STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 16, 2022 - 9:04 a.m.
21 South Fruit Street
Suite 10
Concord, NH

[Hearing also conducted via Webex]

RE: **DG 22-028**
LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. d/b/a LIBERTY UTILITIES:
Petition for Approval of Step Adjustment Filing.

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

Tracey Russo, Clerk
Doreen Borden, PUC Hybrid Hearing Host

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

Reptg. New Hampshire Dept. of Energy:
Paul B. Dexter, Esq.
Faisal Deen Arif, Director/Gas Group
Stephen Eckberg, Utility Analyst
(Regulatory Support Division)

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

I N D E X

E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Direct Testimony of Catherine A. McNamara, Erica L. Menard, Robert A. Mostone, and Bradford Marx, with attachments *(04-08-22)*	*premarked*
2	Direct Testimony of Catherine A. McNamara and Erica L. Menard, with attachments *(04-29-22)*	*premarked*
3	Liberty F-1G Rate of Return Calculation for Calendar Year 2021 *(02-14-22)*	*premarked*
4	Step 2 Adjustment List of Projects	*premarked*
5	Liberty's Responses to the State of New Hampshire Public Utilities Commission's Record Requests - Set 1 *(08-12-22)*	171
6	**RESERVED FOR RECORD REQUEST** *(Reference the* ***Procedural Order Re: Record Request*** *dated 08-22-22 as listed in Docket DG 22-028 located at Tab 20)*	171

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning. I'm Chairman Goldner. I'm joined today by Commissioner Simpson and Commissioner Chattopadhyay. We're here this morning in Docket DG 22-028 for a hearing regarding Liberty Utilities' Petition for Approval of Step Adjustment Filing.

Let's take appearances, beginning with Liberty.

MR. SHEEHAN: Good morning, Commissioners. Mike Sheehan, for Liberty Utilities (Granite State Electric) *[sic]* Corp.

CHAIRMAN GOLDNER: And the New Hampshire Department of Energy.

MR. DEXTER: Good morning, Mr. Chairman. I'm Paul Dexter, counsel for the Department of Energy. I'm joined today by two members of the Regulatory Support Division, Steve Eckberg and Faisal Deen Arif.

CHAIRMAN GOLDNER: Very good. For preliminary matters, Exhibits 1 through 4, as amended on 08/15, have been prefiled and premarked for identification. Is this correct?

Are there any objections? And is there anything else we need to cover regarding exhibits?

MR. SHEEHAN: That is correct. I won't object.

[Laughter.]

MR. DEXTER: No objection from the Department.

CHAIRMAN GOLDNER: Okay. Very good.

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

MR. SHEEHAN: None from me.

CHAIRMAN GOLDNER: Okay. Very good.

Okay. Let's proceed with the witnesses. Mr. Patnaude, would you please swear in the panel.

(Whereupon ***Erica L. Menard***, ***Catherine A. McNamara***, ***Robert A. Mostone***, ***Bradford Marx***, and ***Paul Normand*** were duly sworn by the Court Reporter.)

CHAIRMAN GOLDNER: Okay. Let's move to direct, beginning with Attorney Sheehan.

MR. SHEEHAN: Thank you. We'll start with the preliminaries.

ERICA L. MENARD, SWORN

CATHERINE A. McNAMARA, SWORN

ROBERT A. MOSTONE, SWORN

BRADFORD MARX, SWORN

PAUL NORMAND, SWORN

DIRECT EXAMINATION

BY MR. SHEEHAN:

Q Ms. Menard, could you please introduce yourself and describe your position with Liberty?

A (Menard) Good morning. My name is Erica Menard. I'm the Director of Rates and Regulatory Affairs for Liberty Utilities Service Corp. And, in that capacity, I provide service to Granite State and EnergyNorth operating companies. And I'm responsible for all rate and regulatory filings before this Commission.

Q And, Ms. Menard, have you testified before the Commission before?

A (Menard) Yes.

Q Let's just identify the exhibits, and we'll come back to them and have a little discussion. Exhibit 1, filed in April of '22, consist of testimony authored by all four of you up there. Could you just tell us, sort of at a high level,

what that testimony is asking for?
A (Menard) Yes. The April 8th, 2022 testimony, which is Exhibit 1, is the initial filing for the 2021 in-service amount that makes up this second step adjustment. That revenue requirement was calculated, and resulting rates were calculated off of that revenue requirement.
So, the Company is seeking an increase in distribution rates according to the initial filing, was since amended, which we will get to in a minute.
Q Correct. And this step adjustment was authorized by the Settlement Agreement in the underlying rate case 20-105, is that correct?
A (Menard) Correct.
Q Other than the changes that we'll talk about in a minute with the recent exhibits, do you have any other changes to your portion of the testimony that has been marked as "Exhibit 1"?
A (Menard) No, I do not.
Q And do you adopt that testimony as your sworn testimony here today?
A (Menard) Yes, I do.
Q Exhibit 2, can you tell us what Exhibit 2 is? It

appears to be testimony of you and Ms. McNamara.
A (Menard) Yes. The Exhibit 2 contains testimony and attachments related to an updated depreciation study that was required as part of the Docket 20-105 rate case. The Company worked with MAC Consulting, with Mr. Normand, who is on the screen there. And we calculated some changes to the depreciation reserve as a result of an updated depreciation study.
Q And is it fair to say the timing of that depreciation study, as required in the underlying rate case, did not match up with the filing of this step? The step was first, the depreciation study came next. And, thus, your Exhibit 2 is incorporating the depreciation study into the step. Is that fair?
A (Menard) Correct.
Q And do you have any, again, aside from any changes that we'll talk about in Exhibit 4, do you have any changes to your portion of Exhibit 2?
A (Menard) No, I do not.
Q And do you adopt that as your sworn testimony today?

A (Menard) Yes, I do.
Q Exhibit 3 was requested by the Department of Energy. Could you just tell us what it is?
A (Menard) Exhibit 3 is the year ending 12/31/2021 actual per book rate of return filing. It is a standard compliance filing that's performed on a quarterly basis, and filed with the Commission through the electronic filing system.
Q Thank you. We'll come back to Exhibit 4.
Ms. McNamara, please introduce yourself and your position with Liberty?
A (McNamara) Catherine McNamara. I am a Rates Analyst for Rates and Regulatory Affairs at Liberty Utilities.
Q And, Ms. McNamara, did you participate in the drafting of the testimony of all four of you, which has been marked as "Exhibit 1"?
A (McNamara) Yes, I did.
Q And, again, aside from the changes described in Exhibit 4, do you have any other changes or corrections to be made to that document?
A (McNamara) I do not.
Q And do you adopt that as your sworn testimony here this morning?

A (McNamara) I do.

Q The same question for Exhibit 2. You and Ms. McNamara prepared testimony related to the depreciation study, is that correct?

A (McNamara) Correct.

Q And do you have any changes to that testimony?

A (McNamara) I do not.

Q And do you adopt that as your testimony this morning?

A (McNamara) I do.

Q Part of Exhibit 4 includes sort of the final numbers, if you will, that the Company is proposing today, and within that are the bill impacts, is that correct?

A (McNamara) Correct.

Q So, why don't we jump to the end and have you just speak for the record what the bill impacts are, should the Commission approve the step adjustment as the numbers have been modified through Exhibit 4?

A (McNamara) Sure. A Residential Heating customer's total bill impact for the winter is $14.72, or 1.05 percent. The impact for the summer is $4.75, or 1.32 percent. And, for the

entire year, from November of '22 to October of '23, is $19.47, or 1.10 percent.
Q And where do those numbers appear in Exhibit 4?
A (McNamara) Bates Page 009 of Exhibit 4.
Q Okay. Thank you. Mr. Mostone, please introduce yourself and your position with Liberty?
A (Mostone) Good morning, everybody. Robert A. Mostone. I'm the Director of Gas Operations in New Hampshire for Liberty.
Q And, Mr. Mostone, you also -- you participated in the testimony that's been marked as "Exhibit 1" in this case?
A (Mostone) Yes, I did.
Q And is it fair to say your portion of the -- your contribution to the testimony focused on the projects themselves and the supporting documents, is that fair?
A (Mostone) That is correct.
Q Do you have any changes to the portions of testimony for which you're responsible?
A (Mostone) No, I do not.
Q And do you adopt your written testimony as your sworn testimony this morning?
A (Mostone) Yes, I do.

Q Thank you. Mr. Marx, please introduce yourself?
A (Marx) Hi. My name is Bradford Marx. I manage the Gas Engineering team up here in New Hampshire.
Q Mr. Marx, have you testified at the Commission before?
A (Marx) I have not.
Q Welcome. If you could just briefly give us your background with Liberty, and what makes you -- what brings you to this seat the morning?
A (Marx) Sure. So, I obtained my Bachelor's and Master's of Science from Worcester Polytech in Mechanical Engineering. I've been in the gas utility industry on the engineering side for nine years now, five of which have been with Liberty. I was recently promoted to the Manager position in October of 2021.
Q And did you participate with Mr. Mostone in preparing the operations side/engineering side of the testimony that is --
A (Marx) Yes.
Q -- in Exhibit 1?
A (Marx) Yes, I did.
Q And do you have any changes to that testimony?

A (Marx) No, I do not.

Q And do you adopt it as your testimony this morning?

A (Marx) Yes, I do.

MR. SHEEHAN: Between Mr. Marx and Mr. Mostone, I'd like to spend just a couple minutes walking through the process that the Company follows for these capital projects. Some of the Commissioners have not heard this description before.

BY MR. SHEEHAN:

Q If we could take maybe one of the projects in this filing to sort of walk through the supporting documents.

Turning to Bates 039 of Exhibit 1, that is the List of Projects that are included in this filing, is that correct?

A (Mostone) That's correct.

Q And is it fair to say that each of those projects has a set of documents, sort of standard forms that the Company follows for getting authorization to perform those projects?

A (Mostone) That is correct.

Q In sort of the top third of the list, there's a -- I think it's number seven, "Project Number 8840-2111 Main Replacement LPP". Can you tell us what that project is?

A (Marx) Yes. So, that is a project to proactively replace our leak-prone pipe, which we consider to be cast iron and bare steel, are not cathodically protected pipe in our system.

Q And, as represented here on Bates 039, is that a single project or does that label consist of many projects?

A (Marx) It consists of many projects throughout the state.

Q And how would the Company describe the component projects under this bucket? Is it referred to by the street? Is it referred to by somebody's name?

A (Marx) They would be referred to by streets.

Q And these are pipes being replaced, the old pipes being replaced with new, is that fair?

A (Marx) Old pipes being replaced with new pipes, yes.

Q Where are the documents -- well, I can point to you, starting at Bates 090 appears to be the documents that support the "Main Replacement LPP"

line, is that correct?
A (Marx) Yes. That is correct.
Q And we don't need to go into the details of all these documents, but the first one that appears at Page 90, once I get there, is a "Capital Project Expenditure Form". Now, can you tell us what the purpose of that form is?
A (Marx) So, at the beginning of the year, we identify work through this process. We, basically, we make a summary of what we'd like to do under this blanket. And this basically initiates the approval process. We describe the project, the work we would like to do in the upcoming year, assign a budgetary amount to it, and then that gets routed through the Company through the proper groups to sign off on it.
Q You mentioned a term "blanket". What do you mean by "blanket"?
A (Marx) The "blanket" is the overall funding of the projects, the individual projects, they all roll up into one blanket. So, all the individual jobs on the streets that we plan to work on, they all get individual job numbers, which all roll up to a same blanket project.

Q So, a blanket, the label that we discussed on Bates 039 is the name of the blanket project for "LPP", is that fair?

A (Marx) That is correct.

Q And, for projects that are not blankets, it would be a different title, for example, "Construction of the building at 23 Main Street", if we were building a building, that would not -- that would be an example of something that's not a blanket, is that fair?

A (Marx) Yes.

Q Okay.

A (Marx) That would be accurate.

Q How does -- and a number of the projects on the list on Bates 039 are blanket projects, is that correct?

A (Marx) Yes.

Q How does the Company create a budget for a blanket project? Do you know exactly what you're going to do in the upcoming year or not?

A (Marx) I would say, based on -- a lot of it's based on previous work. You know, some of them are a little bit more difficult to project, such as the City/State Program. But a lot of them, we can get a sense of based on what we've spent in previous years, what we expect to get done the following year.

Again, some of the ones, it varies, based on maybe some of the city requirements or city projects that are going on that we want to maybe address some leak-prone pipe or address direct conflicts.

But, yes, essentially, these budgetary numbers tend to come from previous year spending.

Q And a Capital Expenditure Form, beginning on Bates 090, requests authority to spend -- where did the number go? About eight and a half million dollars, is that correct, on Bates 092, "8,601"?

A (Marx) Yes. That's correct.

Q And that request is then reviewed by various people in the management of Liberty, is that correct?

A (Marx) Correct.

Q And that's what we see on the bottom of Bates 091, onto the top of Bates 093, is that correct?

A (Marx) That is correct.

Q Assuming you get your approval through that process, then is it fair to say that you and the team go ahead and do the work that was planned?
A (Marx) That's correct. Yes.
Q And the next document in this particular one is the "Project Close Out Report", beginning at Bates 094. What is that for? What's the purpose of that?
A (Marx) So, that is, at the end of the year, we look at "Okay, how did the project go?" We looked at our initial budget, and then where we actually came in. You know, we try and determine, if there is differences, where those differences may have come from. We fill out various questions, basically talking about the quality of the project, and how the blanket -- how things went. And just an assessment of, essentially, how the year went for each particular blanket that we have.
Q And towards the end of that Project Close Out Report, Bates 097, it shows the initial estimate of 8.6 million, the actual of 7.8 million, and the delta of 780,000. So, in this case, the project was 700,000 less than budgeted, is that

correct?

A (Marx) That would be correct. Yes.

Q And is it fair to say the Project Close Out Form, in part, would talk about why it was over or under during the course of the year?

A (Marx) Yes. We would try and identify the reasons why it may have been under or over.

Q What's not present in this particular example is a form for a change in budget. What is that form called?

A (Marx) That would be a "Change Order Form". We utilize these in the event that, as -- throughout the year, we're tracking what we spend on each blanket. If we feel that or we're projecting that we're going to go over our initial budgeted amount, we would request a Change Order.

Q And that document explains the reason for the change, and similarly gets approvals of the appropriate people in the chain of command?

A (Marx) Correct.

Q And there are certainly some examples of that in this filing today, is that correct?

A (Marx) Yes. There are several blankets from the 2021 season where we did have to go in and

request Change Orders.
Q Okay. Turning now to Exhibit 4, Ms. Menard, there were -- could you sort of list the reasons why we had to create Exhibit 4 over the weekend and yesterday, frankly, for the Commission's benefit today?
A (Menard) Yes. So, as we talked about the history, the initial filing was made in April. The updated depreciation study was performed in May. Then, there was an audit of the step adjustment, and there was an Audit Report filed in early August. And, as a result of that audit, there were several projects or costs that were identified that the Company agreed to remove from this step filing. Since -- so, that was one set of reasons for changes.

