- how the measures addressed the cause. And there were a lot of measures that were taken that greatly reduced the risk of that incident occurring again. There was another failure that the other measures took effect and didn't have any consequences. At some point it becomes unreasonable to put in another level of risk. I mean, you have a guy out there, you have people coming from Nashua, operators coming from Nashua and Manchester traveling there, being paid for travel and overtime. You have -- okay. He passes out, has a heart attack. Maybe you should have two people. But it becomes ridiculous at some point. There's a certain level of risk that comes with running a distribution system.

Q. And you just disagree with how we balance that risk.

A. In this instance, yes.

Q. You're aware that the Safety Division was actually in favor of 24/7 for the short term.

A. And I would be, too.

Q. And I'm pointing to Bates 058 of your testimony, which is the report, and it's got a list of Liberty actions taken and the Safety Division comments. And the action taken was staff the Keene production plant 24/7 with experienced Keene-based personnel available. And the Safety Division's response was, and it's longer than this, but the bottom line was, it is questionable this action being a long-term, viable solution in terms of cost," which suggests that it's a -- short-term, it's the way to go. Fair enough?

A. Right. And by "short term," I believe he meant until some of these other measures were implemented.

Q. He didn't say that, did he?

A. Not in this report.

Q. And the measures that we intend to implement is a temporary CNG to shut down those blowers. You understand that?

A. That was one of the temporary measures, yes.

Q. Are you also aware these costs which you -- your other objection to including them in the settlement agreement is that they should be addressed elsewhere; is that correct?

A. Yes.

Q. Rather than this case.
A. Yes. Again, I am against consolidating rates in this rate case because I think the basis for it is simply that Keene can't afford the $900,000 revenue deficiency. And there needs to be a lot more -- I am not opposed to rate consolidation for Keene. But this is not adequate for Staff to make an informed judgment as to whether this is how it should be done.
Q. I was focusing more on the recovery of this recent definition of the production costs.
A. Oh, okay. Sure.
Q. I think you said in your testimony this morning that that should be addressed somewhere else.
A. Right. I do think the Company should essentially make a new filing just for the Keene rate consolidation. And if they want to recover those costs, then include that in there.
Q. You're aware that we resolved, at least temporarily, these production costs in the 812 docket. Do you recall that?

A. Yes.
Q. We had the cost of gas hearing in the fall, but we continued to process this issue through the spring of '17, with an order in the fall of '17. Do you recall that?
A. Yes, I do.
Q. And the order in front of me, and I'll read it to you, suggests that the agreement was to address the production costs in this proceeding. It says, and this is summarizing Staff's position, "Staff explained that Liberty-Keene could seek to recover production costs that would not be recovered in COG rates in a future rate filing and that the prudence of those costs could be considered in that future docket."
A. That's true.
Q. And wouldn't that be this docket?
A. That is this docket, and that is why this report is attached to my testimony; whereas, the Company did not provide any testimony, rebuttal testimony as to whether those costs were -- you know, to justify those costs.
Q. Didn't we just have that discussion, where

the statute required it, that our --
A. That was not in your testimony or rebuttal testimony.
Q. And the testimony you just had from Mr. Brouillard explains why we staff the plant 24/7.
A. That was admitted as an exhibit by Staff.
Q. And those costs were also in the revenue requirement testimony that we filed in this case.
A. Yes, it was.
Q. Okay. So that is telling the Commission from the first day we want to recover these production costs.
A. Right.
Q. Okay.
CHAIRMAN HONIGBERG: Mr. Sheehan, I am now a little confused. I want to make sure I have clear in my mind the different positions the Company has. There's the original filing and there's the rebuttal filing position, which are slightly different, and then there's the settlement position. And I know conceptually, for a

variety of reasons, I need to keep those straight in my mind. But I thought I understood from the testimony yesterday that the settlement position is that the prudence of the costs you're just discussing with Mr. Frink would be dealt with in a subsequent cost of gas.

MR. SHEEHAN: No. And that's what I was trying to clear up. Obviously I haven't done it yet.

CHAIRMAN HONIGBERG: No, I think you now have made it clear, although your witnesses, I believe, gave me a different answer yesterday when I asked them this question.

MR. SHEEHAN: And that's why I think there was some disconnect when we say "production costs." Are we talking about the Keene --

CHAIRMAN HONIGBERG: Well, I could be wrong, and the transcript will tell me if I'm wrong, but I think I asked the question about whether the production costs on Page 7 were different from the production costs later in the document and was told the answer was "Yes." And so in each instance I believe the point I was trying to get out was, am I being asked to rule on the prudence of the 2015 production cost figure in this proceeding? I now understand you to be saying, yes, not only under the original position and the rebuttal position, but under the settlement as well.

MR. SHEEHAN: Yes. And I think a bigger simplification of your perception of the case is the difference from the initial filing to the rebuttal filing is minimal. So you can really look at rebuttal to settlement. And of course, what we're asking you to approve today is the settlement. The settlement language that we started with on Keene, which is Page 7, I believe, that's the one that says production costs related to the 2015 incident should be recovered through a Keene-specific cost of gas for five years. That is the cost we just talked about.

CHAIRMAN HONIGBERG: Right.

And the exhibits to the settlement agreement then presumably include those dollars in what is being recovered.

MR. SHEEHAN: And as we move down from the distribution rates, those dollars are not in the $10.3 million distribution rates.

CHAIRMAN HONIGBERG: But in your view of how the settlement would be implemented, they would be already liquidated a known amount for the next cost of gas proceeding, because you're asking us to rule on the prudence of them now.

MR. SHEEHAN: Right. We have a specific amount in our filing, which, again, for the record, is the -- this page is from the permanent rate filing, Bates 063. It's the schedule that just lists the cost, a total of $350,000. And here it's proposed over three years, and we've modified that to recover them over five years.

So, yes, we're asking you to find that those costs were prudent in this case, as the 16-812 order directed. And if they're found prudent by approving the settlement, they would go into the cost of gas this fall.

CHAIRMAN HONIGBERG: Okay. I think that I'm not the only person who was confused then.

MR. SHEEHAN: And of course, the other production costs --

CHAIRMAN HONIGBERG: I think we're all on the same page, understanding what that means going forward, that those haven't been incurred. Who knows what will be incurred.

MR. SHEEHAN: And I'll jump to my closing. We're fine with a different proceeding this fall to approve those new LNG, CNG costs. We don't expect to cram that into a two-week, regular cost of gas proceeding.

BY MR. SHEEHAN:

Q. Changing to iNATGAS gas. First I'd like to correct I think something that you said this morning. You mentioned the revenue that has come from the facility, and you said the

first three years have no revenues. And I think the correction is it went into service in 2016, so it has only been one year plus when we would be eligible to collect revenues; correct?
A. Right.
Q. Because it took two years to get it in service.
A. Right.
Q. So it's only been one year of --
A. Since they've been in operation -- well, since it's been in service.
Q. So the year of December 2016 to December 2017 was essentially nothing, and from December '17 to the present, we've had the volumes that have been talked about in this proceeding.
A. Yes.
Q. And second, a clarification I think you've made already, that the minimum take-or-pay requirements exist throughout the life of the 15-year contract.
A. It does.
Q. And so there is some security there that in

your seven -- if they're not meeting their minimum take-or-pays, we could take whatever enforcement action is provided for in those documents.

A. That's in the contract. Yes.

Q. And those enforcement actions include a guaranty by Mr. Alizadeh, personal guaranty, that allows us to take ownership of the facility.

A. Again, I have my recommendation in that proceeding as an attachment to my testimony, and it points out that those guaranties -- if iNATGAS fails, you can very well be bankrupt. And if it fails, it may be because the CNG market has failed and there's no value to the asset and there's no money in his -- behind his personal guaranty.

Q. And is it fair to say that this was all known when -- effectively in the settlement agreement, I think it was actually a recommendation that Staff would sign on if --

A. Oh, it was definitely known. That's why we -- the escrow is part of addressing that concern.

Q. And what was known is that it's a high risk, high reward project.

A. Yes, it was.

Q. If it goes well, this could be a huge money-maker for customers.

A. Yes, that's the impression we had.

Q. And where we are now, a little over a year into the operation, it's starting slowly; correct?

A. Three years from when it was supposed to have started, it is now just starting and has one customer. And he does have some trailer fill now. So, yeah, it's very -- it's early in -- well, when you put in the -- when you started service to iNATGAS, I wouldn't know if he -- the station was up and running -- if he had all his commitments done at that point. But whether he did or didn't, he didn't have any customers, apparently.

