STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 19-064

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

REBUTTAL TESTIMONY

OF

PHILIP E. GREENE

AND

DAVID B. SIMEK

January 30, 2020

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I. INTRODUCTION AND BACKGROUND

Q. Please state your names and business addresses.

A. (PEG) My name is Philip E. Greene. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

(DBS) My name is David B. Simek. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

Q. By whom are you employed and in what position?

A. (PEG) I am a Finance Manager for Liberty Utilities Service Corp. ("Liberty"), which provides service to Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities ("Granite State" or "the Company"). My responsibilities include management of staff and processes for the Company's fixed asset accounting, roles in Financial Planning and Analysis (FP&A), budgeting, financial reporting, capital planning support, and Granite State rate case revenue requirement support.

(DBS) I am employed by Liberty as Manager of Rates and Regulatory Affairs. I am responsible for rates and regulatory affairs for Granite State and EnergyNorth.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. We submitted joint prefiled testimony as part of the Company's April 30, 2019, filing for an increase in distribution rates. Our professional backgrounds and qualifications are contained in that testimony. Terms defined in our prefiled direct testimony have the same meaning in this rebuttal testimony.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to respond to the direct testimonies of Donna H. Mullinax filed on behalf of the Staff ("Staff") of the New Hampshire Public Utilities Commission (the "Commission") and Bion C. Ostrander filed on behalf of the New Hampshire Office of the Consumer Advocate ("OCA").

Q. Are you submitting any attachments with your testimony?

A. Yes, we are submitting the following attachments:

- Attachment PEG/DBS-1-Rebuttal, presenting updates to the revenue requirement schedules that were submitted in the November 22, 2019, Corrections and Update filing ("CU"). The attachment includes only certain schedules to demonstrate the limited changes that were made since the CU filing and the impact of those changes.
- Attachments PEG/DBS-2-Rebuttal, PEG/DBS-3-Rebuttal, and PEG/DBS-4-Rebuttal are copies of discovery responses that support our rebuttal testimony.

Q. Please summarize the results of your testimony.

A. The Company agrees with the following changes proposed by Staff, with the particular schedules where the changes appear in Attachment PEG/DBS-1-Rebuttal noted in each change:

- Removal of depreciation expense from cash working capital (Adjustment #10 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-5-3 (R), Line 4);
- Removal of severance pay related to mutual separation agreement (Adjustment #5 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-17 (R), Line 1); and
- Correction to the adjustment for vacancies to correctly allocate for a portion of capital labor not considered, and a reduction to a vacancy adjustment (Adjustment #3 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-01 (R), Line 11 and Schedule RR-3-02 (R), Line 13).

The Company agrees with the following Staff Audit Report recommendations, with the particular schedules where the changes appear in Attachment PEG/DBS-1-Rebuttal noted in each change:

- **Audit Issue #6:** Removal of costs related to EAP software upgrade from rate base (Adjustment #1 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-2-1 (R), Line 3 and Schedule RR-3-08 (R), Line 5);
- **Audit Issue #12:** Reclassification of substation fencing from expense to General/Common Plant (Adjustment #2 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-2-1 (R), Line 22 and Schedule RR-3-08 (R), Line 26);
- **Audit Issue #13:** Removal of a $75 donation from distribution expense (Adjustment #6 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-17 (R), Line 3);

- **Audit Issue #19:** Removal of expenses for vegetation management not charged to FERC account 593 during the test year (Adjustment #9 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-17 (R), Lines 5 and 7);
- **Audit Issue #20:** Adjustment to remove Statewide Education Tax assessed by various cities and towns in error, note that 2019 tax amounts were used as the basis for adjustment (Adjustment #7 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-17 (R), Line 9); and
- **Audit Issue #21:** Adjustment to correct overstatement of income tax expense for the test year (Adjustment #8 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-17 (R), Line 11).

The changes resulting from the Staff Audit Report would normally be reflected in the Company's CU filing. However, as the Audit Report was not finalized until January 2020, relevant adjustments are being included in this rebuttal testimony.

The Company also proposes the following change, with the particular schedule where the change appears in Attachment PEG/DBS-1-Rebuttal noted:

- Correction to properly reflect test year vegetation management expenses recognized during the test year of $1,500,000 (Adjustment #4 on page 1 of Attachment PEG/DBS-1, reflected on Schedule RR-3-10 (R), Line 7)

The impact of the above changes is a revenue deficiency (compared to revenue at present rates) of $6,340,293, which is $333,200 less than revenue deficiency reflected in the

Technical Statement ("TS") of Philip E. Greene and David B. Simek dated November 22, 2019[1]. All other changes proposed by Staff should be rejected for reasons discussed in the Company's rebuttal testimony.