And then, since the time of the initial filing, we've had some approvals of various rate changes. So, one of them was the Step 1 adjustment and recoupment of the delay in the Step 1. So, all of these components that changed required us to not only change the revenue requirement, incorporate the results of the depreciation study, but also update our rate comparison.

So, all of those initial exhibits that were filed, what's shown in Exhibit 1 and Exhibit 2, those all needed to be updated. We additionally had a technical session last Friday, where it was requested that we make an update, so we have a complete record for the Commission to review. And that's what's in Exhibit 4.

Q At the end of the day, as I understand it, one thing did not change and one thing did change. What did not change was the projects before the Commission today do satisfy -- do fill up, for lack of a better word, the $3.2 million cap that was authorized in the Settlement Agreement, is that correct?

A (Menard) Correct. So, in the rate case, 20-105, there was a Settlement Agreement. It outlined the requirements for the Step 2, and it capped the revenue requirement at $3.2 million.

So, when we calculated the revenue requirement for the 2021 projects that went into service, it was originally $3.4 million. As a result of the changes from the Audit Report, that $3.4 million was reduced to a little bit over

$3.2 million. So, still within the cap. So, the revenue requirement itself did not change. Stayed within that cap of $3.2 million. And then, on top of that, the depreciation change was removed from the initial $3.2 million.

Q So, the result of the depreciation study lowered the requested increase, is that correct?

A (Menard) That's correct.

Q If you could just walk us through Exhibit 4 briefly, what these schedules are, and maybe the important things to point out to the Commission that changed?

A (Menard) Certainly. In Exhibit 4, I'm going to start with Bates Page 001. And there was an additional column. So, if you were to look at Column (d), that was our initial filing on April 8th. There's a new column "(e)", which lists the audit adjustments that were agreed upon as part of the Audit Report. Column (f) is just a summing of Columns (d) and (e). And, so, Column (f) is our proposed list of 2021 in-service amounts. So, it changes from 28.2 million to 27 million.

Stepping to Bates Page 002 is the

revenue requirement. So, you can see, on Line 1, that's the 2021 in-service dollars of the $27 million. That flows through the revenue requirement in the format that was agreed to as part of the Settlement Agreement. And that results in a total annual revenue requirement, on Line 37, of a little over $3.2 million, which is subject to the cap of $3.2 million. And then, the adjustment to the depreciation expense is shown, although it doesn't have a number, it's right above Line 38, $660,000. The resulting total annual revenue requirement is $2.5 million.

Moving to Bates Page 003 through -- just Page 003, I'm sorry. That is the resulting rate calculation. I know it's very small to read, but that's the rate impacts as a result of this revenue requirement calculation.

Again, next set of exhibits is on Bates Pages 004 through 007. That shows the proposed rate impact and changes. And this one actually shows kind of a history. So, it starts -- excuse me -- it starts with August 1st, 2022 rates, layers in the proposed rates, and then outlines what will happen effective 8/1/23, when the Step

1 recoupment will be fully recovered. So, it lays out kind of the history of what has happened and the future of what's to come.

And then, on Bates Pages 008 through 014, this is the bill impact by rate class, shows the summer and winter rate changes, the bill impacts on a percentage and total bill basis.

And then, finally, on Bates Page 015, this is the -- this is an analysis for the Risk Sharing Mechanism associated with the Keene Phase 1 conversion that was to be included in the Step 2 Adjustment per the Settlement Agreement. And this is slightly updated. There was an incorrect rate of return that was initially used. It was updated from 8.75 to 8.76, and there's a resulting change that flows through onto the revenue requirement back on Bates Page 002, on Line 36.

And that should walk through Exhibit 4.

Q And, Ms. Menard, all of these schedules in Exhibit 4 are updates of what was in the initial filing?

A (Menard) Yes.

Q These aren't new documents, these are updates?
A (Menard) Correct.
Q And, briefly, back to Mr. Marx and Mr. Mostone, the projects that were completed that comprise this, in your opinions, were they prudently incurred and necessary for the provision of service to our customers?
A (Marx) I believe so, yes.
Q And are they in service, the projects that are listed on this, in this filing?
A (Mostone) That's correct.
A (Marx) Yes.
Q And, Ms. Menard, is it the Company's position that the resulting rates from this, the proposal before the Commission today, are just and reasonable?
A (Menard) Yes.
Q And one last thing, Ms. Menard. The Settlement Agreement called for the second step to go into effect August 1. Clearly, that didn't happen for the reasons that are in the file. With the first step, the Company did go through a calculation to kind of pick up the missing time. Here, assuming the Commission acts and approves this as of

September 1, is the Company requesting a similar catch-up, if you will, for the missing month?

A (Menard) No. The Company is requesting these rates would go into effect on September 1st.

Q And the reason that the Company didn't request, in effect, the month of August is what?

A (Menard) There's two reasons. One is, because it's cleaner to explain, easier to utilize this new rate going forward, in terms of the impacts to the Revenue Decoupling Mechanism, the Revenue Per Customer calculation. So, we are proposing that it go into effect on September 1st, at that annual level.

And then, the second reason is that August tends to be a lower revenue month from a gas perspective. So, it will have less of an impact overall.

MR. SHEEHAN: Thank you. Those are all the questions I have.

[Court reporter interruption regarding direct examination of Witness Normand.]

MR. SHEEHAN: Oh. Mr. Normand didn't file testimony. He's here just because I believe Staff has some -- DOE has some questions for him, and the Commission may as well.

CHAIRMAN GOLDNER: Okay. Very good. Let's move to cross-examination, and Attorney Dexter.

MR. DEXTER: Thank you, Mr. Chairman. I have a number of questions prepared, before I got Exhibit 4. But I'm going to try to just do some questions on Exhibit 4, which, as everyone knows, came in at close-of-business last night, to try to make sure I understand that, before going to my prior questions.

CROSS-EXAMINATION

BY MR. DEXTER:

Q So, if I were to look in Exhibit 4 to find the actual rates that are proposed for approval here today, where would I find that in Exhibit 4?

A (McNamara) The requested rates --

[Court reporter interruption.]

BY THE WITNESS:

A (McNamara) The requested rates are found on Bates Page 004 of Exhibit 4. And the proposed rates for effective 09/01/2022 are in Column (b).

BY MR. DEXTER:

Q Thank you. And I'd actually have to go beyond

Page 4 to see all the rates that are proposed. I would need to go to Pages 4, 5, 6, and 7 for all the various rate classes, is that right?

A (McNamara) That's correct.

Q Okay. And, so, Column (b) are the rates that are before the Commission today?

A (McNamara) Yes.

Q Okay. Now, Columns (c) and (d), is Liberty requesting sort of pre-approval for these ultimate rate decreases in (c), and then the result in (d), or is this more for informational purposes?

A (McNamara) This is more for informational purposes. It is showing the impact of Step 1, how we propose to recover it, that -- which was approved. I don't have the order number in front of me.

Q No. That's fine. And, so, if I under --

A (Menard) And just to clarify. So, Step 1, there was a recoupment due to the delay, of the 12-month delay in recovering $4 million. And, so, when that approval was granted, it's granted for a 12-month period. So, at the end of that 12-month period, those rates drop off. And, so,

that's what this is showing.
Q That's what Column (c) is showing?
A (Menard) Correct.
Q Okay. And, so, Column (d), which is labeled "Proposed Rates Effective 8/1/23", I guess my question is, does Liberty foresee making another rate change proposal sometime in the Summer of 2023 to make this effective?
A (Menard) Yes, we would have to. Any time we change rates, we would have to request a change.
Q Well, I agree with that. So, that's excellent. I just want to make sure I know what -- I want to make sure we know what's at issue here today. So, that's very helpful. Thank you.
Now, I'm going to jump to Page 2 of Exhibit 4, and this is an updated revenue requirement calculation. So, the rates that we just talked about, is it correct that they're designed to collect 2,539,700 -- I'm sorry, "$2,539,784"?
A (Menard) That's correct.
Q Okay. And the development of the rates to collect that amount is shown on Page 3 -- Page 3, is that right?

A (Menard) Page 3?

Q Page 3 of Exhibit 4. It's entitled "Rate Calculation".

A (Menard) The development of the revenue requirement?

Q No. The development of the rates --

A (Menard) Oh, the rate.

Q -- that we talked about on Column (c), right?

A (Menard) Yes.

Q So, I would expect, I haven't had a chance to go through this in detail, and it's very difficult to read, but I would expect that somewhere on this page I should see the $2,539,000 -- $2,540,000 revenue requirement. And I would expect to find it, I think, down in the block called "Incremental revenue proof", but I could be wrong about that.

So, I guess my question is, do I find that $2,500,000 number on this page, and, if so, where?

A (Menard) It's not actually shown on the page. You'd have to sum values together. But what this -- what this page is doing is it's taking the two and a half million dollar revenue requirement and it's allocating it to the classes, and it's allocating it according to the rate design. So, some goes to the customer charge, some goes to the volumetric charge summer/winter.

So, I don't have a total on this page, but you'd have to add up several lines.

Q Right. And this is, from what I remember from rate cases, there's always a sheet like this, I think that it's called the "Rate Design Worksheet", or something.

A (Menard) Yes.

Q And one thing that we always check at the Department of Energy is to make sure that we're starting with the right number, so that we know that the rates are actually, like you said, we're dividing up the right revenue requirement. So, could you tell us which of the numbers that would have to be summed to hit the 2.5 million?

A (Menard) If you give me a minute, I have to go into the spreadsheet.

Q Sure.

A (Menard) So, if you go on to Line -- gosh, I can't even read this, Line 90, and you sum those

across, that should get you your two and a half million dollars.
Q Okay. And it sounds like you're looking at an Excel spreadsheet?
A (Menard) I am.
Q And does that some to the 2,540,000 that we're talking about?
A (Menard) Yes, it does.
Q Okay. Thank you. Okay. So, having established that the rate calculation worksheet is done using the correct revenue requirement number, I wanted to ask you about the percentages that appear in the boxes starting on Page 93 **[**3**?]**. And I see a lot of 2 percent and 3 percents spread across Lines 97, 106, and 111, and 115. And I see some 5 percents. What do -- and I see some 4 percents. What do those percentages represent?
A (Menard) Are you referring to Lines 97, 102, and 111 on Bates 003?
Q Yes. And Line 115.
A (Menard) And 115, okay. Those are a comparison of current rates effective August 1st, to the proposed rate effective September 1st. It's the percentage change.

Q In the various rate blocks --
A (Menard) In the various --
Q -- or, rate elements?
A (Menard) Yes. There's a --
Q Okay. So, for example, -- I'm sorry.
A (Menard) There's a customer component, a volumetric component for winter and summer.
Q Okay. And the reason it's zero on Line 97 for Columns (B), (C), (D), and (E) is because the Settlement provides that the step adjustments will not increase the residential customer charges, correct?
A (Menard) Correct.
Q And I guess I would have expected that a step adjustment would be a so-called across-the-board increase, in other words, an equal -- that it would affect each class the same on a percentage basis. That's not the case here, is that right? Just wondering where the rate design came from?
A (Menard) The rate design was developed as part of the 20-105 rate case. And it's -- we continue to use that rate design. And flow the distribution rate increase according to the design that was agreed upon in that case.

Q Okay. All right. Thank you. Which is not an across-the-board equal percentage for each class?

A (Menard) Correct.

Q Okay. Again, on the small print, on Exhibit 4, Bates 003, Lines 23 and 24, one is called "Total" and one is called "Combined". Can you explain what the difference between "Total" and "Combined" is?

A (Menard) Yes. Just give me a second. "Total" is the customer and volumetric amounts from Lines 21 and 22. "Combined" is combined, the -- includes the MEP rate. So, it would be a sum of Columns (B) and (C) for Line 23, if we were looking in the Residential R-1 and R-5.

Q Yes. And what's the "MEP rate"?

A (Menard) It is the main -- Cathy?

A (McNamara) It's the "Managed Expansion Plan rate".

Q And what's that?

A (McNamara) The "Managed Expansion Plan rate" is 30 percent higher for the distribution rate than its -- I'm trying to think of the right term to use. So, we have regular rates. So, in the first column, "R-1" and "R-5", for example, R-1

is our regular Residential Non-Heating, and R-5
is its Managed Expansion Plan rate. And, subject
to check, I believe it has to do with, when we
put in new developments and things, those
customers pay a premium to get the services
connected and have the gas put in while the
development is being constructed.
Q So, the premium is in lieu of a contribution in
aid of construction, it's spread out over time,
is that right?
A (McNamara) I believe so, yes.
Q Okay. Then, why -- I guess I don't understand
the point of summing those two numbers under Line
24 and combining them. Do those numbers go
anywhere? I don't have the Excel handy. Do
those numbers go anywhere on this sheet or is
that just for display?
A (McNamara) I would need to look at the formula
for that. But they're combined because they're
both Residential Non-Heating customers. So,
they're the same type of customers, but they're
on two different rates because of the expansion
plan. So, it's telling you that the total rate
change for -- or, the total rate change for both

the -- for all residential non-heating customers is the total, and -- let me see if I look at my computer. And that's why they're combining them, on Line 24, for example.
Q Is that another way of saying that you want the same rate design to apply to both the regular customers and the MEP customers for that class?
A (McNamara) Correct.
Q So, that's what that effect -- that's the effect of this, is to get them the same rate design?
A (McNamara) Correct. With the difference that one has that premium in lieu of the contribution.
Q Okay. And, Ms. Menard, you had mentioned, in response to questions from Attorney Sheehan, that, although these rates won't go into effect until September 1st, or they're proposed for effect September 1st, they're really only going to be in effect for 11 months, correct?
A (Menard) No. Not correct.
Q Okay. So, they will be in effect --
A (Menard) It's an annual revenue requirement.
Q Permanent. Okay, permanently.
A (Menard) Yes.
Q Have you calculated how much -- well, let me --

let me rephrase the question. If these rates were in effect for a 12-month period, they are designed to collect 2,540,000, correct?
A (Menard) Correct.
Q Okay. Have you calculated how much of that 2,540,000 is expected to be collected in the first 11 months that they're going to be in effect?
A (Menard) No, I have not.
Q Okay. But you would expect it would be less than the 2,540,000?
A (Menard) Yes.
Q Okay. And, so, when August 1st, 2023 comes along, again, looking at Page 4 of Exhibit 4, Column (c) talks about a rate decrease to apply to the recoupment of the delay in the first step adjustment. That there won't need to be a corresponding decrease for this step adjustment, is that right?
A (Menard) Correct.
Q Okay. Okay. So, I wanted to spend some time comparing the list of projects that was approved in the Settlement in DG 20-105, to the list of projects that makes up the revenue requirement

that's at issue today.