And so it is -- I don't know how his business plan's working. I know the Company's three scenarios had a take-or-pay requirement, which was a worst-case scenario, and then a scenario based on what iNATGAS was

expecting, and then an accelerated scenario. So I would say where we're at now is something below or close to the take-or-pay requirement, but not close to what the iNATGAS expectations were, and well below the accelerated.
Q. And even at the minimum take-or-pays, and even at the increased cost, that actual cost, there's still a positive DCF over the 15-year life of the contract; right?
A. I don't know if I ran that one out, but I believe that's correct.
Q. Obviously less positive than if the construction costs were two million.  But it's still, again, based with the tools we have, it should work based on these minimum take-or-pays; correct?
A. I think that's true.
Q. You've recommended a reduction in what we can recover for the facility, but there's no -- I didn't see any testimony from you that a particular line item in the 4 million-plus was inappropriate; correct?
A. I pretty much said that what was over the

budget amount shouldn't be -- customers shouldn't be charged for that.

Q. So we shouldn't have fixed the road that the city required us to fix.

A. I'm saying that you should have had that information before you made your filing, or had a good idea of that before you made your filing, and the decision may have been very different.

Q. But that's not the question today. Today the question is: We spent money to fix the road. Should we have done that? And you nowhere say we shouldn't have spent the money to fix the road.

A. Well, I have seen, I think it's an updated business plan or something in the Liberty Consulting report that says the internal rate of return basically went from 14 to 7 percent. And I think we said, well, we need to go forward if we have any hope to recover, something to that effect.

But when these costs started escalating, when you knew you needed to fix the road, which was very shortly after that order came out -- or maybe before the order came out, I don't recall -- when you put that bid out and found out it was going to be that much more, another -- why would you build a full build-out, which our assumption was the reason you proposed a phase-in is to see if the project is going to be successful. And at that point there was no reason to think that you needed that capacity in the near future, yet -- I mean, that was just few months after the filing. So it's hard to justify a $6- or $700,000 full build-out at that point when it wasn't -- that should have been in the proposal. And all that -- when all that started to happen, I would expect the Company would reconsider that project. And I don't know what was happening with iNATGAS at that time. I know they were building a facility in Worcester and focusing on that. I don't know if they're -- again, I'm pretty sure they didn't want to start taking service until they actually had a customer. But, you know, I think it should have been re-looked at by the Company, and maybe the decision to go forward with it might have been a more prudent decision.

Q. Going back to my question, though. You did not go through the $4 million and say particular items in that $4 million were unreasonable.

A. I did not go through it item by item and say this cost is unreasonable.

Q. You took the more global look that you just described before of what we should have been thinking as those costs increased.

A. That's the approach I took, yes.

Q. Liberty Consulting also looked at this project. And similarly, after reciting the sequence of changes and costs, similarly made no recommendation to disallow any of these costs; correct?

A. That's correct.

Q. The Audit Division looked at this project as well and similarly made no recommendations of any -- maybe some small ones, I don't recall -- but of any large items to be not included.

A. No, and I wouldn't expect them to make that

recommendation.
Q. They will flag issues, though, if they see something they think is --
A. That's true. On the training center, they recognized there were additional costs due to an accelerated schedule or doing -- getting -- so, yes, I do recall that in the audit record they did make a recommendation for disallowance, recommended that Staff should -- there should be disallowances related to those costs, specific costs.
Q. And in this case they did not.
A. They did not, right.
Q. I have to say "AFUDC" once or twice. Just to be clear, when this was up for review in 14-091, AFUDC was not included in anyone's DCF; correct?
A. Correct.
Q. And in the Hanover-Lebanon analyses, AFUDC was not included in anyone DCFs.
A. I don't recall, but I'll accept that.
Q. Same with the Windham-Pelham project. No AFUDCs in their analysis?
A. I'll accept that.

Q. And I heard you say this morning that, maybe from now on it may be a good idea to include. But is it to say that has never been a requirement or a practice to include AFUDC in DCF analyses?
A. As far as I know, it hasn't ever been done for EnergyNorth, or at least not since Liberty has been doing it. I don't know if other utilities do that. I'd have to look at the -- I could look at the Northern model and see if that's in there. It may be that other utilities, when they do a discounted cash flow analysis, include it.
Q. At the end of day on iNATGAS, you're recommending that we not recover almost $400,000 per year for that project.
A. Until your next rate case, yes.
Q. And that's an annual number. So by the next rate case, it will be, depending on whether it's three or four years, $1.2 or $1.6 million we would not have recovered for iNATGAS.
A. Correct.
Q. And let's assume things go great and at the

next rate case we've got more business than it can handle. We will never recover that $1.2 or $1.6 million that we would have lost during these three or four years.

A. Well, there's nothing to preclude the Company from, as they do in other instances, tracking that and then asking for deferred recovery.

Q. Right. And that would require a Commission order to allow us to make that deferral and to bring that deferral forward in the next rate case; correct?

A. I don't know if it would require a Commission order to actually defer those costs. But it would certainly require a Commission order to recover those deferred costs. That's what the Company did.

Q. And the other question I have for you on that $396,000 number is the way you calculated it was to take the expected revenue in year one with the expected revenue requirement for year one, and that's the difference.

A. Yes.

Q. When one does a DCF, those numbers change over time, the expected revenue and the

expected revenue requirement.
A. Right. That's generally why the Commission looks for a 10-year payback on those.
Q. And the revenues, especially in this case with the minimum take-or-pays, and the hopeful expansion of iNATGAS, the revenues are going to go up, and somewhat dramatically if they meet their minimum take-or-pays; correct?
A. That's certainly our hope.
Q. And the cost of revenue requirement will go down over time as the project is depreciated.
A. Absolutely.
Q. So your one calculation here would be smaller if we looked at year two, even under your approach.
A. The revenue requirement will go down each year, yes. So in year two the revenue requirement will be less.
Q. So by asking for a $396,000 reduction in years 1, 2, 3, 4, depending how long, it's higher than the DCF would show for those years one, two, three, four --
A. Yes.

Q. And you understand that the settlement agreement, to the extent it contains some acknowledgment of the iNATGAS issue and has -- again, it does not have a particular number associated to it. But to the extent it does have some recognition of reduced recovery for iNATGAS, the same concept applies, in that, if we're short X dollars, we'll be short X-dollars next year and the next year until we go to the next rate case; correct?

A. Well, again, I walked through the numbers this morning. There's basically $800,000 allowance, a reduction of $800,000 for all the issues raised in the settlement agreement as having been a consideration in reaching the settlement agreement. So, some amount of that, if iNATGAS was worked into that, is reflected, yes.

Q. And it would be reflected each year until the next rate case.

A. Correct.

Q. And as sort of a measure of scope, $100,000 for a capital project is what's required roughly to recover a million-dollar investment. Is that a fair benchmark estimation?

A. I'd have to look at it. Ten percent? That's not unreasonable.

Q. Again, just as a rough measure.

A. Right, right.

Q. So if you were to -- if we had agreed to not recover a million dollars of the iNATGAS facility, that would result in $100,000 reduction in the revenue requirement. Again, rough math.

A. Yeah, I'm just going to look at this schedule and see. This is Exhibit 57. And there was, we'll say, a $2.2 million investment, and the revenue requirement in year one was 155. So that's... the annual revenue requirement is about 350. So I'd say it's probably more than 10 percent. Probably 15 percent would be more accurate. But anyway...

Q. Okay. Thank you.

On capacity credits, are you aware that in both the Granite Bridge docket and in the IRP there is a zero figure next to capacity for iNATGAS?

A. I'll accept that.

Q. And so when -- hopefully if the Granite Bridge project is built and iNATGAS is using substantial amounts of that capacity, that would be to the benefit of the Granite Bridge project and all of its customers; is that correct?

A. Yes, that's correct.

Q. And between now and when the next Granite Bridge or whatever is in place, there is still some benefit to customers if there is excess capacity that is now being picked up by iNATGAS.