Q. Please summarize the adjustments that Ms. Mullinax proposed.

A. Ms. Mullinax recommended fourteen adjustments to the Company's revenue requirement. Ms. Mullinax also included Adjustment 3 in her testimony as a placeholder for any audit issue findings. The table below summarizes Staff's proposed adjustments[2] including the audit issue placeholder for consistency purposes.

1 This filing appears in the Commission's docketbook with a date of November 25, 2019.
2 Source: Direct testimony of Donna H. Mullinax dated December 6, 2019, Bates 000005

Table 1. Proposed Staff Adjustments

Adjustment	Description	Rate Base Adjustment	Operating Income Adjustment	Revenue Deficiency Adjustment
1	Modify Plant in Service	($5,361,696)	$165,909	($750,310)
2	Cash Working Capital	(844,617)		(82,354)
3	Audit Issues-Placeholder			
4	Proforma Payroll		477,209	(654,428)
5	True-Up Payroll Taxes		48,169	(66,058)
6	Short Term Incentive Plan – Earnings Objective		233,260	(319,885)
7	Remove LTIP (PSU) Related to Shareholder Goals		154,990	(212,548)
8	Remove Severance		19,195	(26,324)
9	Non-Electric Distribution Related Charges		118,500	(162,507)
10	Allocated Cost to Liberty		559,001	(766,595)
11	Normalize Outside Legal Expense		8,599	(11,793)
12	Depreciation Reserve Deficiency Amortization Period		86,943	(119,231)
13	Disallowed Transition-Related Asset Depreciation		900,102	(1,234,369)
14	Remove Additional Vegetation Management		485,847	(666,274)
15	Interest Synchronization		33,115	(45,413)

Q. Please summarize the adjustments that Mr. Ostrander proposed.

A. Mr. Ostrander recommended five adjustments to the Company's revenue requirement. The table below summarizes OCA's proposed adjustments.[3]

[3] Source: Direct testimony of Bion C. Ostrander dated December 6, 2019, Bates 12

Table 2. Proposed OCA Adjustments

Adjustment	Description	Revenue Deficiency Adjustment
1	Payroll Expense	($601,678)
2	Incentives	(392,614)
3	Payroll Tax Expense	(94,744)
4	Depreciation Expense	(661,150)
5	Pole Rental Fees	(53,619)

III. RESPONSE TO STAFF REVENUE REQUIREMENT ADJUSTMENTS

Q. Please summarize Staff's Adjustment #1 regarding plant in service.

A. Staff adjusted Plant in Service based on recommendations included in the testimonies of Mr. Dudley and Mr. Demmer (Mullinax Direct Testimony, Bates 000014, Lines 6–7).

Q. Do you agree with the adjustment?

A. No. The joint rebuttal testimony of Heather Green, Joel Rivera, Anthony Strabone, and Heather Tebbetts discusses the Company's position with Staff's recommended Plant in Service adjustments.

Q. Please summarize Staff's Adjustment #2 regarding cash working capital.

A. Staff made two adjustments to Cash Working Capital. The first adjustment was the removal of depreciation expense and the second was to reflect its other adjustments to operation and maintenance expenses (Mullinax Direct Testimony, Bates 000014, Lines 17–20).

Q. Do you agree with those adjustments?

A. We agree conceptually with these adjustments, although, as discussed throughout this rebuttal testimony, we do not agree with many of the underlying adjustments themselves. Schedule RR-5-3 (R), Line 7 provides the cash working capital allowance, adjusted for those Staff and OCA adjustments the Company agrees are reasonable.

Q. Please summarize Staff's Adjustment #4 regarding payroll and related income taxes.

A. Staff recommended a portion of payroll and associated income taxes be removed from the revenue requirement which reduced payroll expense by $654,455 and increased operating income by $477,209 (Mullinax Direct Testimony, Bates 000020, Lines 14–15). Staff removed costs associated with all 2018 vacancies and one unfilled 2019 incremental position in their recommendation.