And I know, in direct exam, Attorney Sheehan referred to "Exhibit 1, Bates 039". But I believe it would work just as well using Exhibit 4. So, I guess I should start by saying "Is that right?" Exhibit 4, Page 1, shows the list of projects that are before the Commission for recovery today, right?

A (Menard) Correct.

MR. DEXTER: Okay. And I have Exhibit 2 **[**Appendix 2**?]** of the Settlement from DG 20-105. And we would ask the Commission to take administrative notice of that. It's Exhibit 49 in that case. But, for ease of comparison, I brought paper copies, if anyone would like a paper copy?

CHAIRMAN GOLDNER: Yes, please.

MR. DEXTER: Okay.

[Mr. Eckberg distributing documents.]

MR. DEXTER: For the Bench. Mike, do you want one?

MR. SHEEHAN: Sure.

WITNESS MENARD: Could we have one up here?

MR. DEXTER: Sure. I have lots of them.

MR. SHEEHAN: It's like the old days, with paper.

WITNESS MENARD: We can share.

MR. DEXTER: I came into the office and felt obliged to use the copier.

BY MR. DEXTER:

Q So, I'd like to do two things. Because I'm trying to trace -- I'm trying to trace from what I remember from the Settlement to what we have here today.

So, I'm going to start with Appendix 2 from the Settlement, and ask you, or the panel, for the first project, that's called "Leak Repairs", "1,750,000". Where does that appear on Exhibit 4, Page 1?

A (Marx) That's Line Item 7. I'm sorry, Line Item 6.

Q Okay. Line Item 6. That's what I was going to ask. Line Item 6. Okay. And, now, turning to Exhibit 4, Page 2, what column would that project fall under?

A (Menard) That would fall under FERC Account 367, which is -- doesn't have a column number, but the heading says "Transmission Mains".

Q Okay. Thank you. So, now, let's go to the next one. The next one is called "LPP City/State". This is significant. It's $23 million in the Settlement. I understand from the testimony that that is made up of five different projects on Exhibit 4, Page 1. Could you tell me which of the five projects, you know, by line number?

A (Marx) Yes. So, that would consist of Line 1, Line 7, Line 8.

Q Well, let me just --

A (Marx) I'm sorry.

Q -- catch up with you for a second.

A (Marx) Yes.

Q Okay. So, Line 1, Line 7, Line 8. Yes?

A (Marx) Line 13.

Q Thirteen.

A (Marx) And Line 14.

Q Okay. And, if it's possible, to tell me what column they appear on, please, on Page 2? And I realize they may not be the same column, but --

A (Menard) It is the same column, "Transmission Mains". They're in FERC Account 367.

Q Okay. Good. All right. And, so, and I'm going to come back to ask you about these, but I'm just trying to trace them. And I'm sorry, this is a little tedious, but I don't know any other way to get this information across.

So, "Aldyl-A Replacement", this one should be easy. Could you tell me what line on Exhibit 4, Page 1, we're dealing with?

A (Marx) That would be Line 10.

Q Okay. And what column on the next page, Exhibit 4, Page 2, would that be?

A (Menard) The "Transmission Mains" column.

Q 367?

A (Menard) Correct.

Q Account 367. Okay. Same question for the "K Meter Replacement Program"?

A (Mostone) That would be Line Item 9.

Q Yes. And then, on Exhibit 4, Page 2, what account would that be?

A (Menard) This one is actually a different one. This is in 381, which is the "Meters" column.

Q Very good. Okay. The next one on the Settlement list, from Exhibit 2 **[**Appendix 2**?]** from the Settlement, is "Main Replacement Valve Reactive".

Where does that show up on Exhibit 4, Page 1?
A (Marx) That would be Line 11.
Q And where would that show up, which column would that show up on on Exhibit 4, Page 2?
A (Menard) "Transmission Mains 367" column.
Q 367. The "Dresser Coupling Replacement", my understanding was that project wasn't completed. So, that's not on Exhibit 4, Page 1, correct?
A (Menard) Correct.
Q And, therefore, it's not on Exhibit 4, Page 2, either, correct?
A (Menard) Correct.
Q Okay. And, lastly, "Gas System Planning & Reliability", where would that show up on Exhibit 4, Page 1?
A (Marx) That would be Line 15.
Q And under which column in Exhibit 4, Page 2?
A (Menard) "Transmission Mains 367".
Q Okay. And, so, now I'm going to try to identify the projects on Page 1 of Exhibit 4 that we haven't mentioned as appearing on the original list. And, so, I believe, I'm going to circle these, I believe it's Line 2, which is "Nashua Paving"; Line 3, which is "Meter Protection

Program"; Line 4, which is "Cathodic Protection Program"; Line 5, which is "Replacement Services Random", Line 12, which is "Purchase Miscellaneous Capital Equipment & Tools", Line 16, which is "IT"; 17, which is "Transportation"; 18, which is "Meters"; and 19, which is "Keene Expansion".

Is it correct that all those lines on Exhibit 4, Page 1, do not show up on Appendix 2 of the Settlement?

A (Menard) That is correct.

Q Okay. And is it fair to say that those numbers that I just mentioned and circled were the substitute or replacement projects that were listed in the testimony?

A (Menard) That is correct. Those were listed on Bates 013 of Exhibit 1.

Q Okay. So, now, back to Appendix 2 of the Settlement. I just want to go through and get a brief description of the projects that were included on the list for the Settlement. The first one being "Leak Repairs, 1,750,000", we've learned that that appears in Appendix 4 **[**Exhibit 4**?]**, Page 1, at Line 6, in the requested amount of 1,322,000. And if you could tell me a bit about what that project involves, and the reasons that it came in I'll call it "under budget"? And, if that's not the right term, please tell me what the right term is.

A (Mostone) So, yes, that is what it is. It's leak repairs. So, we start a budget at -- we try to estimate the budget beginning of the year, depending on what we feel we're going to need. So, as we discover leaks, we do repair them during the course of the year throughout the season. We make adjustments from there, whatever is needed. So, the budget started at 1.7 million; we ended up at 1.3 for the year.

Q Okay. And, so, it kind of sounds exactly like what its description would lead you to believe. In other words, these are leaks that occur during the -- that occurred during the course of 2021, and Liberty went and out and repaired them?

A (Mostone) That's correct.

Q Okay. And I don't want to get too hung up on the "Priority" column on Exhibit 4, Page 1. But I do want to ask about it. These are listed as

"Mandated". I see one of the possible categorizations is "Safety". Could you explain why it's "mandated", and comment on whether or not you would consider this a "safety" project or a project that enhances customer safety?

A (Mostone) So, we have mandated requirements on grading of leaks. From that, when a field employee or a leak surveyor goes out and performs the task of discovery of the leak, they monitor the area, see what the percentages are, and what the categorize -- they categorize it by Grade 1, 2, and 3. There, that kind of tells us when we have to do the repair. So, considered a Grade 1 would be considered an emergency, needs to be done right away, that has more of a safety issue. It could have a potential to be a hazard. It gets repaired right away.

Grade 2, we have a state requirement, it's mandated that we repair the leak within six months of discovery, and/or by year-end 2021, whatever comes first. And those are monitored throughout the year, to make sure that nothing has, you know, developed into a larger leak than what it is. And, if it does, then we'll upgrade it to a larger and get it done right away.

Q Okay. And maybe I'm just stating the obvious, but you would agree that repairing these leaks under this project enhances the safety of the Company's system?

A (Mostone) Correct.

Q Okay. All right. Now, the next item, again, this is the largest item on Appendix 2 of the Settlement, it's called "LPP-City/State". It's $23 million. And we've learned that it's spread over five different lines. And we covered this in the tech session, and I read the testimony. And, so, now I understand that, for purposes of the Settlement, these were combined. But I'd like to get into the individual components of the 23 million.

So, the first one that I wrote down is "Line 1". That's called "Main Replacement LPP-Restoration". Could you explain what that is?

A (Marx) Yes. So, that is from -- it's actually work that was completed, gas main replacement work that was completed in 2020, where maybe it went later in the season, and we couldn't complete the final restoration of the trench and excavation work we had to do. So, what happened is, we go in the following year and complete that final restoration.

So, that's what that line item is for, is to finish the final restoration of projects from the previous year --

Q Okay.

A (Marx) -- under the --

[Court reporter interruption.]

MR. DEXTER: I'm sorry. I spoke over him, I'm sorry.

CONTINUED BY THE WITNESS:

A (Marx) Sorry. Under the Leak-Prone Pipe Program.

BY MR. DEXTER:

Q Well, that's what I was going to ask you. So, "LPP" stands for "Leak-Prone Pipe"?

A (Marx) Correct.

Q You mentioned, in direct exam from Attorney Sheehan, I believe, that your Leak-Prone Pipe Program is to replace bare steel and cast iron mains, is that right?

A (Marx) That would be correct.

Q And I think I saw somewhere in the construction

documents that those mains could have been installed anywhere between 1890 and 1950, is that right?
A (Marx) That's accurate. Yes.
Q Okay. And, again, stating the obvious, but you would agree that replacing these leak-prone pipes would improve the safety of Liberty's system?
A (Marx) I would agree, yes.
Q Even though it's called "mandated" in Column (c)?
A (Marx) Yes.
Q Okay. And the "restoration" that you talked about is essentially paving, is that right?
A (Marx) Yes.
Q Backfilling and paving?
A (Marx) Yes. Correct.
Q Okay. So, that takes care about 2 million of the 23 million that was listed in the Settlement.
So, the next project is Line Number 7. This is called "Main Replacement LPP", leak-prone pipe. Again, this is $8 million. Could you explain briefly what this project is all about?
A (Marx) So, this is where we actually go and replace the main in the street. We identify our leak-prone pipe, cast iron or bare steel as you

mentioned before, and it gets replaced with new pipe, and then the old pipe gets retired. The services get transferred to the new -- to the new main from the old main, and then we retire and abandon the old cast iron or bare steel main.
Q Okay. And this is a larger item. I think I saw in the construction documents that this replaced about 3.7 miles or so, is that right?
A (Marx) I'd have to look at that individual -- it is 3.6? Okay. Then, yes, that is correct.
Q 3.6 miles.
A (Marx) Yes.
Q For a number of years I recall that the Company had a so-called "Cast Iron/Bare Steel Program", which had periodic rate adjustments to address these leak-prone pipes. Is this essentially a continuation of that program?
A (Mostone) Yes. That's correct.
Q Okay. And how many miles of leak-prone pipe are left on Liberty's system?
A (Mostone) Start of the year, roughly about 40 miles.
Q The start of 2022?
A (Mostone) Correct.

Q Okay. Forty miles. And do you have a projection over what period of time it would take to -- well, let me ask you this. Does the Company intend to continue to replace the leak-prone pipe?

A (Mostone) Yes.

Q And do you have an estimate over what period of time that will take place?

A (Mostone) We're looking at probably another five more years.

Q Five more years. Okay. The next project that made up the 23 million on Appendix 2 of the Settlement is Line Number 8 on Appendix 4 **[**Exhibit 4**?]**, Page 1. This is called "Main Replacement Fitting Leak-Prone Pipe", roughly half a million dollars. What does this involve?

A (Mostone) This involves the field employees going into homes and finding the location for the -- moving the meters from inside to outside, finding a good location outside and piping from the existing meter to the outside of the new location.

Q And why do you move meters from inside to

outside?
A (Mostone) It's our responsibility now for Liberty to move the meters out, so we have direct access to the meters.
Q When you say it's your "responsibility", is that a state mandate or a federal mandate?
A (Mostone) It's been discussed in a state mandate to have it done. It's not really written that we move everything out. There are certain areas that we can't move everything out. But, yes, it's a practice, a common practice, to be moving all the meters out that we can.
Q Okay. I was thinking of the term "best practice".
A (Mostone) Yes.
Q Would you call that an "industry best practice"?
A (Mostone) Yes, sir.
Q And, so, if I understand this correctly, when you're replacing the leak-prone pipe, and you've got to hook an existing meter up to the new pipe, do you take that opportunity to move a certain number of meters outside?
A (Mostone) That is correct.
Q Okay. Again, we'll be here till Friday if I

don't speed this up.

But Line 13 is the next project in this category. This is called "Main Replacement City/State Construction". Now, I want to start by saying that "leak-prone pipe" does not appear in this title. Right? This is not a leak-prone pipe project?

A (Marx) It is not specifically for leak-prone pipe. The City/State Program could apply to any of our facilities.

Q Okay. And could you explain briefly what a "City/State Program" is?

A (Marx) So, yes. We work with the cities and towns to coordinate their work with -- not only with our work, but with our existing infrastructure. There's several projects that a city, the state, or a town proposes where there becomes a direct conflict between what they're looking to do, whether it be bridge, road reconstruction, drainage, any such projects, in our existing facilities. We try and work to see if there's a -- if there's another approach we could take, so that we could avoid having to relocate. But there's many instances where it's inevitable and unavoidable, that we need to relocate in order to accommodate for their work.

So, it could be a cast iron main, but it also could be a plastic main or a coated steel main, you know, main that we wouldn't typically choose to replace.

Q Okay. And I don't want to oversimplify this, but it sounds like this is a situation where one of the towns in which you operate is doing some construction, and your -- Liberty's gas main just needs to be moved?

A (Marx) Correct.

Q As in the town tells you that. You don't really have a lot of discretion over that, is that right?

A (Marx) Correct. Like I said, we try and work with them to see if there's an alternative.

Q Okay.

A (Marx) But a lot of times, ultimately, yes, the answer is we need to relocate.

Q And, if you see a situation where you can make a safety improvement by replacing one of these leak-prone pipes with a more modern pipe, you take advantage of that?

A (Marx) Yes. Of course.
Q Do you also take advantage of the pipe being exposed and replacing it with a larger pipe, for example, for your sales growth project or your projected sales growth that you want to take into account?
A (Marx) That is something that we would consider, yes.
Q Okay. Do know if that happened in 2021 with connection with this 7.9 million on Line 13?
A (Marx) I don't think that was necessarily the problem, where we ran over our allotted budget. What happened that particular year is we just -- we work with the towns in advance to try and catch this, these, you know, potential conflicts earlier in the season. So, you know, we plan out our work. We have our work at the beginning of the season. But, then, inevitably things come up. You know, the towns, they -- maybe they start a project and they find a problem in the field, or they just -- they come to us kind of late, later in the season, where maybe we didn't plan for it initially, but now we have to respond to it. That did happen on a few occasions in

2021.
Q How many -- how many, I think you called them -- these are "projects", I think you called them "jobs". How many jobs, roughly, were covered by this 7.8 million on Line 13? Is it like dozens or one or two, or hundreds?
A (Marx) In terms of scale, I'd say it's in the double digits. I want say it would have exceeded, say, 30.
Q Okay.
A (Marx) I could get you an exact number.
Q No, that's fine.
A (Marx) Sure.
Q I'm just trying to get an idea what's going on.
A (Marx) Yes. Okay.
Q So, it's numerous projects?
A (Marx) Yes. Yes.
Q Yes. And, lastly, Line Number 14 is called, it's only 49 -- it's 549,000, sorry, "Service Replacement Fitting City/State Construction". Could you just explain what that is?
A (Mostone) So, pretty similar to the "Fitting Leak-Prone Pipe", on the City/State projects, once we are either relocating the services, we

also have to bring the services up to, say, specs. So, if they're doing cast iron/bare steel main replacement, they will also do a service replacement and move the meters from the inside to the outside, so we're only there one time and completing the process.