A. Well, those investigations are underway, and it may be that the revenue requirement -- not the revenue requirement, but the deficiency, the capacity, the load and the IRP, there may be adjustments made for iNATGAS. I don't know what the final verdict was or will be. But it may be that a determination is made that there's a small deficiency.

And in the Granite Bridge project, your daily design day requirement is 150,000, roughly, decatherms a day. The proposed project is for an additional 150. So it doubles. It may be that a review of the IRP and a review of the supply options to meet that is something much smaller, and iNATGAS could be part of that. And it may be there's an alternative to just find capacity for an extra 10,000 or whatever that might be. So to say, you know, base it on -- well, if Granite Bridge is approved and there's a lot of excess capacity, then that would be a benefit to ratepayers. But if it's not approved, if something else is selected, and if the IRP is adjusted to reflect the iNATGAS, new developments with iNATGAS, then it may be -- harm customers.

Q. Staff's original testimony in this case requested a revenue increase of about $4 million; correct?

A. Yes.

Q. And that was based on an eight-point something ROE.

A. I believe it was 8.55.

Q. And Staff unilaterally moved to 9.4, walking

away from its initial proposal; correct?
A. Staff agreed not to -- agreed to accept the 9.4 for purposes of this proceeding. It was a -- there are a lot of issues here, and we didn't think that was unreasonable. So we accepted that rather than go to hearing and spend several -- a good amount of time on that.
Q. And that brought your proposal up to 5.77 I think I heard.
A. That's correct.
Q. And you know the temporary rates are now set at $6.75 million.
A. Okay.
Q. And so if the Commission were to adopt Staff's proposal, we would have to give money back, in effect.
A. Well, you also will be implementing a step adjustment at the same time, so you won't be giving money back.
Q. But it's less than the temporary rates.
A. But that's irrelevant. But yes, it is less.
Q. Has Staff done any analysis to determine what effect the proposed rate level will have on

the Company's operations?
A. Yeah. It would return a 9.4 percent return on equity.
Q. Has it determined how many employees may have to be laid off to meet the new budget?
A. It reflects the number of employees the Company has included in their filing.
Q. Did you analyze how it affects our growth projects?
A. If you -- I don't see how that would impact growth projects. If you have a project that is promising and it meets your requirements of the line extension policy, then I would expect you -- by law, by tariff, you'd have to install that line extension. So I don't expect the Company to stop looking to expand its system.
Q. But it is $3- or $4- or $5 million per year less than what the Company has proposed in this settlement; correct? Four and a half million dollars less?
A. Well, one thing is that 5.7 does not include Keene. And we're not ruling out that you make a filing for Keene and get recovery of

some of the deficiency associated with Keene.

Q. I'm going back just quickly to iNATGAS. I think you did say at the end that you agree that it was used and useful, and you agreed that it could be in rate case; correct?

A. Yes. Correct.

Q. Doesn't that presume a finding by the Commission that the costs were prudent?

A. Yes, I'll accept that.

Q. Ultimately, Mr. Frink, the goal of this whole proceeding is to get rates that are just and reasonable; correct?

A. Yes. Absolutely.

Q. And there are many ways to get there. You can start from the bottom and assemble each line item and build a rate, as we typically do when putting the case together; correct?

A. Correct.

Q. And once you've done that exercise, then you can, in effect, negotiate what's a number that works for all parties; correct?

A. That's correct.

Q. And in this case, the parties that are typically at opposite ends, the customers at one end and the Company on the other, have reached an agreement on $10.3 million and the other terms of this settlement.

A. Well, the OCA represents residential ratepayers. They do not represent commercial/industrial ratepayers. And so the OCA and the Company have reached an agreement that they obviously feel results in just and reasonable rates.

Q. And what constituency do you think Staff represents in this proceeding?

A. Staff takes a -- we take a balanced approach, and we want to do what's best for the Company and what's best for the ratepayers.

Q. And you place no weight on the fact that those two players have reached an agreement that is quite a distance from what you've proposed.

A. Based on our analysis, that's what -- yes.

Q. The proposed rate increase of $10.3 million, if put into effect, you understand that it would still be less than the existing Northern rates.

A. I didn't compare to the Northern rates.

There's a different cost of service for Northern than there is for Liberty.

Q. But the rates are, at the end of the day, what need to be just and reasonable. And Northern has rates that have been determined to be just and reasonable that are higher than Liberty's.

A. Based on the cost of service. You can't compare your rates to Northern's rates and say these are fair. That's not how it works. What does it cost you to provide that service? What is a reasonable return? And that's the rates you -- the Commission will decide is just and reasonable. It has no -- whatever everybody gets has no bearing.

Q. We respectfully disagree.

A. Okay.

Q. We've done the analysis, top of the envelope, and there's about a 13 percent difference in distribution rates at the residential level now. If the settlement agreement were to go in effect with existing Unitil rates, does that surprise you?

MR. DEXTER: Objection.

There's nothing in this record that talks about Northern's rates, whether they're higher or lower than EnergyNorth's rates. It's just a completely unfounded question.

CHAIRMAN HONIGBERG: I doubt it's unfounded. It may be treated as a hypothetical here, though.

So why don't you just assume what Mr. Sheehan says is true, without subscribing to the facts underlying it. Assume that that's the difference between Northern's rates and Liberty's rates.

WITNESS FRINK: Okay.

MR. SHEEHAN: Well, I actually asked the question, having someone who just worked through the Northern rate case, that he may have knowledge of what Northern's rates are.

CHAIRMAN HONIGBERG: He may, but I think he -- it's true. He may. Why don't you ask him that.

BY MR. SHEEHAN:

Q. Do you have knowledge of what Northern's distribution rates are as compared to

Liberty's?

A. I have not made that comparison.

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

CHAIRMAN HONIGBERG: Mr. Kreis.

MR. KREIS: Thank you, Mr. Chairman. Let me snuggle right up to the microphone so as to avoid trouble for the court reporter.

CROSS-EXAMINATION

BY MR. KREIS:

Q. Mr. Frink, I just have very few questions for you.

You talked at great length during your direct and your cross-examination about iNATGAS. And I thought I heard you say that the settlement agreement, if it's adopted by the Commission, would preclude any further argument in future cases about the prudence of expenditures related to iNATGAS. Did I understand your testimony correctly?

A. That is correct. The way I look at it, if the Commission were to accept Staff's recommendation, as I already stated, those costs would be in rate base. And when they came in for the next rate case, they would be in there. It could be -- it's not so much that we're questioning the prudence of the costs, it's more a question of they presented one thing for approval of a Special Contract that had significant risks, and the actual work wound up costing a lot more. And so, in essence, it looks like a bad investment. So we've made an adjustment to the revenue requirement, but we're not suggesting that they -- we're not suggesting it be done by taking -- by not having that in rate base. We're just saying, in essence, right now it does not look like a good investment. It may turn around. We'll look at it again in the next rate case. And if we think it was a bad investment, if it looks -- if iNATGAS goes belly up and everything's lost, then, again, we're not going back and saying, okay, here's the 2.2 million in the original proposal that we signed off on, you shouldn't get recovery on that. Because we recognized at that time that was a risk. And actually, in that proceeding the OCA opposed the contract, but -- so we're not saying they shouldn't recover something. We're not saying that the work they did was imprudent. What we're saying, the Commission made a decision that supported and recommended that decision based on the profitability of that project as represented by the Company, and the risks. And even in that proceeding, on the stand as a panel with the Company, we talked about the fact that, okay, if this project winds up costing twice as much as we anticipated, then we would be on the hook for -- you know, that could be the subject of a future rate case.

Q. That was a long answer.

A. Yeah, it was.

Q. But one of the highlights I think I heard is that Staff believes that the Company should recover something in connection with iNATGAS; correct?

A. Yes.

Q. You're concerned, in part, because the actual cost of the project exceeded the original estimates of the cost that were filed with the Commission.

A. More than doubled.

Q. You would like the opportunity in the future to challenge the prudence of certain investment decisions associated with iNATGAS. That's what I heard you testify.