Q. Do you agree with the adjustment?

A. No. The provision of reliable distribution service requires a full complement of employees. If the Company is operating with a less than full complement of employees, the excess work would either be completed by other employees (and thus increase overtime costs) and/or by incremental temporary/contract labor. While Staff is correct that vacancies entail lower direct labor costs, Staff does not recognize that the decrease would be offset by other cost increases. In addition, positions such as line workers, many of which were vacant during the test year, are particularly vital to operation and maintenance of the distribution system, so providing less than full funding would not be in the best interests of customers and would hamper the Company's ability to fill those positions going forward. The Company did make a correction to the adjustment for vacancies to correctly allocate capital labor associated with two particular positions.

Q. Please summarize Staff's Adjustment #5 regarding payroll taxes.

A. Staff recommended an adjustment to payroll tax expense and the associated income taxes due to the recommended reductions to payroll expense (Adjustment #4) and short term incentive compensation (Adjustment #6) (Mullinax Direct Testimony, Bates 000020, Lines 19–21).

Q. Is Staff's proposal relating to payroll tax expense correct?

A. Yes, it is in theory. Payroll tax expense should be adjusted to reflect any final payroll adjustments made. That adjustment is consistent with the approach taken by the Company in its original and updated filings. The change to payroll tax expense related to adjustments to payroll taxes above is included in the overall payroll expense adjustment reflected on Schedules RR-3-01 and RR-3-02 (Adjustment #3 on page 1 of Attachment PEG/DBS-1).

Q. Please summarize Staff's Adjustments #6 and #7 regarding short term and long term incentives.

A. Staff recommended a portion of short term incentives (Adjustment #6) and associated income taxes be removed from the revenue requirement which reduced short term incentives by $319,898 and increased operating income by $233,260 (Mullinax Direct Testimony, Bates 000058, Lines 3 & 10). Staff's calculation multiplies an assumed 80%

weight assigned to the Balanced Scorecard against the 45% weight assigned to "Efficiencies." Staff also recommended that the "Efficiencies" portion or 85% of long term incentives (Adjustment #7) and associated income taxes be removed from the revenue requirement which reduced long term incentives by $212,557 and increased operating income by $154,990 (Mullinax Direct Testimony, Bates 000025, Lines 19–20).

Q. Do you agree with these adjustments?

A. No. Incentives are part of the Company's total compensation package and are necessary and appropriate for attracting and retaining employees. Incentive compensation based on a company's performance is a widely used method of compensating employees by placing a portion of compensation at risk. The purpose of financial performance goals is to assist in earning, with existing resources, a reasonable rate of return. Providing employees an incentive to do so without additional rate relief benefits customers because it provides an incentive to reduce costs. Staff's proposed adjustments are counterproductive and would harm customers in the end, and should be rejected.

Q. Please summarize Staff's Adjustment #8 regarding severance.

A. Staff recommended severance for mutually separated employees and associated income taxes be removed from the revenue requirement, which reduced severance expense by $26,324 and increased operating income by $19,195 (Mullinax Direct Testimony, Bates 000027, Lines 1–3).

Q. Do you agree with this type of adjustment?

A. Yes, this type of adjustment is consistent with the severance reduction included in Commission Order No. 26,122 in Docket No. DG 17-048, dated April 27, 2018, although the amount of 2018 severance related to a mutual separation agreement was updated in Revised Staff TS 1-35, included as Attachment PEG/DBS-2-Rebuttal. Severance expense should only be reduced by $9,336, which increases operating income by $8,531.

Q. Please summarize Staff's Adjustment #9 regarding non-electric related distribution charges.

A. Staff recommended removal of costs charged to Account 735 - Misc. Production Expense for $69,113 and costs charged to the Energy Procurement department for $93,401. These adjustments reduced expenses by $162,514 and increased operating income by $118,500 (Mullinax Direct Testimony, Bates 000027, Lines 18–19).

Q. Do you agree with these adjustments?

A. No. Staff's removal of the costs charged to Account 735 – Misc. Production Expense is based solely on the account number and description of the account. No inquiry was ever made asking for the detail of the charges or why the charges are included in an electric distribution rate case. These costs are legitimate electric fleet costs that were charged to the wrong account due to a mapping error but still belong in the case. This issue was also reviewed as part of the Staff audit and was not recommended to be removed from the rate case.

Staff removed the Energy Procurement costs stating the Company "should seek to recover these costs through the Default Service docket." The types of administrative costs that the Company recovers through Default Service rates were authorized by Order No. 24,577 in Docket No. DE 05-126, dated January 13, 2006. Only administrative costs associated with the design and implementation of Default Service, supply-related working capital, and supply-related bad debt costs are recovered in Default Service rates through a "transfer" of such costs from base distribution rates. Thus, it is inappropriate for Staff to recommend removal of the Energy Procurement costs from the rate case as it would be contrary to the prior Commission rulings in past Energy Service proceedings.