Q So, this is -- but this is not -- this is under the City/State Program. So, I understand that this says "Service Replacement". I guess I'm confused why there isn't also a "Meter Replacement" for City/State, like there was for leak-prone pipe up above?

A (Mostone) It's very similar. It is similar to the "Main Replacement" -- the "Fitting Replacement" up above. That is where it moves the meter out, it does the same thing. When we are working on any of our assets, we have to bring them up to the current standards.

Q Okay.

A (Mostone) And that's why we currently do that.

Q Okay. Okay. When I asked about the number of jobs that were under the Line 13, 7.8 million, and the answer was, you know, roughly in the area of 25 to 30. I'd like to ask the same question up for Line 7, "Main Replacement LPP". How many jobs was that?

A (Marx) That would be in the same ballpark.

Q Okay. Again, numerous jobs?

A (Marx) Yes.

Q Okay. All right. Okay. I'm going to, back on Exhibit 2 **[**Appendix 2**?]**, in the interest of time, I'm going to skip over the "Aldyl-A", the "K Meter", and the "Main Replacement". But I did want to ask you about the "Dresser Coupling Replacement". This is a project that wasn't done, correct?

A (Mostone) So, the dresser coupling, a little confusion here with this, it's also part of the Leak Repair projects. Some of it gets -- when they're single couplings, they get -- or they get cut out and/or encapsulated. What these are is these are leaks that are identified during the winter months mostly. The old dresser couplings, when they put the mains together, they used this coupling that had rubber seals in it, and then they had the two nuts, they tightened them, and that was the way they put the mains together.

What happened throughout the years,

these mains are probably -- were put in in the 1960s to early '70s. So, these couplings, after through time, the rubbers inside start to deteriorate somewhat. So, during the winter months, during ground movement, they will actually start developing small leaks. And then, they will, as the frost comes out of the ground, they will actually seal back up.

So, what happens here is, they -- we would turn and we'll go out and identify them during our surveys, and we will pin the leaks during the winter months. And then, we'll go back, we grade them, and we go back and do the repair. So, it's part of the leak-prone pipe process, because it's only one asset.

Whereas, the dresser coupling replacement, it's a valve cluster. It's more of several -- like an intersection, say, a four-way intersection, where you have mains going in four different directions, and then there's a set of valves here, that's a complete cutout of the asset and removed, and then reinstall a whole set of new valves, and it's welded back together. A little bit more of a process.

Q Okay. So, I guess I'm confused then. Would you say that the project was completed or it wasn't completed?
A (Mostone) So, again, we put the project together for -- we put the project together beginning of the year, and we'll look to identify how valve clusters we may have during the course of the year.
Q Right.
A (Mostone) I know we did some last year, in 2021. I do not have the number.
Q Okay.
A (Mostone) But, as far as, you know, completing, we do complete everything, in all leaks, during the course of the year.
Q Sure. And, to the extent some of the couplings were replaced, you're saying they would have fallen into that 23 million of Leak-Prone Pipe City/State Program, the cost of that? Just trying to figure out where it is in the -- I know this is a regulatory case. But just trying to figure out where it falls in on the recovery schedule?
A (Mostone) On the recovery schedule for the 23

million?

Q Well, it's actually where it falls in on, if at all, on Exhibit 4, Page 1? If it fell into one of those projects we were just talking about?

[Witness Mostone and Witness Marx conferring.]

BY THE WITNESS:

A (Mostone) So, it's not part of -- as far as I know, it's not part of the 23 million.

BY MR. DEXTER:

Q Okay. Okay. And, lastly, on Exhibit 2 **[**Appendix 2**?]** from the Settlement a couple years ago, we had "Gas System Planning & Reliability" budgeted at "2.9 million". I understand that that shows up on Line 15 of Exhibit 4, Page 1. The actual amount was just under a million dollars. This project is labeled "Discretionary". Could you explain what this project is and how it came in significantly under budget?

A (Marx) Okay. So, yes. These problems -- these projects are created by the Engineering Department to basically help improve parts of our system where we may see, you know, lower capacity or lower pressures in our hydraulic model. So, we'll create a project in order to address such issues, so we can, you know, deliver a more reliable gas service to our existing customers, and also facilitate -- possibly facilitate further growth. So, that's what these projects cover.

Why we were underspent? I believe, in 2021, we did plan some initial projects that did not end up getting to the construction phase. So, we had initially intended to complete them, but they ended up not making it to the construction phase.

Q Okay. I believe this was addressed in -- excuse me, in the testimony, on Exhibit 1, Page 22. I'm going to go there. I think this is what we're talking about, but I'll ask you when I get there.

So, I'm looking at Exhibit 1, Page 22, the top of the page talks about "Gas System Planning & Reliability". So, I think I'm in the right place. It was budgeted for 2.9 million. It says the actual cost was 1.8 million. But Exhibit 1 -- Exhibit 4, Page 1, says the actual cost was about half that.

So, let's just focus on what was done.

So, of the 959,000, on Exhibit 4, Page 1, would you say that was one job again or was it multiple jobs? And, if you have any specifics to talk about what was installed, that would be helpful.
A (Marx) So, I know one project that we completed, it was a system reinforcement on Route 3, in Tilton. That was to help bring more capacity and increased pressure to the Laconia and Gilford area, which is a known weaker spot in our distribution system. So, I know that was -- that was a big piece of this. That project was a big piece of this program.
Q Okay. And, again, maybe I'm stating the obvious, but "increased pressures", and you've got the word "reliability" in here, how does that help customers? Why is that important?
A (Marx) So, if, you know, as we consume more gas in our system, the pressure will draw down. As we add more customers, the pressures will draw down. We need to maintain a certain pressure to guarantee to our customers.
Q Okay.
A (Marx) So, that's why we do look to do these projects like this that will just enhance that,

you know, if they're, basically, to increase the pressure that they're getting in the system. It's not that we're actually changing the maximum allowable operating pressure in these systems. It's just that we're adding bigger pipes, so that we could facilitate more capacity and/or more pressure, higher pressures getting to our customers.

Q Does that become more important as cold weather approaches?

A (Marx) Yes. That is where we see the lower pressures occur, is when the cold weather has gas consumption increase.

Q And, again, I don't want to overstate this, but is it to avoid outages during extreme cold days, is that why you do this?

A (Marx) Yes.

A (Mostone) And, you know, just to add to that. It's a volume issue. So, we, you know, have to maintain a certain amount of pressures in our system. As flows go up, we do not want to start seeing outages. And, so, we identify these areas. And, you know, every year monitoring --

Q Yes.

A (Mostone) -- and seeing what's going on out in our distribution system. And, when we identify areas like this, and we -- a potential outage or hazard during the winter months, we try to do a reinforcement there. So, it's not really, you know, the word "pressure", it's more of a volume. It keeps our system up, which is assurance that we get a higher volume of fuel going through those areas to help support the customers.
Q There was one word you said I didn't get, but I think it might have been "flows". Did you say "as flows go up"?
A (Mostone) So, when there's gas flowing through the pipe.
Q Okay. Thank you. That's very helpful.
A (Menard) And, Mr. Dexter, can I just clarify one thing? I just want to make sure we didn't leave any confusion.

On Bates 022, on Line 8, we talked about the budgeted cost for the project being "2.9 million", the actual cost being 1.85 million. And then, when we look at the amount for this particular project, on Line 15 of Exhibit 4, Bates 001, it shows 959,000. I just wanted to explain why those numbers looked different.

The budgeted cost is the spend. The actual cost is the spend in 2021. What's included for the step is the in-service amount. So, spend doesn't always relate to in-service. And what gets completed, it's considered used and useful, and that's what gets included into the step.

Q So, 1.8 million was spent. But, for purposes of the step, because we're only talking about projects that went in service in 2021, the step request is half of that?

A (Menard) Correct.

Q Okay. Thank you. That is helpful. Okay. Now, I want to talk about the projects that I circled on my sheet earlier, that I believe we determined were not on the Settlement step, but did -- Settlement sheet, Appendix 2, but did find their way to Appendix 4 [Exhibit 4,] Page 1, and are requested for approval in this case.

The first one is called "Nashua Paving". But I see, if I look across to the "Audit" line, this item has been removed from the

step adjustment. And I don't want to spend a lot of time on it, because it's not at issue, I guess. But could you just explain very briefly what that project was, and why it's been taken out of the step as a result of the audit?
A (Mostone) So, this was a project that was in our Nashua yard location. It was identified as a, you know, we were going to pave the Nashua yard, there were some drainage issues, along with some piping for our propane facility, and environmental issues that had to be corrected at the same time. So, basically, what happened here is the project did not get completed in 2021, and it got moved into the 2022 season.
Q So, it was taken out for just what Ms. Menard was talking about earlier, it was spent, but not spent in 2021?
A (Mostone) Correct.
Q Or, put in service in 2021?
A (Mostone) Correct.
Q Okay.
A (Menard) Mr. Dexter, I know this is not an actual exhibit for this hearing, but it is filed into the docket, the Audit Report. And I just wanted

to point you to where the Company agreed to remove this is on Page 8 of the Audit Report. About three-quarters of the way down on that page we agreed to remove the project from the request for recovery.

Q Okay. Excellent. Thank you.

A (Menard) You're welcome.

Q Line 3, "Meter Protection Program", could you explain briefly what that is?

A (Mostone) So, "meter protection" is, on discovery of meters that are compromised, could be hit by a vehicle or other objects, it's -- we will end up putting some kind of protection there. It could be falling snow or ice off a roof or, you know, a vehicle itself. So, when they're identified, we send a group out to put up some kind of protection there.

Q And the PUC -- I'm sorry, the DOE Audit actually recommended "nonrecovery" of the Meter Protection Program. And I'm paraphrasing, but, in the opinion of the DOE auditor, "this was something that should have been done to comply with existing state and federal codes."

Do you agree with that assessment?

A (Mostone) Well, it does comply with state and federal codes. What this is is identifies -- it identifies, when we're out there, so, things change when we're installing our meters or, you know, our services. It could be anything from, you know, during construction, they add, you know, they change the way the roof lines are, or, you know, they add a driveway in a spot where it now violates the code, that we have to go in and put in meter protection. That's why we have surveyors go out and monitor these areas, constantly moving and checking things. And, if it needs to be added, then we put in protection at that point.

Q So, again, I'm paraphrasing a bit, but it sounds like what you're saying, this could involve a situation where a meter was perfectly compliant when you put it in, and that could have been 75 years ago, --

A (Mostone) Correct.

Q -- but things happened around that meter, maybe more development or --

A (Mostone) It could be anything. A customer had a driveway on the left side of the house, and they moved it to the right side, where the meter now is. They, you know, took curbing out, and, you know, just made it flat, or they put a walkway in and they dropped the curbing down. There's all kinds of signs of particulars.

It also involves, if you look up and you see snow and ice could be falling in a potential, like, in a valley of a home, we'll put up a protection that way, too. It's not necessarily vehicles or a post in front. It also could be a roof, that we have to do something to protect it.

Q Do you know how many meters were protected under this program for the 484,000 that was spent? And, again, roughly?

A (Mostone) Roughly, about, I'll say, 260.

Q 260 meters?

A (Mostone) Correct.

Q Okay. Numerous. Okay. "Cathodic Protection Program" is Line 4. It's about half a million dollars. Could you explain briefly what that is?

A (Marx) Yes. So, that's the work we do to maintain the cathodic protection on our coated steel pipelines in our system. So, our -- we utilize in-house and contractors to test the cathodic protection each year. And they suggest and recommend improvements we can make, whether it be replacing anodes, installing a new test station, improvements to our rectifier systems, things like that. Those get completed under -- that work would then get completed under that, under this program.

Q And that work, although, it's, again, listed as "Mandated" in Column (c), would you agree that that work improves the Safety of the system, cathodic protection?

A (Marx) I would agree, yes.

Q Is it designed, basically, to reduce leaks?

A (Marx) Correct. Yes.

Q Okay. Line 5 on Appendix -- Exhibit 4, Page 1, is called "Replacement Services Random", 605,000. Could you explain briefly what that is?

A (Mostone) So, basically, what that is, if we're doing work in our system, in other words, say we're doing a leak repair on a main, and it could be to, say, a cast iron main with a bell --

[Court reporter interruption.]

CONTINUED BY THE WITNESS:

A (Mostone) -- bell joint, so, it's just where the normal cast iron pipes connect to each other. So, what happens there is still -- it will be a bare steel service inside. We'll renew that service at that time to the customer's house. It seems like -- it's projects like that to bring them up to grade again.

BY MR. DEXTER:

Q And, again, improves the safety of the system?

A (Mostone) It does, yes.

Q Okay. Line 12 on Exhibit 4, Page 1, it's called a "safety" project, and it says it's the "Purchase of Miscellaneous Capital Equipment & Tools", $248,000. What's that please?

A (Mostone) Well, "capital tools" can be a variety of items. But what it is is, for instance, like, we'll say, leak detection equipment and damage prevention equipment, like if, you know, with age and time, when doing work out, that it's cheaper to replace them than to get them repaired. So, we will go out and buy new tools and equipment for the employees.

Q So, I don't know if you're speaking generally, or is that actually what was purchased for the

248,000?

A (Mostone) Yes. We did purchase some leak detection equipment in 2021, and we did purchase some -- we did purchase some mark-out equipment also in 2021.

CHAIRMAN GOLDNER: Mr. Dexter, just checking in. The stenographer usually takes a break about now. Would you -- it be a good time for a break or --

MR. DEXTER: Yes. Yes. And I do have -- I know this is going on a long time. And I know we have a three-hour allotment. And I'm afraid that I'm going to cause us to go over, and I probably should have mentioned that at the outset.

But, yes, I would welcome a break. And I'll try to move things along as quickly as possible.

CHAIRMAN GOLDNER: Can you, just for planning purposes, are you thinking of another half hour left or an hour left?

MR. DEXTER: Well, I probably -- I just want to finish this line of questioning on the four or five remaining projects on Exhibit 4, Page 1. And then, we have questions about the depreciation study.

And, so, I think, in total, it would probably be an hour.

CHAIRMAN GOLDNER: Okay. Very good.