A. Yeah.

Q. So here's a question, and I pose it in all earnestness. I'm not trying to be cheeky. I'm going to read you some language from the settlement agreement, from Page 14. It says, "The Settling Parties agree that the Commission's approval of this Agreement will not constitute continuing approval of, or precedent for, any particular principle or issue related to the revenue requirement."

And so my question for you is: Why does that language, "should be adopted by the Commission by approving the settlement agreement," not allow for exactly the kind of future prudence review that you would like to be able to undertake on behalf of the Staff, and frankly, that I might like to be able to undertake on behalf of residential utility customers?

A. I'm not sure we don't have that right without that.

Q. Well, I'm just trying to understand why you oppose the settlement agreement. And one of the grounds that you gave for opposing it is you think it unhealthily ties Staff's hands, and presumably the Commission's hands, in the future with respect to iNATGAS and the prudence of the expenditures in connection with that project.

A. I'm sorry. I think I misled you or we missed on what I was trying to say.

I do have a problem with the Keene production costs, the iNATGAS gas costs. It's not -- what Staff's recommended is an adjustment in this proceeding and that we're going to watch this. And if it doesn't turn around, then we look for adjustment in the next proceeding. That's all it is.

Q. And so my question to you is: What is it about this settlement agreement that thwarts that objective you just stated?

A. Well, that the settlement agreement, as I walked through two very specific items in the settlement, the rate of return and the depreciation adjustment, that only leaves 800,000 in total for -- to address all the other adjustments and concerns that Staff had, iNATGAS being one of them. And we don't feel that's adequate. So, again, it's a black box. I can't -- you can't say what it is. The Company can't say what it is. But I think it's safe to say, whatever it is, isn't comparable to what Staff is recommending. If you want to say that, okay, it accounts for 300,000, 400,000, but it's the total that matters. This is a comprehensive black box revenue requirement. There's only 800,000 available for anything other than the adjustment, which we don't agree with, for the depreciation and the adjustment for the revenue requirement. So it's not -- it's mainly just the size that's the problem, and it's a cumulative effect.

Q. Thank you. I guess my question about all of that is: Isn't your analysis -- and if I might summarize it, you seem to just be suggesting that the OCA did not extract enough from the Company in order to make the results of the settlement agreement just and reasonable. That's basically the essence of your critique; correct?

A. Okay. I'll go with that.

Q. Okay. And the settlement is actually not completely a black box because it does pin down ROE; correct?

A. That's correct.

Q. But that doesn't necessarily mean that the ROE itself isn't part of the bargain and that either the Company or the OCA gave up something, and some of the value in the settlement agreement is embedded in that ROE number; true?

A. That was part of negotiations to come up with the 10.3, yes.

Q. Okay. You talked a little bit about your concerns about the large group of Liberty customers paying for, or basically providing rate relief to the Keene customers. And the

comparisons -- you talked about comparisons to the absorption of Connecticut Valley Electric Company by Public Service Company and also some of the water company transactions that have had similar effects; right?
A. That's correct. Yes.
Q. And you distinguish this situation from those situations based on the fact that water and electricity are essentially vital commodities, and most people can't simply refuse to do business with their water or electric utility; whereas, natural gas customers, they have alternatives. That's what I heard you say.
A. That's correct.
Q. It is true, though, wouldn't you agree, that it isn't always that easy for a natural gas customer, say one living in Keene, to just walk away from natural gas and switch to something different.
A. Right. Well, first, it's a propane company. And you're right. It's not easy for a customer to convert to a different energy

source.

Q. But thinking about the larger body of Liberty customers, the fact that there's at least that potential to stop using natural gas and rely on some other fuel, doesn't that tend to militate in favor of an arrangement like this? Because, after all, the greater body of PSNH customers and the greater body of water companies and those large water companies that took over smaller ones, they can't walk away.

A. That's true.

Q. I think the last question I want to pose slightly delicately, because you -- well, you briefly mentioned decoupling. And I would like to mention decoupling. And the reason I want to mention it only briefly is that it is my understanding that Mr. Iqbal is really presenting the Staff's perspective on decoupling.

A. The experts will be taking the stand after me.

Q. Indeed. But you did say, or at least I thought I heard you say, that your concern about the decoupling provisions in the settlement agreement relate to the weather adjustment provisions.

A. That is my primary concern, yes.

Q. So it's not your only concern.

A. Well, there's some rate design issues I think tied to that. But, again, that wasn't my area of expertise, or my testimony didn't address that. I know what the primary issue is, and that would be the weatherization [sic].

Q. Thank you. I appreciate that clarification, if only to help me and my colleagues prepare for tomorrow's proceedings.

MR. KREIS: Those where my only questions for this witness, Mr. Chairman.

CHAIRMAN HONIGBERG: All right. I think we're going to take a short 10-minute break. We'll try to keep it to 10 minutes.

(Brief recess taken at 2:10 p.m. and the hearing resumed at 2:30 p.m.)

CHAIRMAN HONIGBERG: Commision

er Bailey.

QUESTIONS FROM COMMISSIONERS:

BY COMMISSIONER BAILEY:

Q. Good afternoon.

A. Good afternoon.

Q. Can you go over with me the Liberty-Keene revenue deficiency? The Company has, I guess in its rebuttal testimony, come up with a revenue deficiency of 870-something thousand dollars; right?

A. Yes.

Q. And you think that that number is too high and that there are things that should come out of that number.

A. Yes.

Q. And some of that is because there were costs outside the test year?

A. Yes.

Q. Is that the Keene, the 24/7 2015 costs?

A. The production, both. Some of the Keene incident. And I don't know where those costs -- when those came in and when they were paid and when they fell off. They were deferred. So some of those may have been appropriately included in the test years, some probably not. Well, and then the production costs, some of those production costs were from, I think carried over from the prior cost of gas, and some were from what was not allowed for recovery in that cost of gas. So those span a couple years, too. Some may have fallen in the test year and some out of the test year. So I can't give you a dollar amount as to what costs were out of the test year and which ones were in the test year.

Q. So you don't have a number for me that you think is a revenue deficiency for Keene because this case was not, in your opinion, not dealing with that issue.

A. Staff's position in this case is that you should not allow consolidated rates. And Keene did not propose -- and the Company did not propose rates for Keene. So we didn't look at the -- there weren't rates specific to Keene. I mean, one approach the Company could have taken was: Here's Keene rates. Based on revenue requirement, this is what it would look like. This is the Company's and this is what we're going to do under consolidated rates. They just did consolidated rates. So there was no proposed rates for Keene other than they're going to get EnergyNorth's rates. So we didn't go individual by individual expense, revenue analysis. We simply said there should be a Keene filing and -- either for consolidated rates that demonstrates the benefit or a rate case for Keene. So that's -- we didn't do the detailed analysis.

Now, as I said, I have my recommendation, the Staff report from the cost of gas proceeding as to what we thought were imprudent costs and what the manning of the 24-hour plant cost was in there. So if you wanted to pick out some costs that has some support as to what we considered to be unreasonable or not prudent, you could find that. The Company never had an opportunity to respond to those costs because the settlement said they would be deferred and addressed in a future -- could be addressed in a future distribution rate case. There's no guaranty that they were going to seek recovery of those deferred costs. But they have, and it does need to be addressed. Those costs need to be addressed if you're going to approve the settlement agreement.

Q. If we were going to approve the --

A. Or actually, if you didn't approve the settlement, you would have to. If you approve the settlement, you essentially address those costs.

Q. Right. So if we don't approve the settlement --

A. Well, depending on whether you require them to do a Keene filing or a supplemental filing for rate consolidation. You could treat it basically as a step adjustment if you approve consolidated rates. There would be X amount increase allowed for EnergyNorth. I mean, it will be your order. You can approach it however.

Q. Right. There's nothing in the record that we could decide what the appropriate revenue deficiency for the Keene system is at this point.

A. True. But there's no Keene rates to -- you're not setting Keene rates, other than giving them Liberty's rates. There is no rate proposal for Keene other than just saying they're going to get Liberty's rates. These are the proposed Liberty rates.