Q. Please summarize Staff's Adjustment #10 regarding direct charges from affiliated companies.

A. Staff recommended a three-year average cost (2015–2017) for direct inter-company charges. This adjustment reduced expenses by $766,626 and increased operating income by $559,001 (Mullinax Direct Testimony, Bates 000029, Lines 8–11).

Q. Do you agree with the adjustment?

A. No. First, Staff's methodology is flawed in that it used an average that excluded the test year. In a discovery response, Ms. Mullinax explained that she excluded the test year because she viewed the increase in direct charges from 2017 to 2018 as not being representative of a typical level of annual costs. However, in reviewing the Company's discovery response used by Ms. Mullinax,[4] the reality was that the total charges she was

[4] See Attachment DHM-13 to Ms. Mullinax's December 2, 2019, testimony.

referencing indicated that 2017 was abnormally low as compared to 2016 and 2018. Further review indicated that Ms. Mullinax's adjustment is also incorrect because the total charges included in that discovery response included charges that were included in balance sheet accounts in addition to expense accounts. Ms. Mullinax incorrectly included those balance sheet items in her total recommended reduction to operating expenses. This resulted in Staff's proposed adjustment being overstated by hundreds of thousands of dollars and, along with the incorrect exclusion of the test year from Staff's proposed normalizing adjustment, invalidates the adjustment.

Q. Please summarize Staff's Adjustment #11 regarding outside legal services.

A. Staff recommended a three-year average cost (2016–2018) for outside legal service charges. This adjustment reduced expenses by $11,793 and increased operating income by $8,599 (Mullinax Direct Testimony, Bates 000030, Lines 2–5).

Q. Do you agree with the adjustment?

A. No. Liberty Utilities New Hampshire only employs one attorney who shares his time between Granite State and EnergyNorth. The Company is projecting that outside legal service costs will increase, not decrease, over the next few years given the large array of matters handled by the Company's counsel.

Q. Please summarize Staff's Adjustment #12 regarding the depreciation reserve imbalance.

A. Staff contended that the appropriate amortization period for the depreciation reserve imbalance is 12 years rather than the 6 years as proposed by the Company. This adjustment reduced depreciation expenses by $116,650 and increased operating income by $86,943 (Mullinax Direct Testimony, Bates 000031, Lines 4–8). Staff's proposed adjustment resulted from using an average of 18 years between depreciation studies performed for 1995 and 2013 rate cases and 6 years between depreciation studies performed between the 2013 rate case and this current rate case. However, Staff agreed that 18 years between rate cases is atypical and could not cite to any Commission rulings in support of such an extended period of time between rate cases. In fact, the 18-year period from 1995 to 2013 resulted from a combination of no rate cases being filed during that period as well as a rate plan that was implemented as part of the Docket No. DG 06-107 merger docket between National Grid and Keyspan. In contrast, the six-year period proposed by the Company is consistent with the amortization period approved for EnergyNorth in its recent distribution rate case, Docket No. DG 17-048.

Q. Please summarize Staff's Adjustment #13 regarding the removal of a ratemaking adjustment from DG 11-040.

A. Staff recommended depreciation expense for a transition-related IT capital investment ratemaking adjustment and associated income taxes be removed from the revenue requirement, which reduced depreciation expense by $1,234,419 and increased operating income by $900,102 (Mullinax Direct Testimony, Bates 000013, Lines 22–23, and Bates 000014, Lines 1–3).

Q. Do you agree with the adjustment?

A. No. As the adjustment relates to the cessation of a ratemaking adjustment that originated in Docket No. DG 11-040, the docket wherein Granite State was acquired from National Grid, the Company stands by its adjustment for the reasons described in our November 25, 2019, Joint Technical Statement supporting the Corrections and Updates filing.

Q. Please summarize Staff's Adjustment #14 regarding vegetation management.

A. Staff adjusted vegetation management costs based on recommendations included in the testimony of Mr. Demmer (Mullinax Direct Testimony, Bates 000031, Lines 13–14).

Q. Do you agree with the adjustment?

A. No. The joint rebuttal testimony of Heather Green, Joel Rivera, Anthony Strabone, and Heather Tebbetts discusses the Company's position with Staff's recommended vegetation management adjustments.