And just before we break, I thought, perhaps to wrap up some of the administrative issue that you highlighted earlier, would the DOE like to move to take administrative notice of DG 20-105?

MR. DEXTER: I think, actually, Attorney Sheehan mentioned that on a footnote on the Exhibit List. If a formal motion is necessary, then, yes.

I guess I'm not 100 percent sure of what the practice is. But I've been kind of operating under the scenario that, if something was an exhibit in another docket, and it's out there on the website, we can refer to it.

And, if it needs a formal motion, and hopefully not a written motion, I'd like to make that motion orally today, because I have relied heavily on the Settlement, and will in closing argument, on the Settlement, which was

Exhibit 49. I believe that's the only exhibit I need to get to.

But I do have some questions about the rate base from that case, when we get to Exhibit 3, which is another area I have questions about. So, I'm going to try to do it in an hour.

CHAIRMAN GOLDNER: Okay. Attorney Sheehan, do you have any thoughts on the topic?

MR. SHEEHAN: No. I think the process is simply as Mr. Dexter did. He asked you to take notice, I don't object, and done.

I do think the Commission should identify which documents are being administratively noticed, just so there's parameters around the record in this case. There's no object to the Settlement Agreement being included.

CHAIRMAN GOLDNER: Just to clarify would you suggest that we do that orally?

MR. SHEEHAN: Orally. I think orally is sufficient.

CHAIRMAN GOLDNER: Is fine.

MR. DEXTER: I wholly support that. The record from 20-105 is huge. And there's no reason to take notice of the whole record.

As of now, I've only referenced the Settlement Agreement, which is Exhibit 49. And, if I do get into a rate base question, I'll try to give you a page number.

CHAIRMAN GOLDNER: Okay. So, maybe I'll suggest that, Mr. Dexter, just to simply, we don't have to have written filings or any confusion. If you'd like to move it, I suspect that Mr. Sheehan will not object, and then I can grant it from the Bench, and we can just move along.

MR. DEXTER: Shall we do that now?

CHAIRMAN GOLDNER: Yes, please.

MR. DEXTER: Okay. Then, I would request, I would make a motion that the Commission take administrative notice of Exhibit 49 from DG 20-105, which was the Settlement in that case, and the attachments.

CHAIRMAN GOLDNER: Mr. Sheehan, do you object?

MR. SHEEHAN: No objection.

CHAIRMAN GOLDNER: Okay. The motion is granted.

(Administrative notice taken of Exhibit 49 in Docket DG 20-105.)

CHAIRMAN GOLDNER: Let's take a 15-minute break, and come back at ten minutes until 11:00. Okay? Thank you.

(Recess taken at 10:35 a.m., and the hearing resumed at 10:54 a.m.)

CHAIRMAN GOLDNER: All right. Very good. Attorney Dexter, if you'd like to resume.

MR. DEXTER: Thank you.

BY MR. DEXTER:

Q I would like to ask the witnesses about Exhibit 4, Page 1, Line 16. There was a project titled "IT". It was originally requested for recovery of 351,000; 288,000 was removed due to the audit. There's 63,000 remaining. Very briefly, if you could describe please what's in that 63,000?

A (Marx) So, with this IT blanket, we utilize it to make several improvements to our software that we utilize to do our work and get our business done. You know, there are -- what we've seen recently, as examples, our -- some products that we use that are no longer being supported, so that we make upgrades to a newer version that is supported.

So, one example would be the records documentation site that we utilize, it was called "Fortis", we found that it was not being supported anymore. So, we upgraded to "DocuWare" for our records-keeping.

Q Okay. And the audit probably speaks for itself, but it might be helpful if someone would just indicate why they agreed to reduce this request by 288,000 as a result of the audit?

A (Menard) Yes. During the audit, there was an accrual identified, meaning kind of a placeholder for an invoice, and that accrual, for some reason, didn't reverse out. And, so, the Company agreed that that should not be included as part of the step adjustment, and that was related to a SAP Success Factor invoice.

Q I missed that name. What invoice?

A (Menard) SAP.

Q And, so, is that a timing thing? Again, it's something that eventually will find its way into service. But, at the end of 2021, it was not in service, it was just an accrual?

A (Menard) Yes.

Q Okay. Moving to Line 17, "Transportation", a "discretionary" item, in the amount of 970,000. Could you explain briefly what was covered by the 970,000?

A (Mostone) So, this item was for replacement of vehicles through the course of the year. So, replacing the old asset and with a new.

Q Do you have an idea of how many vehicles? Would this be a couple or a lot?

A (Mostone) There was a lot of supply chain issues here, but trying to think of when they came in. Not sure, in '21, if there was crew trucks that were ordered that came in then. A lot of things have been pushed out in the course of the year. So, I'm not 100 percent sure of what did come in. We ordered things in 2020, that was supposed to be in, and they came in in the latter of '21. I know we had some crew trucks. We had some backhoes and some excavator equipment that were purchased in '21. Those were the items that we did purchase, we were able to get ahold of.

Q Okay. And "Meters", there's Line 18, requested amount originally 1,541,000, reduced down as a result of the audit to 1,233,000. Could someone explain what the purchases of meters were for, and why the amount was reduced as a result of the audit?

A (Mostone) Okay. So, meters that are purchased throughout the course of the year, again, we do have supply chain issues here with meters and longevity time. So, meters are all over the place right now on getting purchases in, and the Company needs this asset to run the business.

Meters that were put in to service, the 1.2 million, were meters that were either replaced in the field, so, in other words, there's meters, when they're over 30 years, that asset is no longer -- we do not recycle them and put them back in, we retire those meters. And, so, we're doing these main replacement projects and other projects that we have, along with a Meter Replacement Program that's mandated by the state, we're replacing the meters, and, you know, they're not recycled back into the system. And they're retired at that point, if they're over 30 years, or they have a major problem with the meter.

Q And I'm going to paraphrase the Audit Report, but my recollection is that a certain percentage, I think 20 percent, was determined, if that's the right word, to be growth-related, and that's why the reduction was made --
A (Mostone) That's correct.
Q -- in Column (e), is that right?
A (Mostone) That's correct.
Q Okay. So, switching topics, I want to go to Exhibit 4, Page 2. And I want to ask about the Line 36, which is called "Keene CNG Phase I Expansion Revenue Requirement Adjustment (risk sharing calculation)", "$21,962" in revenue requirement. Is it correct that there's a detail of that 21,000 on Page 15 of Exhibit 4?
A (Menard) That's correct.
Q And, if I go to Page 15, I see that figure in the box up in the right-hand corner that's called "Risk Sharing Calculation", second to the last line from the bottom, is that right?
A (Menard) The number?
Q I thought I did, maybe I didn't. So, maybe you can tell me where the revenue requirement number is from --

A (Menard) Line 14 is the "21,962" that flows through the revenue requirement. That's the risk sharing amount. And then, the portion allocated to distribution, Line 14, in the box.

Q Okay. I do see that on Line 14. What's the level of capital costs that's at the beginning of this risk sharing calculation for the Keene Project?

A (Menard) That would be shown on Line 5, as $992,000.

Q Okay. And the risk sharing arrangement was as a result of the Settlement in the last rate case, is that correct?

A (Menard) That's correct.

Q And the idea was -- well, let me just leave it at that.

I want to go back to Page 2 of Exhibit 4. And my question is, why the Company chose to include the risk sharing adjustment before the application of the $3.2 million step cap, and not after?

A (Menard) The reason why is because I interpreted the Settlement Agreement to state that the Keene Expansion could be included in the second step.

And, so, the second step is all these projects that you see here, on Page 2. And, so, that was another piece of the second step.

Q Well, to the extent that the risk sharing was intended to be 50 percent borne by customers and 50 percent borne by shareholders, does this schedule accomplish that by including it before the cap or does it not accomplish that? And, if you disagree with the premise, I guess that would be an option, too.

A (Menard) Like I said, it was included as part of the interpretation of how it should be incorporated into the step adjustment. And that's how I calculated it.

Q Okay. Okay. And, again, sticking with Exhibit 4, Page 2, Line 1, the "Capital Spending" of $27 million, which is divided up by account here. By far, the largest piece of the 27 million falls under the category "Transmission Mains", 22,551,000. From the description of all the accounts that we -- all the projects we just went through, my sense was that these were all distribution mains out in the Company's service territories, serving customers in streets. They don't strike me as "transmission mains", which I view as carrying gas from, you know, one service territory to another.

Could you explain why most of the dollars are recorded as "transmission mains"?

A (Menard) Unfortunately, I can't explain why that is done. But we did identify that as an issue as part of the depreciation study. And, if I'm not mistaken, those transmission dollars were reclassified as "distribution main replacement". And, so, it's something we'll need to look at as to how the work orders are set up.

Q So, I'm not sure I understand your answer. But is it -- are you saying that, although the schedule labels them as going to Account 367, they might -- these costs might, in fact, have been recorded to a different account?

A (Menard) No. They're recorded to the Plant Account 367. The question is, whether that's appropriate, and whether they should be recorded to 376.

Q Okay. Which is the next column, "Distribution Mains"?

A (Menard) Correct.

Q Okay. Would, if that $22 million number were moved over one column, to 376, would it change the calculation on Exhibit 4, Page 2, at all?

A (Menard) No.

Q And is that because both of these accounts have the same depreciation rate?

A (Menard) Correct.

Q Okay. So, I want to talk about the depreciation study for a minute. And I want to go to Exhibit 2, Page 22, which were the recommendations that Management Applications made after doing the study. I have a couple of questions. I guess I'll start with the cost of removal. This was -- well, let me not start with that one. Let me start with this one.

There's a note, in Item Number 9, on Page 22, by Management Applications that says that "We recommend that every effort should be undertaken to book retirements on a timely basis as this impacts the resulting depreciation parameters." And maybe this question is for Mr. Normand. Could you explain what led to that recommendation? And could you explain, you mentioned "impact", you know, what the impact is of I'll call them "untimely" retirements?

A (Normand) The recommendations originate from looking at the historical cost of removal for each account. And here, specifically, we the can talk about mains and services. And what we do is, one of the parameters we need to estimate is net salvage, which is part of the depreciation calculation and ultimate accrual rate.

In looking at the history, we obtained five years of data for mains, five years of data for services. In that data is the retirements, as well as the cost of removal. The retirements for main, there was one year where there was no retirements, which was 2018. And, for services, there was two years, 2017 and 2019, where there were no retirements provided to us. So, what happens is, you become cautious of making any recommendation as to the average net salvage for these two accounts due to some missing data.

As a result, if you'll note, the depreciation study made no recommendations as to a change in net salvage, and we maintain the currently approved levels until such time that we have a more complete history of data.

Q Well, I want to put the recommendation into context. And to do that -- or, the impact, I want to put the impact of the recommendation into context. And to do that, I want to go to the study -- the page in the study where you calculate the recommended decrease to depreciation expense of 660,000. And I believe that's going to be on Bates Page 073 and 074 of Exhibit 2. Do you have that?

A (Normand) Well, I don't have Exhibit 2. I have the depreciation study itself. So, are we talking "mains and services"?

Q Well, the page that I'm looking at is a summary page, it's entitled a "Comparison of Proposed versus Current Whole Life Depreciation Accrual Rates at 12/31/21". And it's labeled "Schedule B", if that helps.

A (Normand) Okay. Yes. Schedule B. I'm sorry.

Q Okay. So, the bottom right-hand corner of Schedule B, which goes on for two pages, has a number of "$660,216", is that right?

A (Normand) Yes.

Q Okay. And that's the recommended decrease in depreciation expense that's offsetting the

Company's proposed step adjustment, taking it from the $3.2 million cap, to the 2.540,000 -- 2.5 million -- sorry, 2,540,000 that's being requested, is that right?
A (Normand) That's correct.
Q Okay. So, I want to see what -- I want to see what, if any, impact the untimely retirements that you mentioned might have had on this $660,000 figure. So, I'm looking at your Schedule B. And I believe you mentioned that it could impact net salvage. And I see "Net Salvage" in Column (3) and in Column (7), is that right?
A (Normand) That's correct.
Q And you made no proposed changes to the net salvage value from the last full depreciation study, correct?
A (Normand) That's correct. As a result of the missing data.
Q Okay. And when was the last study done?
A (Normand) 2016 test year.
Q A test year. And do you know -- you did that study, did you not?
A (Normand) I did.

Q Right. And did you -- was there a -- was this an issue in 2016 as well, an issue of untimely retirements, do you recall that?

A (Normand) Yes. There was some issue on that also. Which, basically, what typically the commissions want is to look at an average of several years. And, with the missing data, I only had three years, which typically is not sufficient to satisfy commission requirements. So, we try to use five years.

As a result, I did not change the net salvage, because I didn't believe that I had enough information to present a change in these net salvage values. To give you a feel for it, typically, net salvage levels, for gas utilities, is almost, not quite, but almost double what these are. The negative 15 for main and negative 60 for services.

But you need to have some support to make a recommendation to change that. And I didn't have enough information. So, I maintained what's been approved.

Q Okay. And, just for example purposes, doubling those two net salvage values that you mentioned would have the effect of increasing depreciation expense, would it not?

A (Normand) Yes, considerably.

Q Okay. So, in your view, then, you're saying this is a conservative approach from a ratepayer standpoint, because, if you had the numbers, that $660,000 figure could, in fact, be higher?

A (Normand) Well, the bulk of that 600,000 adjustment reduction, if you go way over on the left here, on Column (2), what I did here, in doing my analysis, I looked at this specific account, and the prior study was a -- currently, right now, it was "45". And what I did here is I went, if you could look at Column (6), is I modified an increase to the average service life to "50 years". So, what that does, in sense, is saying "I've got the same asset dollars, but I'm going to recover them over 50 years, instead of 45." The result of it is to reduce -- I'll create a negative 600 plus thousand dollar reduction in depreciation by increasing the service life.

Q Okay. And you're talking about Line -- Account "380.00 Services" --

A (Normand) That's correct.
Q -- on Schedule B. Right. And I see, in the right-hand column, a figure of $696,000 reduction, you're saying that basically makes up most of the $660,000 reduction proposed?
A (Normand) Yes. I believe it does.
Q Okay. And that's as a result of a change or a shortening -- I'm sorry, a lengthening of the average service life of services from 45 years to 50 years?
A (Normand) That is correct.
Q Okay. Now, did cost of removal play a factor in that change of service life from 40 to 50 -- 45 to 50 years?
A (Normand) No, it did not.
Q It doesn't. Okay.
A (Normand) If you look at it, net salvage, which is a factor here, the vast majority of net salvage is cost of removal. And that amount was not changed from what was existing and approved, because of the lack of data over several years.
Q Okay. So, my understanding from the report was that, in dealing with net salvage -- I'm sorry, dealing with cost of removal, and maybe I should

go back up to Page 22 to get this right. I'm talking about Recommendation 4, you say that "We recommend a stepwise reduction consistent with our comments above. Our recommendation is therefore to reduce the current 10 percent level to a 7.5 percent midpoint or approximately 50 percent of the current level (10 percent) to the recent one-year calculation of 4.75 **[**4.74**?]** percent."