Q. But in their rate filing, the 870,000-whatever dollars --

A. That's reflected in their --

Q. In the rebuttal testimony?

A. -- in the rebuttal testimony, in their filing and in the settlement.

Q. So it's settled under the 10.3.

A. Yes.

Q. So they said it was going to cost 870-something thousand. We don't know what the actual cost is. And they're asking us to approve a settlement that includes --

A. All the costs that make up that. Well, some of the costs would be shifted to the cost of gas.

Q. The supply production costs and the --

A. Incident costs.

Q. -- incident costs?
A. Those, yes.
Q. Okay. About the incident costs. Yesterday, I believe Mr. Clark and Mr. Hall testified that we were not making a prudency determination on the incident costs and that that would be made in the next cost of gas rate if we approve the settlement. Did you hear that?
A. Yes, because they said that. But that isn't correct. And I think that was clarified today, that if you approve this settlement, those costs are not going to be contested in the cost of gas because the settlement says these costs should be recovered through the Keene cost of gas over five years. So you can't approve the settlement and then say Staff says this isn't -- you can't recover these, it's imprudent. It's too late. You make your finding here if you approve the settlement.
Q. And your testimony is that those costs are not prudent -- were not prudent? Or some of those costs were not prudent?

A. Yes. Well, if it ever got down to, if they say they'd file for recovery of these costs as part of the Keene rates or as a possible add-on to the EnergyNorth rates as part of consolidation, then I would seek to have the safety director file testimony on it because he is the expert. I sat in on technical sessions. I have my interpretation. I am not the safety expert that our director is. And I'm sure their engineering people are better attuned as to what the risks are and what the enhancements -- what percentage of risk was eliminated by these multiple enhancements they put in and what amount of risk was addressed by having the plant manned around the clock. So that's the kind of analysis that the engineers do and not so much the finance guys.

Q. And didn't we issue an order that said that we were going to deal with that very issue in this rate case, whether those costs were prudently incurred?

A. The settlement said that could be addressed in a -- or would be more appropriately addressed in a distribution rate case. So if the Company -- the Company could have elected not to seek recovery of those costs. They did put them in their Keene revenue requirement, which in essence is their EnergyNorth revenue requirement, I guess. But they -- we look at it as there are no Keene rates here. Those expenses tied to Keene rates, we are against rate consolidation in this proceeding. We're just pulling out this Keene revenue requirement and dealing with the EnergyNorth rates.

Q. Okay.

QUESTIONS BY CHAIRMAN HONIGBERG:

Q. Mr. Frink, if we hypothetically were to think that consolidation of rates conceptually made sense, even at this time, on terms similar to what happened in Hanover and Lebanon, along the same theory, how would we go about then determining what to do with the Keene revenue deficiency which Staff hasn't yet dealt with? I'm trying to make sure that if that were the direction we wanted to go, that we had in the record the information we needed to make that happen. Because I'm also concerned about what's in the record with respect to the 2015 incident costs, because it's a little unclear to me what's in the record supporting that, supporting those numbers. Can you help me out here?

A. I wish I could. I don't think there's a -- I don't think there's enough in the record for you to say this is what -- I don't think it would be fair to the Company to disallow those costs. There really hasn't been testimony. There are reports from Staff regarding the investigation regarding the production costs that suggest they shouldn't be in there. But the Company never really had a chance to respond to that. And so I don't know how you go about doing that.

I can appreciate wanting to consolidate rates at this time. And I think the Company's taken some positive steps in that direction. But I don't know that adding $900,000 to the EnergyNorth rates is fair. I don't think some of those costs are prudent or fit in there. But I really don't think it's been adequately addressed through this proceeding. And partly that's Staff's decision to approach it the way we did, that, okay, we don't think this should be rate consolidation, so we're going to close rate consolidation and we'll deal with the Keene revenue requirement rates when they come in for Keene rates.

Q. But even in a case where all parties, including Staff, are on the settlement, we can't approve the settlement unless it meets the underlying standards set by law. And prudency, use and usefulness, those have to be -- I guess prudence could be stipulated by all the parties. Used and usefulness could be stipulated by all the parties. We'd still need record support probably. But when not everyone is on a settlement, the parties who are not Staff maybe agree, but Staff doesn't, which is the case here, we need to have in the record something, some testimony I think, some documentation that would support the prudence, use and usefulness of the assets being put in the rate case; right?

A. Yes.

Q. So what's -- maybe this question should be addressed to Mr. Sheehan. But you looked at this record, probably know it as well as anyone. What did the Company put in to support the 2015 incident costs and the subsequent costs they incurred?

A. They did not put anything in, in support of -- I think they -- well, I shouldn't speak for the Company. I'm guessing the fact that they didn't -- well, I guess the fact that we raised it and said this should be addressed in a distribution rate case, and then they came in and sought recovery and didn't address it falls on the Company. They probably should have said we've included these costs. It's been identified as an issue in a prior docket, and this is why we think it's prudent. That wasn't done. Staff didn't go in and say, okay, we've identified these costs that you've put in here, and that was the issue of a prior docket, and so --

Q. I mean, those costs were part of the cost of gas case that was filed in the fall of 2016, I think; right?

A. Yes.

Q. This is not a memory test, but do you recall, was there testimony and documentation associated with those costs at that time?

A. What you have is Staff's report that covers all that, and it's attached to my testimony.

So what happened is, at the hearing Commissioner Scott stated that he understood that there were -- it was the first time the Company had sought recovery of production costs. And Commissioner Scott said, well, aren't some of those production costs related to the 24-hour manning of the plant? We have real concerns about these. We want the parties -- well, Staff and the Company, and maybe OCA -- to meet and discuss this. We then held some technical sessions, issued discovery. Staff subsequently filed the report with recommendations, and ultimately there was settlement reached on it that they didn't recover -- they got to recover some costs. Some costs they did not recover, and some costs were left to be addressed in a future rate case, or if the Company sought recovery, it would be addressed in a future rate case. But that report, Staff's recommendation, is in the -- attached to my testimony. So it's in this proceeding.

CHAIRMAN HONIGBERG: Thank you.

BY COMMISSIONER BAILEY (CONT'D):

Q. And that's where I was going to go next. I just couldn't remember where it was.

In your report attached to your testimony, you have a whole section that says Keene production costs should not be included in the cost of gas rates.

A. That's correct.

Q. But didn't I hear you say earlier that it made sense to put the -- especially if we were going to consolidate the distribution rates, that it made sense to put the production costs now in cost of gas rates? Or am I thinking -- talking about two different things?

A. You're talking about two different production costs. So the Company is proposing to have a

Keene-specific COG. And if you consolidate rates and you do a Keene-specific COG, as in Hanover-Lebanon, they're going to make an investment to build a -- or expect to build a CNG, LNG facility. Those costs, production costs, that would go in the cost of gas. But that is what I was referring to when I'm saying that's appropriate, that the production costs should be in the Keene cost of gas going forward. But those costs that were in the last, in that cost of gas for the '16-'17 winter period, those were -- I don't feel those were appropriate to be in there, and my report explains why.

Q. Can you refresh my memory? So your position is that those 2015 production costs that are unresolved should be in the distribution rates, in the Keene distribution rates; correct?

A. Right.

Q. The prudent ones.

A. In the cost of gas, production costs historically for Keene, up until that cost of gas, had always been reflected in delivery rates. So when New Hampshire Gas came in for their rate cases, the employees at the plant, the plant, all that stuff was in their delivery rates. And at one point in that '16-'17 winter period, for that winter period, the Company decided that those costs that were reflected in delivery rates were inadequate to recover the production costs they were experiencing for Keene. And so they sought recovery through that, saying our tariff says -- includes -- I forget the exact wording. But we objected to that. We said, you know, those aren't variable rates. Cost of gas is a mechanism to deal with fluctuating energy rates. There's no transportation load here. There's no competition. You don't have marketers. This is -- those stable costs should be in your delivery rates.

Q. Because that's where they always were --

A. Right. And there would be a part in the delivery rates to recover that.

Q. And since they'd always been treated that way, it would have benefited the Company to get them through cost of gas rates so they didn't have to deal with it in a rate case. And you were saying these are costs that historically had been dealt with in a rate case, and so wait until a rate case.

A. That's correct. And then there was also the issue of some of those production costs we didn't feel were prudently incurred. We didn't feel, once the Company had installed a number of measures that addressed the risks that precipitated the December 2015 incident, once those were in place and functioning, that there was a need for the continued manning of the plant at a very high cost. And I believe in that cost of gas, because it included deferred costs from a prior -- the last year and a forecast cost, it was a pretty good number. So that's on top of being a production cost, we also didn't think it was prudent.