Q. Please summarize Staff's Adjustment #15 regarding interest synchronization.

A. Staff proposed to adjust interest synchronization to reflect any final adjustments to rate base and to the cost of capital (Mullinax Direct Testimony, Bates 000032, Lines 1–3).

Q. Is Staff's proposal relating to interest synchronization correct?

A. Yes, in theory. The Company agrees that interest synchronization should be adjusted to reflect any final adjustments to rate base and the cost of capital. That approach is consistent with the approach taken by the Company in its original and updated filings. Schedule RR-3-15 (R), Line 10 shows the adjusted amount of synchronized interest expense of $2,751,912, which is $15,834 lower than the $2,767,746 included in the CU filing.

IV. <u>RESPONSE TO OCA REVENUE REQUIREMENT ADJUSTMENTS</u>

Q. Please summarize OCA's Adjustment #1 regarding payroll expense.

A. OCA recommended a portion of payroll be removed from the revenue requirement which reduced payroll expense by $601,678 (Ostrander Direct Testimony, Bates 026, Lines 17–18). OCA removed all payroll costs associated with 2018 vacancies that were not filled in 2018 or 2019 and 50% of payroll costs for vacancies that were filled in 2018 or 2019.

Q. Do you agree with the adjustment?

A. No. Please see the above discussion of the Company's response to Staff's Adjustment #4.

Q. Please summarize OCA's Adjustment #2 regarding incentives.

A. OCA recommended a portion of incentives be removed from the revenue requirement which reduced payroll expense by $392,614 (Ostrander Direct Testimony, Bates 068, Lines 6–7). OCA removed the difference of the average 2015–2017 incentive expense from the 2018 book balance for both short term and long-term incentives. The remaining balances were then reduced by 50% to account for financial-focused incentive measures that benefit shareholders.

Q. Do you agree with the adjustment?

A. No. Please see the above discussion of the Company's response to Staff's Adjustments #6 and #7.

Q. Please summarize OCA's Adjustment #3 regarding payroll tax expense.

A. OCA recommended an adjustment to payroll tax expense due to the recommended reductions to payroll expense (Adjustment #1) and incentive compensation (Adjustment #2) (Ostrander Direct Testimony, Bates 068, Lines 15–18).

Q. Is OCA's proposal relating to payroll tax expense correct?

A. Yes, it is in theory. Please see the above discussion of the Company's response to Staff's Adjustment #5.

Q. Please summarize OCA's Adjustment #4 regarding depreciation expense.

A. OCA recommended a portion of depreciation expense be removed from the revenue requirement which reduced depreciation expense by $661,150 (Ostrander Direct Testimony, Bates 072, Lines 3–11). OCA removed all depreciation expense adjustments (other than intangible plant accounts) recommended by the Company's depreciation expert, including the theoretical reserve deficiency amortization.

Q. Do you agree with the adjustment?

A. No. The Company hired Mr. Dane Watson, a certified depreciation expert from Alliance Consulting Group, to perform the depreciation study. Mr. Ostrander, admittedly not an expert on depreciation rates and lives, provided no support for his arbitrary acceptance of only Mr. Watson's recommended depreciation lives for intangible assets while essentially ignoring the remainder of Mr. Watson's recommendations with respect to depreciation lives, net salvage, and a depreciation reserve deficiency. Mr. Ostrander stated in response to LU 1-30, which is included as Attachment PEG/DBS-3-Rebuttal, that he was "instructed by the OCA, as a matter of its internal policy, not to reflect the impact of new depreciation rates or the related reserve deficiency for non-intangible related plant in the new revenue requirement of this case." Any recommendations regarding depreciation should come from an expert.

Q. Please summarize OCA's Adjustment #5 regarding pole rental fees.

A. OCA recommended additional pole rental fees be added to the revenue requirement, which increases revenue by $53,619 (Ostrander Direct Testimony, Bates 081, Lines 1–2).

Q. Do you agree with the adjustment?

A. No. In the Company's response to OCA 2-23, which is included as Attachment PEG/DBS-4-Rebuttal, it stated that it reviewed pole attachment fees in 2018 and found that the standard rate for solely owned poles could increase to $24.33 (a 21.47 percent increase) using the FCC pole attachment fee formula. OCA calculated potential pole rental revenue by simply applying the 21.47 percent increase to the jointly owned standard rate and both cable rates and then multiplying by the number of poles in each class. This simplistic approach does not take into consideration that there are many other considerations in Puc 1304.06 that complicate whether or not the proposed FCC calculated rate of $24.33 would be just and reasonable.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does