That whole note has to deal with cost of removal, correct?

A (Normand) What that is is, basically, if you look at the cost of removal, there's two cost of removal components in depreciation. One is part of the accrual rare, which is the net salvage we just spoke about, and the other one is the cost of removal that the Company has been using in the past, which is approximately 10 percent of some limited amount of dollar additions.

In other words, the 10 percent cost of removal has been used historically by many utilities. But, when you look at what it's applied to, the actual cost of removal on any one account may, in fact, be less than half of that.

It's a function of -- I believe there are five categories that the Company considers in applying the 10 percent of the total job costs, shall we say. But, for some jobs, the 10 percent is very small, and some other jobs it's approaching 10 percent.

And I think you'll see some of that evidence, if you look at the one-year study that the Company did looking at mains and services. There's a summary, Cost of Removal Study Overview. It's Page 1 of 1. And there you'll see that the cost of removal varies from a low of 2.3 percent, to a high of almost 8 percent, but in no event does it even approach 10 percent. That's on the total job dollars. But, if you look at the specific categories that they apply the 10 percent to, that's limited to five areas.

Q Is the schedule that you're referring to, Mr. Normand, included in your depreciation study that's part of Exhibit 2?

A (Normand) I'm sorry. No, it's not.

Q But that page that you're referring to was a factor in your recommendation on cost of removal on Page 22, correct?

A (Normand) Yes. What became apparent, in looking at history and looking at this information, and just experience, you know that the 10 percent isn't applied to total dollars on any one project.

But the second thing, however, is that we would expect, again, on experience, that 10 percent is a higher level. So, in recommending the seven and a half percent, a reduction from 10 percent, I used several factors to consider that. One, that the 10 percent is high. Two, that the variance has been around 10 million whenever I do a study. So, I know, basically, that the 10 percent is high.

In looking at the Company's study, which is one year, and about 4.7 percent factor, it says that, basically, the 10 percent is twice. My concern was, using one year's analysis, I've recommended that before, and it's never been accepted. Argument being it's not rigorous enough, and these things can swing from year to year, which is true.

So, what my recommendation was is let the Company provide two more years of this analysis. We'll then use a three-year average, then, going forward, so we got a three-year average, which could come out to be 4.74, it could be 4.5, it could be 6.0.

Keeping in mind in the recommendations that the vast majority of the cost of removal is labor-related. And, as we all know, inflation has taken a significant rise in the last couple of years. So, my concern was, let's do a seven and a half. Let's do these other additional studies. And with that, we would basically have a more solid foundation to come up with what is the ultimate cost of removal for the Company.

Q What's the 10 percent based on?

A (Normand) Pardon me?

Q What was the 10 percent cost of removal rate based on?

A (Normand) I know no knowledge of what it was based on. I do know that many companies historically have used 10 percent. And I did National Grid's studies before. And, for EnergyNorth, they were using 10 percent. But it, basically, it's difficult to have people in the field, they spend all day out there, and they come out and said "okay, how much of this is cost of removal?" So, what happens oftentimes is other personnel will address it. And, for some utilities, over time, they defaulted to 10 percent as a reasonable value.

Q Did you do the analysis of the one year that calculated the 4.74 percent or did Liberty do that internally?

A (Normand) Liberty did that internally.

Q Okay. And what -- and I'll ask Liberty, I guess. Do you know what year that was based on?

A (Menard) I believe it was 2021.

A (Normand) Yes. That's correct.

Q Is there a plan to continue that cost of removal analysis for 2022 and 2023, as recommended by Mr. Normand?

A (Menard) Based on discussions with Mr. Normand, I think it makes sense for us to continue for two or more years, yes.

Q Okay. Mr. Normand, your Recommendation Number 6(b) says that you recommend a "Depreciation study in approximately five years." How was that five-year interval determined?

Well, I'm sorry, it may not be a

five-year interval. Well, I guess it would be, because the last study is based on 2021. So, how did you recommend that five-year period?

A (Normand) Typically, if you look at my general recommendations, that you should do these studies periodically. "Periodically" means "five or seven years". I went to the shorter amount, because of what's going on here, which is a conservative analysis of a good average cost of removal level, along with the fact that we do have variances. So, we have to do something, and we basically don't want to let it go too long. So, the five years was just -- allows the Company to do a couple more years, we'd have an average, and then can evaluate that with the whole process, and, at the same time, recognizing that, annually, what you're seeing is that the variance is sitting around 10 or $11 million. So, my concern was the sooner the better.

Q And the variance that you mentioned a couple of times is what's referred to in the study as the "reserve imbalance"?

A (Normand) That's correct. And, typically, like, for your study, if you look at the 2021

Schedule A, at the bottom right, you will see that the variance is about 5.11 percent, right at the bottom right. And what that is is the variance, divided by the theoretical reserve calculation. So, what that is saying is, given all the parameters you put in and calculated, that the variance between the theoretical reserve and the book reserve is approximately 5 percent. Some utilities -- some commissions, for instance, in New York, they make no adjustments unless it's over 10 percent.

So, considering the fact that this study shows a 5 percent, 5.1 percent, I would expect, whenever you do a depreciation study from time to time, every five, six, or seven years, you're going to have a variance. And that variance, basically, should not be growing. It will swing negative or positive, depending on what your -- your infrastructure improvement, the application of the cost of removal, the change in service life, all those aspects affect the variance.

But, in total, first thing, the 5 percent, to me, is a reasonable number, in any one study.

MR. DEXTER: And just for the Commission's benefit, the Schedule A that Mr. Normand referenced, I believe is Bates Page 068 of Exhibit 2.

BY MR. DEXTER:

Q And I think it would be helpful if someone from the Company verified that I'm on the right page?

A (Menard) That's correct.

Q And the "5.11 percent" that Mr. Normand references in the bottom right-hand column -- bottom right-hand corner, correct?

A (Normand) Yes. Correct.

Q And the figure that makes up the 5.11 percent is $10,918,000, correct?

A (Normand) Yes. Correct.

Q And, in this instance, the theoretical reserve is higher than the book reserve, is that right?

A (Normand) That's correct.

Q Okay. And this is, essentially, the same situation we were in in DG 17-048, where I believe you presented the Company's depreciation study. Do you recall that?

A (Normand) Yes.

Q And it's correct, isn't it, that the Commission authorized a six-year amortization of that reserve imbalance at that time?
A (Normand) That's correct.
Q And that amortization amount was in the neighborhood of $1.8 million per year, is that right?
A (Normand) The amount is 1,657,796 per year.
Q Okay. And your recommendation in this report is that that amortization continue, is that right? If I go back to Page 22, I think that's one of your recommendations.
A (Normand) That's correct. And the reason being is, as of 12/31/21, at the end of the year last year, the amortization had been 6,078,586. That's how much has been amortized of the 9,946,000, which means that there's approximately 3,868,192 left to be amortized. Again, that's as of the end of December last year.

So, if you -- since they're doing it on a monthly basis, basically, you're looking at two years and about $3 million less of the amortization, against what is a variance of about 11 million.

So, to continue this, and to do these other additional studies and analysis, my recommendation, continue the amortization, do the studies, and then for the Commission to do nothing. Whatever the variance is, don't do anything until you do another depreciation study. Because there are many factors that come into play here. But the key is that the 10 percent was too high, so we brought it to seven and a half. So, going forward, in the next few years, we're reducing the 10 percent to seven and a half percent. And then, we're, at the same time, eliminating or amortizing another approximately $3 million against an 11 million variance.

So, you are well within the parameters to say you're not "overreaching", shall we say. It's very conservative. But it allows the Company time to do this additional data to present the results to the Commission.

Q Okay. Well, a couple more questions on this. Again, now I'm back on Schedule B, which calculated the $660,000 reduction.

Could you tell me what, and I think I -- let me rephrase that. Could you tell me which of these columns, on Schedule B, was impacted by the move from 10 percent cost of removal to 7.5 percent cost of removal?

A (Normand) None of it.

Q Not the proposed service lives?

A (Normand) Yes. But that's not cost of removal. The service life is a different factor.

Q Right.

A (Normand) Okay? And that's shown on that schedule. But you got to remember here, the Commission, and New Hampshire has been using whole life. So, under whole life, the net salvage and the average service life are together. But the adjustment we've just been talking about, the 10 or seven and a half, has no impact on Schedule B.

Q Has no impact on the proposed average service life in Column (6)?

A (Normand) No. Because, again, we're dealing with whole life. Under remaining life, which is a different approach, it would see an impact, but not under whole life.

Q Okay.

A (Normand) And the reason being is, if you look at whole life, if you look at Schedule A again, Schedule A, the rates we use under whole life is Column (8). So, basically, what you do is you analyze every account. And, once you analyze the account, you then let the program go through, it analyzes 27 Iowa curves, and fits the best one to the data points, and that becomes the average service life.

So, basically, the accrual rate is one over the -- one over the average service life that you're recommending, adjusted for net salvage.

Q Okay. And, so, I think I heard you say that the change from 10 percent cost of removal to 7.5 percent cost of removal would have an impact on Schedule A. Did I get that right?

A (Normand) That's correct.

Q Okay.

A (Normand) It will. It essentially lowered the variance.

Q Lowered the variance. And what column specifically would it have affected on Schedule A?

A (Normand) Well, if you look at -- if we look at the net salvage value -- I'm sorry, if we look at the variance on Schedule A, at the bottom there, on Column (13), it's "10,918,303". If you now introduce a reduction to the application of the 10 percent cost of removal to seven and a half percent, the result is 8,084,813. So, it drops the variance by almost $3 million going to a seven and a half percent.

So, if you add the pieces together, you continue the amortization of 3 million, you reduce to seven and a half, and you reduce the variance by another three and a half million, you're essentially halfway to recognizing the level of the variance that currently exists. So, it's a major move to reduce the variance, those two steps.

Q Okay. And I think you said this, I just want to make it clear. Schedule A, as it's presented, does not reflect the reduction in cost of removal to 7.5 percent, is that right?

A (Normand) No, it doesn't.

Q Okay.

A (Normand) No, it doesn't. But you can do -- well, I've done an additional schedule at seven

and a half percent to show that reduction.
Q Okay. So, and now I'm back on Schedule B, which is Bates Page 073 and 074, the $660,000 in reduced depreciation expense that's proposed for approval in this case, am I correct that this amount was calculated using plant balances as of December 31st, 2021?
A (Normand) That is correct.
Q The test year in the Company's last rate case was twelve months ending 12/31/2019, correct?
A (Normand) I'm not sure about the last rate case. The last depreciation study was 2016.
Q Okay. So, you didn't do a calculation of the depreciation expense impact using plant balances as of 12/31/2019, did you?
A (Normand) No. That's too short a period of time to see any major impact to the variables.
Q Okay. Okay. The last questioning I have, I think it's the last, will focus on Exhibit 3, which is the Company's return on rate base calculation. Exhibit 3 shows the calculation for the twelve months ending December 31st, 2021. Is that right?
A (Menard) That's correct.

Q And there's no line numbers here, but there's a bold line about three-quarters of the way down that says "Total Rate Base Components 440,578,000", correct?
A (Menard) Correct.
Q Would you -- well, let me rephrase that. Is this rate base calculation done in a manner consistent with what the Company would have filed in its last rate case?
A (Menard) This would be a twelve months ended. In a rate case, we would probably have the -- we would probably have the rate base as of the end of the year. So, it may not be exactly the same then.
Q But that would be the same then, right? In other words, the test year rate base would have been twelve months ending 2019, and this is the twelve months ending 2021. So, it's comparable, would you agree?
A (Menard) Yes. However, this is calculated on a quarterly basis, always for the twelve months ended in that period. So, when we do a rate case, we would have -- we would look at the value as of that point in time, you know, in this case,

as of 12/31/2021. And then, there might be some pro forma adjustments. You know, this is a per book.

So, there might be slight differences in what we would present in a rate case versus a per book calculation.

Q Okay. But, generally speaking, a rate case rate base is based on year-end plant numbers, would you agree with that, year-end test year numbers?

A (Menard) If that's your test year, at the end of the year, yes.

Q Okay. So, if someone were to compare this $441 million figure to the rate base figure that was proposed in the last rate case, you could get a general idea on how much rate base has grown over the last two years, correct?

A (Menard) Yes.

Q And, in fact, you submitted a report just like this one, for the twelve months ended 2020, correct?

A (Menard) Yes.

Q In other words, you do these every quarter, correct?

A (Menard) Correct.

Q Okay. Have you done that calculation, to see how much rate base has changed, by comparing what was approved in the last case, and as compared to this report for 2020 and this report for 2021?
A (Menard) I have not.
Q Okay. This report indicates that the Company's allowed return in the last rate case was 6.96 percent, correct? That may not be correct.
A (Menard) Well, this report says 6.8 percent.
Q Yes. Let's go to --
A (Menard) I'm not sure that's accurate.
Q I'm going to go for a moment to the document that we have administratively noticed, that you have administratively noticed, which is the Settlement Agreement from the last rate case. And right in the body of the Agreement is the agreed-to rate of return.
A (Menard) On Bates Page 008 of the Settlement Agreement?
Q Yes.
A (Menard) Yes.
Q And, so, the allowed rate of return is "6.96 percent", correct?
A (Menard) Correct.

Q Okay. So, now, let's go back to Exhibit 3. This indicates that the Company, in 2021, earned "6.35 percent", correct? That's the second to the last line?
A (Menard) Yes.
Q Okay. So, lower than the allowed rate of return?
A (Menard) Yes. However, I will caveat this to say there are -- this is not a pure distribution calculation.
Q What does that mean?
A (Menard) Well, if you look in "Operating Expenses", there's a line in there that says "Distribution, Transmission and Miscellaneous", there is -- the first line says "Gas Costs". So, those aren't pure distribution-related components. And then, also in that revenue figure, I believe there's more than just distribution revenues.
Q Okay. So, maybe this comparison that I'm making is not necessarily appropriate, is what you're saying? That it might not be appropriate to compare this report to the Company's last allowed return?
A (Menard) Correct.

Q Does the Company do a distribution-only calculation such as this?
A (Menard) It does not.
Q Does not.
A (Menard) That I'm aware of.
Q Okay. All right. Is it also possible that the gas costs and the gas revenues net out, and, in fact, this is a distribution calculation?
A (Menard) Yes. But I'm not sure that that's -- that they're exactly offset.

MR. DEXTER: Okay, fair enough. That completes the Department's questions. Thank you.

CHAIRMAN GOLDNER: Okay. We'll move to Commissioners' questions. But I would like just one clarification, before I move to Commissioner Simpson.