Q. Okay. In response to a question Mr. Sheehan asked you about, I think it was about iNATGAS, he said, "Didn't you say that iNATGAS is used and useful?" Do you remember that?

A. Well, I actually did say that. It is used, it is useful, yes.

Q. Okay. But does that necessarily automatically mean it's prudent?

A. You're right. I don't think it does.

Q. Okay.

A. So I could -- for instance, they did the full build-out. Now, I don't think, given the circumstances at the time, that was a prudent decision. And so I could say that probably, you know, maybe that shouldn't be in a rate case, because why didn't you wait to see how the market developed and then see if you needed it before you actually spent that money. They said there were savings that justified it. We never saw the savings. I can't speak to that.

So, yeah, just because it's used and useful doesn't necessarily mean it was a prudent investment.

Q. I think your testimony is, if I can summarize it, and you can tell me if I understand it, that the risk to customers that iNATGAS goes bankrupt and ends up not paying the minimum take-or-pay in the years past the surety guaranty, or whatever it's called, the escrow amount, is much greater because the costs have more than doubled? Is that basically it in a nutshell?

A. No.

Q. Or the risk to customers -- the amount of risk to customers is much greater?

A. Not -- well, the risk to iNATGAS hasn't changed because I don't know what their costs were, except obviously they took service much later. They didn't have a customer for the first year. So I don't imagine that people are beating down their door. But the risk is really to the Liberty ratepayers.

Q. That's what I meant by "customer."

A. Yeah. They are the ones that -- the cost of this project more than doubled because of the delay, the financing costs from the -- the AFUDC on the initial project, which wasn't identified in the initial project, was 51,000, and what they wound up being is close to 450,000. So that is a -- those obviously have a much greater impact on the revenue requirement that the Company's asking the customers to pay.

Q. And if their projections are correct and they get all the usage, then it will be a benefit to customers.

A. It will be a benefit to the Company and to the customers, even if you disallow the 400,000 for three years. They're going to -- hopefully sales will grow and they'll have a positive return. It will reduce the revenue requirement going forward. In between rate cases the Company will keep that extra money and they'll recover their full costs. That could happen even if you disallow 400,000 here. It doesn't mean they're not eventually going to get full recovery of that cost.

Q. But on the other hand, if that doesn't happen and iNATGAS doesn't materialize or goes out of business, then customers are on the hook for all of that. That would be stranded costs if nobody was using the facility?

A. Right. If the facility had no value and -- the contract with iNATGAS, the Company does

have the rights to --
Q. Sue them in court.
A. Well, no. Actually, they purchase the equipment.
Q. Oh, okay.
A. They have the option to buy iNATGAS's equipment at whatever the -- I believe it's the book value. I could be wrong about that. But anyway, they could acquire that system and maybe make it work. But odds are, if iNATGAS fails, there's not a big demand for that, for those services. So you're right. It could all wind up stranded cost.

What Staff has done here is looked at the impact on ratepayers, the impact that is due to what was either overspending or mismanagement of the project. This is more than double what they had represented to the Commission and to Staff that this project was going to cost. And the associated risks obviously were a lot less, and so --
Q. Can I stop you there?
A. Sure.
Q. It's me. The associated risks were a lot

less when the project cost $2.2 million? Is that what you're saying?

A. Yes.

Q. That was my first question on this topic.

A. Oh, you're absolutely right.

Q. Okay. Thank you.

A. Well, if you look at the exhibit, the one I submitted this morning, that shows the first year revenue requirements, Exhibit 57.

Q. Yeah. Okay. Go ahead.

A. Yeah, you see a revenue requirement of 348 the first year at their projected cost, and the actual revenue requirement and actual cost now is 552. So it's a huge difference.

Q. Well, wait a minute. You compared 348 to 552?

A. Right, right. You're right. But this assumes -- that's the net figure when you take out the take-or-pay volumes or sales revenues.

Q. So you would compare 155 to 552; right?

A. As to how that impacts ratepayers, yes.

Q. Okay. While we're here, on Line 52, the tax rate, 39.41 percent, is that the new tax rate

or is that the old tax rate?
A. That is the old tax rate.
Q. Okay. In response to one of the questions about whether you thought that even since the costs came out the way they were, you thought that there would be a positive return on the net present value basis in the discounted cash flow model?
A. Well, the question that was put to me was absent AFUDC --
Q. Oh,that was my question. That was going to be my question.
A. If you turn to Exhibit 46, that was the Company's discounted cash flow analysis updated for actual cost, including AFUDC.
Q. All right. Give me a second. All right.
A. And if you -- Line 46, the discounted cash flow analysis, reflects revenue at the take-or-pay level and includes these payments over 15 years. And over the 15-year period the net present value is 228, or a negative. The project actually produces a negative return over the 15 years.
Q. That's if they only get the minimum

take-or-pay?
A. Or less.
Q. Yeah. Well, they can't get less than the minimum take-or-pay, can they?
A. Of course they can. The Company could go bankrupt.
Q. Oh, all right.

CHAIRMAN HONIGBERG: Before you leave that, there is a personal guaranty associated with the take-or-pay; is there not?

WITNESS FRINK: Yes, there is.

CHAIRMAN HONIGBERG: So that guarantor would also have to fail.

WITNESS FRINK: That's correct.

CHAIRMAN HONIGBERG: And it's possible that if one fails, the other fails.

WITNESS FRINK: Right. There's a correlation there. If his business fails, there's a good chance his finances aren't too good.

CHAIRMAN HONIGBERG: But there was another layer of protection in there.

WITNESS FRINK: Yes.

BY COMMISSIONER BAILEY:

Q. Okay. Back to the AFUDC. Is the AFUDC in this analysis?

A. It is. If you go to Line 10, you'll see AFUDC actual $435,510.

Q. So this is the DCF analysis with all the costs for the actual costs plus the AFUDC?

A. Yes.

Q. If they only get minimum take-or-pay, it's not a positive return.

A. Right, if they only get take-or-pay or less, it's not a positive return.

Q. Are the Excess Revenue or Deficiency, Line 49, are those numbers annual numbers or cumulative numbers?

A. Those are cumulative. Yeah, it's a difficult with... we should have broken out the revenue and revenue requirement by year. It would have been easier to follow if they had included -- had done this cumulatively.

Q. But if cumulatively at the 15th year they have 1.3 million, how is there a net present value of negative 228? Is that just the discounted cost of money from 1.3 million?

A. The -- okay. Right, that would be the discounted.

Q. And you can go from a positive number to a negative number by discounting?

A. Well, yeah. I mean, so you have to look at what the cash flows are and what their -- so you're losing money in the early years when it's -- that's why you do these discounted cash flow analyses, because the investment is upfront and has a huge cost, and the revenues come in over time and they erode. So you have to -- basically, if you use an Excel spreadsheet, you just pick up those 15 years and put in the discount number, and this is what you get.

Q. Okay. Thanks. I think when you were talking about, possibly it was iNATGAS deferring the costs, the excess costs, the costs were over what they originally gave us, you said we could defer those costs and allow full recovery of those in a future rate case?

A. What I said is the Company could elect to track these revenues and the losses. And if in their next rate case, say they had accelerated sales and it's a huge hit and it actually reduces the revenue requirement in the next rate proceeding, and if they disallow 400,000 a year, then they could come back and say, well, look, in these years we actually exceeded what the revenue requirement is. We'd like to -- it's been a benefit to the ratepayers. We'd like to recover some of that. We're going to add it -- you know, we deferred this, and we would like to add it in this rate case. And the project will pay for it. It's already exceeding both the revenue requirement and the -- well, the revenue requirement over that period that we lost. So I think that would be reasonable on the Company's part. I would consider that, and I imagine the Commission would, too. So that's one option.

Again, at this point, it's not profitable, and it's still not looking like it's going to achieve what was expected when you approved the contract.

Q. All right. I have one last question. And

I'll ask, and I don't know if I should or not, but... can you think of any risk-sharing mechanism that we could craft that would protect EnergyNorth and Keene customers if we were going to consolidate?

A. Well, as I mentioned earlier, I think the Lebanon-Hanover model does that. So that's one. You've already crafted one, as far as I'm concerned.

Q. Oh, we could -- yeah, I guess we could, because Lebanon-Hanover, they're going to pay the same distribution rates as EnergyNorth, so that would just apply to the cost of gas piece of it.

A. Right. The risk sharing covers both the production rate base and the delivery rates.

Q. Back it up. I don't think the stenographer got that.

A. Okay. The sharing mechanism in Hanover and Lebanon provides a risk sharing for the rate base items that are recovered through both the delivery rates and the cost of gas.

Q. Okay. Thank you. That's all I have.

CHAIRMAN HONIGBERG: Commissio

ner Giaimo.

QUESTIONS BY COMMISSIONER GIAIMO:

Q. Good afternoon, Mr. Frink.

A. Good afternoon.

Q. I have only a few questions. Some of them will actually be a repeat of yesterday's questions, so it'll give you an opportunity to respond to those.

A. Memory test.

Q. So, Exhibit 56 is your testimony. I have a question relative to Page 14, Bates 14. And you discuss what I think you refer to as "a death spiral." So, starting on Line 8, "Given the magnitude of the Liberty-Keene revenue deficiency, if recovered solely from Keene customers, the rate impact on Liberty-Keene customers could lead to customer losses and precipitate a death spiral." So my question to you is how do you avoid that "death spiral"?

A. Well, when New Hampshire Gas was in Keene, they -- Keene has always been a break-even proposition, at best. And going even before New Hampshire Gas bought it, New Hampshire

Gas actually would implement rate plans. They'd do a customer survey and see how their rates compared to propane rates. And basically it was the market that determined their rates. They'd come in to the Commission, kind of like what Concord Steam used to do. They'd come up with a rate plan and implement the increase over a number of years what they didn't collect. So, say they came in and said, I think one was like a $300,000 revenue requirement increase. Well, they actually implemented it in three stages: $100,000, $100,000, $100,000. They under-collected year one $200,000, and that was deferred. And then the next year they were under a hundred. Then, once those three years were up, they had that revenue requirement, and they got to start recovering the deferred revenues over basically the next three years. So, basically they went six years with small increases that kept them -- let them earn or break even or earn a modest return, for the most part. And that's how they dealt with it.

I will say, before they bought it, the owner had a propane and utility service. He sold the propane service, which was 80 percent of the business, and he actually approached the Commission at a cost of gas proceeding, suggested he was going to shut down the utility. But he found a buyer, and that -- at the time the expectation was there was going to be a natural gas line built that could serve Keene, and that didn't come to fruition. And they inquired about shutting down the system. But based on the Claremont experience, they would rather continue to operate it at a modest return than go through the process of shutting the thing down. So that's basically how they ran the system.

And then EnergyNorth came in, and they were in a little different position. They consolidated rates. So, rather than deferring it and recovering later from the Keene customers, you know, letting the market set it, basically their initial proposal was to keep rates low by shifting those costs to EnergyNorth. And that's now in the settlement that's -- in the rebuttal, I don't know if -- the settlement now actually does leave more of those costs -- will recover more of those costs from Keene, and there's a much smaller amount that would go to the EnergyNorth customers. But, again, the details are lacking. I don't know what would be in the cost of gas rates and what's going to be going to EnergyNorth's distribution rates.

Q. On the next page, Page 15, starting at the top, it says, "Liberty has chosen to address that concern by addressing the Liberty-Keene revenue deficiency through rate consolidation, reducing Keene rates at a cost to all other customers, despite the fact that doing so would violate the 'no net harm' standard that was satisfied in part by Liberty agreeing to keep separate rates."

So my question is: If there is a consolidation, how are we looking at this? Are we to apply a "public good/public interest" standard or "no net harm" standard?

A. Well, Liberty, when they acquired the

Company, were very optimistic, and I think they still are, that Keene can produce a profit over a reasonable period of time. They provided some DCF analysis. There's some potential load growth. So if I was more comfortable with their cost estimating and their revenue, you know, what they expect for customers, then I think it could produce a profit going forward. But that's why my recommendation is let them file something that demonstrates it and I'll support it.

Q. So is it possible, or would you be willing to accept a cost shift, be it nominal or -- is there a specific number where cost shifting would make sense if in the long term you see the value of --

A. Oh, absolutely, yes.

Q. Do you care to comment specifically on the 37 cent number that was discussed yesterday?

A. What number? Oh, you mean the 37 per month --

Q. Yes.

A. -- revenue rate impact?

Q. Four and a half dollars a year, right.

A. Yeah. It's like I said, you could take any expense, take a million-dollar expense and divide it by the load of the 90,000 customers, and it has a de minimus impact. So, yeah, I agree that when you shift costs from a very small system to a very large system, it will have a limited impact.

Q. So, yesterday, one of my final questions to Mr. Hall had to do with the impact of your testimony and the effect that it could have -- or the effect that it may have on them getting customers going forward. So I wanted to give you the opportunity to respond to the assertion that your testimony can serve as a barrier to getting future customers.

A. I am not buying that.

Q. Okay.

A. I don't know how closely customers in Keene are following this. What they're going to want to know is what's my cost going to be. And they have to know if Liberty is going to make that kind of investment, then they're going to be around for a while.

Q. Okay. Switching gears briefly to iNATGAS. I think this morning you stated that you don't share, I think you referred to it as "the Company's confidence," that the minimum take this year will be enough absent -- or to cover the rollover. Is that --

A. Right. I think iNATGAS, based on the sales, the very limited sales we've had to date and the circumstances associated with those sales, it's unlikely -- and you would expect the heaviest load to be in the winter months -- it doesn't look promising to me. So they would basically recover whatever sales revenues they get at the iNATGAS rate, and then they'll have to pay the shortfall at the iNATGAS gas rate. And so in December 2018, if they haven't achieved $600,000 in sales, they've achieved $500,000, then iNATGAS will have to write a check as though they bought 100 decatherms more.

Q. So then the requirement for 2018 is 600. What do you see as -- and there was basically nothing in 2017. So then they need all 600 this year?

A. Right.

Q. Can you see them getting 300 this year, just the share associated with this calendar year?

A. I really don't know. I only know what's in the Company's testimony. They talked to the iNATGAS owner, and I imagine they know better than I do.

Q. I know it's been a long day for you, so thank you for taking my questions.

A. My pleasure.

QUESTIONS BY CHAIRMAN HONIGBERG (CONT'D):

Q. Most of my questions have been answered. But following up on something you were just talking about with Commissioner Giaimo and the Keene situation, from your answers to questions from Mr. Sheehan, Commissioner Bailey and Commissioner Giaimo, would you agree that there's money to be made in Keene for a gas utility?

A. The problem is there's never, to my knowledge, been a CNG, LNG satellite system, a utility system, that has been in operation. I'm unaware of any of them other than on a temporary basis. And I'm not -- I don't know what the CNG market is from what the Company -- for 2014, when they came forward with this project, we had a lot of discussions. The providers, the CNG providers, the CNG station owners, we talked to end users. I called Dartmouth Hospital. I researched what the load looked like in New Hampshire. I knew much more then, and I knew it was risky then. It's in my report. But I'm not sure how that market has developed and what it looks like now, other than what the Company has put in their testimony or testified to.

Q. Okay. That's fair. Then what I would follow-up with doesn't make any sense.

With respect to iNATGAS, what started to come into my head during the discussion today is that this sounds like the Scrubber divided by 100, where the Company started to move forward on a project with a cost estimate early, and in this case maybe before shovels were put in the ground. That cost estimate doubled. Went up by a lot, anyway. We had litigation for years over what should happen with the Scrubber.  Now, maybe that's because it's a hundred times larger than what we're talking about here.

What should have happened when the cost estimates went up?  Should they have -- should the Company have come back with the new estimates and come to Staff and said we've got different cost estimates, we still want to go forward, or we need to make a judgment about whether to go forward?

A.   I do think they should have made a supplemental filing and said this has changed and this is what it looks like now, which is radically different than what we presented last month.  And I think then -- I don't know what the legal implications would have been with iNATGAS.  At that point they may have signed a contract with them or had to renegotiate something with iNATGAS.  I really don't know.  But I do think it would have made a lot of sense for the Company to notify the Commission that there had been really -- that the project had changed dramatically.