And that is on the cost of revenue discussion, Attorney Dexter, that you were having with the Company, I think -- I don't think the math was correct. I think that the witness meant two and a half million, and not three and a half million, for the cost of revenue impact of going from 10.5 **[**10.0**?]** to 7.5 percent.

But would it be the Department's

position that, if the cost of revenue moved from 10 to 7.5, that this step increase would be entirely eliminated?

MR. DEXTER: No. I think you're talking about "cost of removal".

CHAIRMAN GOLDNER: I'm sorry, cost of removal.

MR. DEXTER: Cost of removal. And Mr. Normand indicated, as I understand it, that his Schedule A did not reflect the change. But his recommendation also was that the impact of the change on cost of removal is not on the depreciation expense, which is in Schedule B, but it's on the theoretical reserve, which is on Schedule A, and he indicated it would drop to a figure that I think you wrote down, and I didn't. But it's something less than the 10 million, or seven and a half million.

No. Our recommendation in closing, you know, subject to conferring before we do closing, was going to be to accept the $660,000 depreciation adjustment, and go along with Mr. Normand's recommendations to leave the amortization as is, but to require the Company to continue to update the cost of removal analysis, so that we have more than one year. So that, when the next rate case comes along, we could revisit this with the appropriate information.

CHAIRMAN GOLDNER: Okay. Thank you. That's very helpful before we start Commissioner questions.

MR. DEXTER: Okay.

CHAIRMAN GOLDNER: That's an excellent clarification.

Okay. Very good. We'll just keep moving here. And we'll move to Commissioner Simpson.

CMSR. SIMPSON: Thank you. Thank you, Attorney Dexter, for the thoroughness today. It was very helpful to walk through as you did. And thank you to all the witnesses for being here today.

BY CMSR. SIMPSON:

Q Looking at Exhibit 3, before we move away from this rate of return calculation, based on the questions that were just asked of the Company witnesses from the Department of Energy, if this is not in line with your calculation as you would

in a rate case, what's the Company trying to illustrate here then, this Bates Page 002 in Exhibit 3?
A (Menard) I'm not sure I have a good answer to that.
Q Okay.
A (Menard) It's how the calculation has been done for a number of years. And it's in line with Puc Rule 509.01. And it's a rate of return for the twelve months ending, in this case, December 31st, 2021.
If I were to go back and look at that rule, I'm not sure it mentions separating out distribution versus transmission versus cost of gas. So, I don't think it's not in compliance. But I do think, in order to get a good representation to compare it to, the allowed rate of return, you would want to separate, in my mind, you would have columns for just purely distribution, and then your other pass-through components.
Q Uh-huh. And we looked back at the last rate case and the allowed rate of return. And I believe that, within that Settlement Agreement, the

Company's allowed rate of return was 9.96 percent, is that correct?
A (Menard) In the -- which case?
Q In 20-105.
A (Menard) 6.96 percent?
Q Did I say "20"? 6.96.
A (Menard) You said "9".
Q I'm sorry. "6.96 percent", was that correct?
A (Menard) Yes.
Q So, I'm looking --
A (Menard) But if you want to give us 9 --
Q Ha-ha. I think that might be retroactive ratemaking.
A (Menard) Yes, it would.
Q So, the "Weighted Cost of Capital Components", that's listed as "6.96"?
A (Menard) Correct.
Q But the last line, "Authorized Rate of Return" is "6.80". Can you explain to me the difference there?
A (Menard) I think it's just incorrect.
Q Okay.
A (Menard) I think it should say "6.96 percent".
Q And then, what about the line above, which says

"Return on Rate Base" of "6.35 percent"? Would that number be impacted?

A (Menard) No. That would be the actual return on rate base. That will be the per book calculated as of 12/31/21, per book. And then, you would compare that to your allowed in the next line, and that would give you a sense of how the Company is performing.

Q So, then, what about in that bolded bottom section, the "Weighted Cost of Capital Components", the "6.96 percent" that's provided there, is that correct?

A (Menard) I'm not sure what that number represents. I think it's supposed to be the same thing as the authorized. So, 6.96 is the authorized rate of return.

Q Uh-huh.

A (Menard) I can't say as to why it's duplicated.

Q Can you define absent the figure that's listed "Weighted Cost of Capital Components" for me?

A (Menard) Can you say that again?

Q I just don't know what is meant by a "weighted cost of capital component". So, if you could define that for me, it would be helpful?

A (Menard) Yes. So, my understanding of what that number would represent is, you know, if you were to look in how the capital structure is calculated in a rate case, so you would have your debt and equity capital structure. So, in Liberty's case, it's 52 percent equity/48 percent debt. And then, you would have your cost of capital. So, in Liberty's case, the return on equity is 9.3 percent. The cost of long-term debt is 4.42 percent. So, you multiply those out, and you get your weighted cost of capital. In Liberty's case, in the last rate case of 20-105, it's 6.96 percent.

So, that's what I -- my understanding, that's what that weighted cost of capital component is referring to.

Q Okay. Thank you.

A (Menard) Definitely something that we need to look at and change for upcoming quarterly filings.

Q Okay. Thank you. So, looking at Exhibit 1, your testimony, the Company justified some increases in spending on several programs and projects, due to underruns on other projects within the

Company's Capital Program, there was funding available. Do you recall that being provided in your testimony?

A (Menard) Yes.

Q So, perhaps you could explain how the Capital Program is developed, and what led to the underruns? As many times it's overruns that we're faced with, as opposed to underruns. So, let's start with, how do you develop your Capital Plan?

A (Marx) So, yes. Each year we start with, as we explained earlier, the Capital Expenditure Forms that cover each of our project blankets that we consider each year. So, that includes the Leak-Prone Pipe Replacement, the City/State Program, Gas System Reliability. And then -- sorry. So, we, again, we budget it based on kind of a combination of what we spent previously and, you know, if we see a need to spend more in certain areas, or maybe less in certain areas, based on kind of what we're seeing ahead.

And then, once those get approved, we put the work together for construction, or purchase the equipment, whatever it is that the

Expenditure Form's purpose is serving.

And then, throughout the year, we're monitoring the budget. You know, we're meeting, we're discussing, and we're seeing and projecting ahead. Usually some areas maybe where we see that we're overspending, and we need to make a Change Order, which we can then justify a lot of times, because there could be other programs where we're seeing we're underspending, and maybe we don't think, in the end, we'll end up hitting that target.

So, we start out with, you know, higher level budgets for each of these individual blankets. And then, throughout the year, we're trying to adjust it. "Where do we need more? Where do we think we're going to be under?"

Causes for some underspend, you know, one that I think of here, you know, being the Engineering Manager, is there's just sometimes when we're designing projects, and the design is coming along maybe slower than expected, or oftentimes maybe there's some permitting requirements that end up being a lengthier of a process than maybe we originally anticipated.

You know, there's maybe some other reasons for underspending as well.

Q So, you start with your budget number, and then you have seemingly many projects that you could complete, and you sort of rank them, and then prioritize within that ranking, and you start to work down that list throughout the year, --

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

Q -- reconciling what is left over in the budget. And then, as you continue through the construction season, you might have an over or under, and then you insert or remove projects as you go along?

A (Marx) Yes. That would be accurate.

Q Okay. So, then, I want to ask you about the leaking cluster valve project, that was in Exhibit 1, Bates 011 through 012. This is listed as a "capital project", instead of a "maintenance project". Do you see that?

A (Menard) You said "Bates 012"?

Q Eleven and twelve.

A (Menard) Eleven and twelve.

Q I'm looking at, starting on Line 10, "blanket projects", and then Line 14, "and repairing

leaking clusters of valves", which is "8840-2210".
A (Menard) And, so, the question is "why is it considered "capital", instead of "maintenance"?" Is that your question?
Q Yes.
A (Mostone) So, the reason for that is that the length and size of the project. It's more than one asset. It's more -- actually, I think the -- it's more than three components. So, in a valve cluster, that's a series of valves and fittings that need to be pulled out and replaced, completely replaced. It's similar to like a main replacement project. It's very close to it. It's a difference in components. It's more than one area that needs to be taken care of. And, at the same time, when you're doing this project, it's a little bit more involved than on the main replacement project. These lines are on a high-pressure system. They have to be -- we have to run bypasses, we get welders involved. We have to do precuts, get them in, keep the system up and running. There's a whole process involved, which is a lot more in depth than just

one fitting leaking, replacing, one service replacing. It's more than just a --

[Court reporter interruption.]

A (Mostone) -- main replacement.

BY CMSR. SIMPSON:

Q And this type of project, is that something that is planned or does it arise unexpectedly?

A (Mostone) It's because of a leak, it would be unexpected.

Q Okay.

A (Mostone) In the course of the survey, in their discovery, what it is, and, you know, it's more prolonged, to just take care of -- repair the leak, we know others are going to come in. So, the asset is X amount of years old, probably put in in the 1960s. We'll cut that whole section out and do it one time. Because, if you're not, you're going back and you're bypassing, and you're doing a lot more work, it would create a lot more work for us if we only took care of the one fitting.

Q Okay. Thank you. So, then, on Bates Page 014, the "Main Replacement Leak-Prone Pipe-Restoration" budget was just over $4

million. Do you see that?
A (Marx) Yes.
Q What was the total budget for restoration of the 2020 Main Replacement Leak-Prone Pipe Program?
A (Marx) So, are you asking if we included what we completed in the previous year?
Q Yes.
A (Marx) What would that total be? I'm honestly not sure. I'm not sure what that total would come out to.
Q Okay. So, you're not sure what was spent for restoration during 2020?
A (Marx) Offhand, no, I don't.
Q Okay. Okay. Then, I'd like to look at the Bates Page 015, which is also addressing the Department's Audit Issue Number 1 from their report. Can you explain why the Company's procedure did not conform with MTRS 6060?
And, for reference, this issue was pretty thoroughly discussed in the Department's Audit Report, starting on Page 38, identified as "Audit Issue Number 1 Meter Protection Program".
A (Mostone) And what is your question, referring to the meter protection, is that --

Q So, I'm looking at the "Company Comment" section. And then, my understanding is there was some -- or, a lack of clarity on compliance with MTRS 6060. So, perhaps we could start with that, if you might be able to describe those requirements?

A (Mostone) The top of my head, I don't have the requirements in front of me.

Q Okay.

A (Mostone) You know, we have process and procedure on the requirements of when you put in meter protection and when you don't. So, there were some changes there. I know that there's a 10-foot rule -- 10-foot, 10 feet off a roadway, and, if there's no curbing within that area, then meter protection is required, if the meter is put in that zone. And there's other particulars, distances and forms that they use to identify, you know, when it needs it and when it doesn't need it.

Q Okay. And then, the "Company Comment" section, which looks like it's including a quote from the Safety Division, mentions "Massachusetts", which I know the Company has an affiliate in Massachusetts, is that correct?

A (Mostone) That's correct.

Q So, is there a difference in policy for the Company between New Hampshire and Massachusetts in how meters are protected?

A (Mostone) So, not looking at the differences, Massachusetts and New Hampshire, we do have different O&M policies and procedures, depending on what the requirements are. So, yes, there could be a difference there.

Q And can you enlighten us to the factors that were discussed with the Department with respect to this audit issue?

A (Mostone) I just don't recall it. I'd have to look it up.

Q Okay. Okay. So, then, I'd like to jump to, in the Audit Report, Audit Issue Number 3. So, it looks like the Project Close Out Reports for the four projects listed here, was this somewhat of an administrative oversight in closing out some of the "construction work in project" **[**progress**?]** to "plant in service" classifications?

A (Mostone) And what are you referring to, the signatures part of it or on the oversight?

Q Just I'm trying to understand the issue, as identified in the Audit Report. So, as I read it, "Recommendation", which is Page 42 of the Audit Report, "Audit recommends that all project documentation be completely filled out. Although the approving signatures on the Report approve the move from Construction Work in Progress to Plant in Service, an actual completion date on the Report should be noted. Company Comment: The Company agrees with Audit and will ensure Project Close Out Forms are completely filled out in the future."

A (Menard) So, your question is "Is it just an administrative oversight?" And I would say "yes".

Q Okay. So, just help me understand, what was identified and what happened? I'm really just trying to understand this audit issue, in general.

A (Menard) So, Audit had requested project documentation. There was -- when some of the documentation was filed initially with the filing, just in terms of how the signatures are done, there might be a signature in another document, rather than, you know, merging them altogether. So, there was some questions related to that, just for completeness. "Were the projects approved? Is there a signature?" "Yes." And, so, the Company provided Audit with, you know, the final signatures. I think Audit had identified that the completion date should be put on the Report. And, you know, the Company agrees that we will make sure that the completion date is filled out on the Report as well.

Q Okay. Thank you. And then, moving up to Audit Issue Number 2, pertaining to recommended adjustments, it appears there was some disagreement with respect to capitalization of meters, is that correct?

A (Menard) Yes.

Q And can you describe the Company's position, with respect to meters that were purchased?

A (Menard) So, Audit's recommendation, let's see, Audit's recommendation that additional meters purchased in 2021 were not placed in service in 2021. And, so, the way that meters work is, upon purchase, upon, you know, purchasing the meter itself, they are deemed "in service". They are installed at a later date, but they are pre-capitalized and place into service when they are purchased.

Q And why is that?

A (Mostone) So, meters themselves, when we purchase them, first of all, lead times are very far out, and they have been all over the place lately. Now, they're over a year out right now. So, during -- especially during the winter months, we always need meters in stock. Winter months, we have a lot of possibly damage to the meters from snow and ice, snowplows, what have you, *etcetera*, meters fail because of the cold weather or something. So, we need to always have an inventory in stock and ready to go. If we're doing new installs for growth, obviously, we need meters for those customers to put in stock. So, we always have to have an influx of meters on hand to take care of that.

In 2021, there was an opportunity to purchase more meters and them get them in ahead of it. Plus, you know, due to the fact of the scheduling issues and getting the meters, you know, on hand, so we had them. It was a major case. For instance, we didn't -- the date that we got meters in 2022, for instance, was this summer. So, if we didn't have these meters on hand, we wouldn't have had meters the first part of 2022.

Q Uh-huh.

A (Menard) And there's two pieces of equipment that are pre-capitalized, in general, meters and transformers. Transformers are, obviously, on the electric side; meters are on both gas and electric side. And, so, they are pre-capitalized and placed in service when they are purchased.

And then, that -- so, they go on the books as "in service". And then, when they are installed, there's no additional amount capitalized at that time.

Q And that's, in your experience, that's typical --

A (Menard) Yes.

Q -- how meters are accounted for?

A (Menard) Yes.

Q And can you explain why this issue was flagged by the Department Audit Staff then?

A (Menard) I don't know for sure why this was flagged. I didn't answer -- interact with Audit on those questions. So, I don't have the background on why they flagged it, because this has been a standard practice for years.