Q.   Another parallel with the Scrubber situation is the deferral concept, because that's what happened with their part of the Scrubber costs; they were deferred. There was an amount that was put into rates, but a big chunk was deferred. I heard a discussion that sounded similar here, that something you thought might make sense would be to defer recovery of the iNATGAS costs and come back and revisit them once we have a better, once everyone has a better sense of whether iNATGAS is a boom or bust.

A. Right.

CMSR. BAILEY: But your recommendation here is a little bit different because you're saying they can only recover those deferred costs if they make enough money to recover them, unlike the Scrubber where that never happened.

CHAIRMAN HONIGBERG: That's not a perfect parallel.

WITNESS FRINK: Right. My testimony does not say anything about deferring the cost or deferring the discrepancy between what their revenue requirement is and what they're actually recovering if this adjustment were approved. I'm suggesting that the Company could do that. And if it turned out to be successful and they actually did recover those, actually did have sales that covered those costs, and they came in a future or next rate proceeding and demonstrated to us that, okay, you didn't let us recover these costs, but the project more than paid for it, customers were better off for it, we'd like to recover and put them in our rates now, you know, over three years, you know, we lost three years, and over the next three years we'd like an opportunity to recover those, I think I would certainly consider supporting that.

CHAIRMAN HONIGBERG: That was all I wanted to ask about.

Mr. Dexter, do you have any further questions for Mr. Frink?

MR. DEXTER: Yes, just a few.

REDIRECT EXAMINATION

BY MR. DEXTER:

Q. Isn't the essence of Staff's position on iNATGAS that the analysis that was presented to the Commission, which was the same analysis that was used by senior management to decide whether to pursue this project, had insufficient costs based on what the Company knew or should have known at the time?

A. Based on what the Company should have known at the time that -- you're right. There were definitely insufficient costs reflected in the proposal for approval of the Special Contract.

Q. And didn't the Company's witness testify that costs of the accelerated build-out were not built into Exhibit 46 -- I'm sorry -- Exhibit 38, which was the DCF analysis that was used to justify the project at $2.2 million?

A. Right. Mr. Hall testified that the discounted cash flow analysis that had the $2.245 million in it, with a proposed build-out for the accelerated schedule, did not include the cost of that build-out in the DCF analysis.

Q. That was actually Mr. Clark --

A. Was it Mr. Clark?
Q. I believe it was Mr. Clark.
So the revenues that were presented could never have been achieved with the cost level that was there at the accelerated -- under the accelerated scenario. Is that your understanding?
A. Yes.
Q. And in fact, the volumes under the accelerated scenario are no higher than the baseline scenario. They're just accelerated; is that correct?
A. I believe so. Do you have the exhibit number on that?
Q. Yes. It's No. 37 -- 38. If you go to Bates Page 3.
A. I don't have that exhibit with me.
MR. DEXTER: Can I provide a copy to the witness?
(Document handed to witness.)
A. So I'm looking at Exhibit 38. And on Page 3, I'm looking at the Baseline Assumption Level. There's not a line number, but you can -- the top line under -- in the middle of the page,

Baseline Assumption Level. And right below it is Annual Estimated Revenue at Baseline Level. If you look at, for instance, year six -- so the years are across the top -- and you come down to the Annual Estimated Revenue at Baseline Level, you'll see 1,229,600. If you look at the Accelerated Sales Assumption Level, the first line says Annual Estimated Revenue at Accelerated Level. That 1,229,600 of sales is identical to the number for the baseline assumption in year six. So, year four accelerated and year six baseline are the exact same. And if you go down the line, it appears to be the case all the way through. Because actually when you get to the 1.4 million, it stays the same through the remainder of the years. So, from year eight on in the baseline, it's 1.4 million, which my understanding was the iNATGAS estimate of what their purchases would be. And the accelerated sales assumption apparently just meant they expected to achieve that level that iNATGAS was forecasting earlier --

Q. I'm sorry. Go ahead.
A. That would just stay the same. Basically just move things up to that number up two years.
Q. Right. So is the inescapable conclusion from this that the costs that were presented on that schedule did not reflect investments that were necessary to meet the load under the two scenarios labeled "baseline" and "accelerated"? Is there any other way to read that, that you see?
A. No, because it was my understanding that they had to do the phased build-in. That second $600- to $700,000 cost was necessary basically to add the two compressors that were needed to meet the accelerated sales level.
Q. Thank you. Were you in the room when Mr. Clark testified that the compressor cost included parts, but not labor?
A. I'm sure I was.
Q. Do you recall that there was no labor on this cost associated with the compressors?
A. Yes.

Q. Were you also in the room when they talked about the cost overruns regarding concrete and asphalt totaling roughly $1.7 million -- or $1.5 million?

A. I followed all that, yes.

Q. And do you recall the line of questioning that said in the original estimate on the exhibit that you're holding, Exhibit 37, that the asphalt and concrete costs were included in the line, Piping, Meter Set, Survey, Et Cetera?

A. Yes.

Q. So, isn't it true that it's Staff's position that this analysis couldn't possibly have captured the asphalt and concrete costs because there just isn't room in that $615,000 figure?

A. You're right, there's no room in there. So I don't see how they could possibly have had it in there.

Q. So again I'll go back to my original question. The essence of Staff's adjustment in this case is that the decision to go forward was not prudent because it was not based on a robust, prudent analysis. Is that the essence of Staff's position in this case?

A. At time of the investment, the analysis -- the analysis is flawed. It doesn't necessarily mean that it wasn't prudent. If they had put in the right costs, then under their scenario -- we already know under the take-or-pay requirement it wasn't prudent based on the net present value analysis. If you had included the build-out in the future years for the others, it may not have been prudent either. So it may be that the decision -- if done correctly, they would have all been imprudent. But I don't know -- at this point it looks like an imprudent decision. Time will tell. But it is fair to say that this analysis was flawed.

Q. Thank you. I just have one other question.

In response to questioning by the Consumer Advocate, he asked, and I'm paraphrasing, is the essence of Staff's problem with the settlement that not enough dollars were extracted from the Company in the revenue requirement figure? Do you

recall that question?
A. Yes, I do.
Q. And do you recall your answer was, yes, that was essentially it?
A. That is... that was my answer, yes.
Q. And would you agree that that's another way of saying that the $10.3 million revenue requirement settled upon was too high to represent a just and reasonable settlement in this case?
A. Absolutely.

MR. DEXTER: Okay. I don't have anything further.

CHAIRMAN HONIGBERG: All right. Thank you, Mr. Frink. I don't think we're doing any other substantive business today, so you can probably just stay where you are.

Is there anything we need to discuss before we adjourn for the day? Hang on, Mr. Kreis. Yes, Mr. Kreis.

MR. KREIS: I just wanted to note, while we're reminiscing about my questions for Mr. Frink, when I asked him about decoupling earlier, he responded with a reference to "weatherization," when he really meant to say "weather normalization." Since those are two very different things, I just wanted to make sure the record is accurate.

WITNESS FRINK: He is absolutely right. And I knew when I said it, and I didn't correct the record at that time. So, thank you for correcting the record. I did mean to say "weather normalized."

CHAIRMAN HONIGBERG: All right. So what are we going to be starting with tomorrow morning?

MR. SHEEHAN: Decoupling.

CHAIRMAN HONIGBERG: Decouplin g. Weather-normalized or otherwise.

MR. SHEEHAN: Staff and OCA have put in the settlement agreement for approval, and it consists of two panels: One was at the very beginning, and this is sort of Part B of that presentation. And it's just the timing of people being available makes it tomorrow.

MR. DEXTER: And that panel

will be Mr. Therrien and Dr. Johnson.

CHAIRMAN HONIGBERG: And best guess, Mr. Sheehan, at this time do you expect to be calling a rebuttal witness?

MR. SHEEHAN: Yes.

CHAIRMAN HONIGBERG: Anything else we need to do?

[No verbal response]

CHAIRMAN HONIGBERG: All right. We're adjourned for the day. Thank you.

(Whereupon the Afternoon Session of Day 4 of the hearing was adjourned at 3:37 p.m.)

C E R T I F I C A T E

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

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

____________________________________________

Susan J. Robidas, LCR/RPR
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