A (Mostone) In my opinion, it was just, you know, questions that became -- arise, give them an example of, you know, how the process is being done. They needed a clearer understanding of how we do it. That's all it was.

A (Menard) And my guess also is that, because we had issues with supply chain, and these additional meters were purchased, I think that was probably the "red flag" term used, that "additional meters", meaning that we didn't need them.

But, as Mr. Mostone was saying, because of the long lead times, this is a prudent purchase, to be able to make sure that we have enough meters on hand to be able to serve our customers.

Q Uh-huh. And I think, really, the question for us is whether those costs should be included in the step as plant placed in service.

CMSR. SIMPSON: And perhaps, Attorney Dexter, if you had anything you might offer, based on the recommendation in the Audit Report, as it appears there's still some disagreement?

MR. DEXTER: Well, when we get to closing, and I'm thinking, as I do more of these, that the Bench might benefit from opening statements. So, that you would know from the outset where we're all heading, in cases like this, where I'm not putting on a witness and I don't have prefiled testimony. But it should be fairly obvious from my questions today where we're heading.

We believe there are at least two reasons not to include the meters in the step adjustment. First of all, we don't believe that they are an appropriate substitution project under the language of the Settlement Agreement. I'll get into that in more detail.

In terms of the "pre-capitalization", this is an issue that has come to the attention of the Department through the Audit Staff fairly recently. I don't have the knowledge that it is "industry practice" and has been going on for a long time. My understanding is that, for decades, maybe many, many decades, well, I know "many, many decades", because I'm old, materials and supplies are a component of rate base, and that's inventory. So, as long as I've been doing this, materials and supplies are a rate base component.

Why meters and transformers are being treated differently from that? I don't understand that. And the Department's Audit Staff, I think, has that question. It's definitely an issue that we will raise in the next rate case that comes in.

I don't know if the other utilities in New Hampshire do this or not. I haven't done the research. But I do know that it has been an issue with the Liberty gas and electric side. And it's an issue that we'll be looking at in the next base rate cases.

At a minimum, we have to be sure that, if these things are pre-capitalized, they aren't also included in materials and supplies. Which I'm assuming is the case, because that's the way accounting would work. But that would be a threshold question that we have to determine.

And, if, in fact, if you look at

Exhibit 3, "Materials & Supplies", $12 million, appears as a rate base item in the return on rate base calculation. As I said, that's been standard for decades.

CMSR. SIMPSON: Thank you for indulging me, Attorney Dexter. And look forward to your closing.

I think I'm all set at this point. I don't have any further questions, Mr. Chairman. Thank you.

CHAIRMAN GOLDNER: Okay. We'll move to Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Good afternoon. So, let's go to Exhibit 4. And my questions are mostly going to be Mr. Normand, but I would let the Company jump in whenever appropriate.

BY CMSR. CHATTOPADHYAY:

Q So, let's go to Bates Page 002 of that exhibit. And I want to understand, if you go to lines between 37 and 38, that is a bolded line, which says "Adjustment to Depreciation Expense Schedule A page 2". And it has a number, "minus $660,216". That was discussed quite a bit.

Please confirm that that is simply

arising out of the ASL assumption, right? It has nothing to do with COR or the net salvage rate?
A (Normand) That's correct, Commissioner.
Q Okay. So, let's, since you had, Mr. Normand, as you had recommended, you know, going from 10 percent to 7.5 percent for the COR, I want to understand whether that, if it was included in Schedule A, and if I have understood it correctly, you may have mentioned it or the Company did, if that was included in Schedule A, would that change this row that says "Adjustment to Depreciation Expense Schedule A page 2"?
A (Normand) Well, on Page 2, I believe you're referring to Schedule B?
Q No. I'm actually in the exhibit that is part of this docket, Exhibit 4. And Bates Page 002, there's a line that says "Adjustment to Depreciation Expense Schedule A page 2", and it reports the "$660,216".
I'm just asking a clarifying question. Which is, if the COR was also changed from 10 percent to 7.5 percent, would the number here change?
A (Normand) Yes, it will.

Q Can you provide how this number will change? So, this is informational, you know, it's an IR. So, recalculate the bolded line, which says "Adjustment to Depreciation Expense Schedule A page 2", in Exhibit 4, Bates Page 002, assuming that the COR is 7.5 percent.

CMSR. CHATTOPADHYAY: Chairman Goldner, do I need to repeat that, so that it's --

CHAIRMAN GOLDNER: If the witness knows the answer to the question, no. But, if he doesn't, then we can make it a record request.

CMSR. CHATTOPADHYAY: Yes. I think -- I have a feeling it will be a record request, sorry. Yes.

CHAIRMAN GOLDNER: I think the witness might know the answer.

CMSR. CHATTOPADHYAY: Okay.

CHAIRMAN GOLDNER: Based on prior testimony.

CMSR. CHATTOPADHYAY: That would be even better.

BY THE WITNESS:

A (Normand) That's correct. There's no impact. But, in Record Request 1, which was just submitted, we provided Schedule A at 10 percent, as filed, and then we provided Schedule A redone to seven and a half percent reduction, and we also did a reduction to 4.74 percent, which is the one-year study that the Company did, to provide you what the impacts were at those two levels, as compared to maintaining the 10 percent.

BY CMSR. CHATTOPADHYAY:

Q I have looked at the response to that record request. I'm specifically asking if -- do you have an opinion how the number that shows up in Exhibit 4, Bates Page 002, for the specific line that I have referenced here? So, I would appreciate if you can go back to -- sorry, I have to jump there again, to the page that I talked about. And, if you can tell me how the number would change? Would it be -- like, what the number would be, instead of $660,216?

And I'm more than happy to have it as a record request that you can respond later.

A (Normand) I don't have that. I just have a response to Record Request 1.

Q I know. But I'm saying, can this --

CHAIRMAN GOLDNER: I'll make it a record request, Commissioner.

CMSR. CHATTOPADHYAY: Yes.

CHAIRMAN GOLDNER: I will do that.

CMSR. CHATTOPADHYAY: Yes.

MR. SHEEHAN: Mr. Normand, this is something we'll be able to answer after the hearing and provide later.

I think he was trying to do it on the spot.

CHAIRMAN GOLDNER: Okay. Okay.

BY THE WITNESS:

A (Menard) So, just to clarify. It's the update to Schedule B, which is where the 660,216 comes from?

BY CMSR. CHATTOPADHYAY:

Q Yes. It might as well be. But I'm looking at Exhibit 4. And I'm going to Bates Page 002. And I'm asking you to go between Lines 37 and 38. There is a row that says "Adjustment to Depreciation Expense Schedule A page 2".

A (Menard) Yes.

Q So, I'm -- I mean, that's just for notational purposes, as far as I am concerned. I am more interested in knowing, when the COR is changed to 7.5 percent, what happens to the number there, which is right now $660,216?

A (Menard) And, so, when we were answering the record request questions, you know, we had to make some assumptions of when -- when you say "change the cost of removal", so, we made an assumption we would go back to the last rate case.

And what are the parameters around the request that you're asking for right now?

Q If I said "*ceteris paribus*", would that help, meaning "nothing else would change"? Just if -- I'm just trying to see what happens when you implement Mr. Normand's recommendation. That's all I'm trying to do. So, if you go with a COR of 7.5 percent, instead of 10 percent, as he thinks about it, how does this number change? And that's all I'm trying to get at.

A (Menard) But --

Q So, if you're going to make some assumptions there, we can -- you need to state it clearly, okay? So, that's -- I'll leave it up to you. But, you know, clearly, if the cost of removal is different, something has to change. And I don't know the entire thread, but I'm just trying to see if you have a position on what this number would look like. That's what I'm trying to get at.

A (Menard) And, So, when we were talking about this in the context, you know, obviously, we couldn't ask questions on the record request, but, you know, the cost of removal would be something we would change on a going-forward basis.

So, the question, and I think it's a theoretical question, of "what would it look like had cost of removal been at a different level?"

Q Yes.

A (Menard) So, you know, we made some assumptions that we would go back to the, you know, last test year -- or, actually, the last time the depreciation study was performed.

Q Yes. That would be fine. So, I think what you're saying is, if you -- whatever you had assumed for COR previously, that number, when you plug in 7.5 percent, that changes. So, you're going back to the rate case and playing with that. So, I think that's what you're saying, which is fine with me.

A (Menard) And, so, if I could, just if we could stay on this topic for a little bit while we have Mr. Normand here. You know, there's, in the record request, and I'm not sure if you have them in front of you.

Q I do. Just a moment.

A (Menard) But you can see that the actual cost of removal, if you look at Record Request 1A -- 1-1.A. It looks like a table.

Q Yes.

A (Menard) And it has years "2017" to "2021".

Q Correct.

A (Menard) And, so, you can see, and this is assuming 10 percent, you know, the Company's history. And, so, Mr. Normand put this table together --

Q Uh-huh. Yes.

A (Menard) -- for these two particular accounts. And you can see that the actual percent is actually quite lower than the actual 10 percent. So, again, we had to make several assumptions when we did this analysis.

So, I just want to make sure we are

answering the question you are intending us to ask -- answer, not "ask".

Q Yes. I don't fully understand this response. So, maybe that is why --

A (Menard) Maybe we could go through that.

Q -- that is why I'm asking this question. I think, probably, we are delving on it a little bit too much. I just want the Company to, Company, with the assistance from Mr. Normand, respond to the specific question "what happens to 660,216, assume this as a theoretical question, if you had 7.5 percent?"

So, I mean, what I'm seeing here is, when you say "10 percent", and I'm going to the Excel file now, which is the response to RR 1-1.A. So, for example, in 2021, you have "$1.596018 million", right? And then, you're saying additions is $24 million. And the "6.63" is simply the ratio of that 1.596018 to 24. But that number, 1.596, which is the part that I'm not clear about, it is related to the 10 percent COR assumption.

So, if you -- so, you know, I'm trying to get a sense of, if you were going ahead, if you're going forward, if you were changing the 10 percent to 7.5 percent, how does this line that shows up in Exhibit 4, Bates Page 002, changes?

And you can give me whatever assumptions you want to make. I'll be happy to take a look at that.

A (*Witness Menard nodding in the affirmative*).

Q The other question I have very quickly is, as, Mr. Normand, you confirmed that that $660,216 is based on the average service life, you know, and has nothing to do with COR.

If we change the COR, I'm curious, and I'm trying to understand this, that does have an impact on the net salvage ratio, right, or percentage?

A (Normand) Yes, it does. But we didn't change the net salvage, as I mentioned earlier, because we had some incomplete data. So, we maintained what the Commission had approved in a prior case.

Q Would you -- did you, when you mentioned you did a study in 2016, did you reach a similar conclusion then?

A (Normand) I'm sorry, could you ask your question

again?
Q When -- I assume you did a similar study in 2016, if I heard you correctly?
A (Normand) That's correct.
Q Did you come to a similar conclusion then, that, you know, we're not going to change the net salvage ratio, because the data isn't complete?
A (Normand) That's correct. I did not change anything in net salvage in 2016.
Q Confirm, this is for the Company, that the study that you did for the calculation of the COR, as well as the ASL, this was based on information from 2021, correct?
A (Menard) Say the first part again?
Q The recalculations that Mr. Normand had talked about, I thought the discussion says that the study was -- that you looked at the last year?
A (Menard) Correct.
Q That's 2021?
A (Menard) Yes. Yes. That's correct.
Q Have you looked at 2020?
A (Menard) No.
Q Is it possible to look at 2020 now?
A (Menard) Yes.

Q Is it possible to look at 2019?
A (Menard) Yes.
Q Okay. In conducting your study for 2021, was it Company's internal resources that was used to do the study or you had to go out and get a consultant?
A (Menard) You're talking about for this updated depreciation study?
Q Yes. Yes.
A (Menard) We -- it's a combination. So, the Company has to provide the information. But we hire a consultant, Mr. Normand's firm, to do the analysis.
And it's, you know, it's an extensive amount of work to do the study. So, if we were to -- it can be done, we can redo it. It's just an additional expense.
Q Can you remind me what the Settlement terms were, in terms of what study needed to be done on depreciation?
A (Menard) Yes. The Settlement Agreement, if you don't mind, I'll read it.
Q Yes.
A (Menard) Section 3.2 says "The Company shall

perform a study during calendar year 2021 based on a sampling of different sized", and this is referring to cost of removal, "based on a sampling of different sized 2021 mains and services capital projects to determine the cost of removal percentages that should be applied to mains and services. The Company shall also obtain a new full depreciation study based on 2021 end of year plant balances, which study shall review and incorporate the results of the cost of removal study."

Q Okay. Then, I think I just wanted to get a sense of what --

A (Menard) So, it was supposed to be on 2021.

Q '21, yes. And the way even the 2016 study framed the issues, it seems to me it was pretty natural that the study should have been done for more than one year, should have been done for several years, to get a good sense of how to change the net salvage rate and all of that. So, that's why I'm asking the question.

A (Normand) Well, Commissioner?

Q Yes.

A (Normand) Well, we're hoping that, as a company, that two additional years of analysis on cost of removal, that we will have a complete set of five years of cost of removal data, with associated retirements. Once we have that, we will come up with a five-year average. And that will impact the net salvage used in the Schedule A. But we don't have that data. We have three years -- we can depend on three years for services and four years for mains is what we do have today. The three years in services makes me a little uneasy. That's why we provided -- we basically recommended maintaining the same prior approval levels that the Commission gave us.

Q In conducting the analysis for a COR of 7.5 percent, does that ordinarily spit out a different net salvage percentage? Regardless of whether -- how you feel about whether we have enough data or not. I'm just saying, mechanically, if you change the COR, does that impact the net salvage ratio or percentage?

A (Normand) Yes. It will.

CMSR. CHATTOPADHYAY: And I would suggest that that should be assumed when you do the analysis.

I think that's all I have right now. Thank you.

CHAIRMAN GOLDNER: So, let me check with the parties.

So, the Chair has maybe 15 or 20 minutes' worth of material. Then, we go to redirect, then closings. We have some options. We can do -- I can proceed, and then we can maybe take a break, and come back for redirect and closing, we can have written closings. What would the parties prefer?

MR. SHEEHAN: I would prefer not to having written closings, frankly. I think most of the issues are clear. The few disagreements are not extensive, they can be spoken to relatively quickly.

CHAIRMAN GOLDNER: Okay. Mr. Dexter, would you like to power through or --

MR. DEXTER: I agree that I don't think we need a written closing in this case. But, if the Commission would like one, I want to indicate that I will provide one. I do have a closing statement prepared to give orally today.

But I think, if it's approaching 12:45,

I think I'd recommend a lunch break now, and come back and finish up questions, redirect, and closing.

CHAIRMAN GOLDNER: Okay. That may create more questions on behalf of the Chair, but that's the price to be paid.

Okay. Very good. Let's take a break. Would you -- Mr. Sheehan, Mr. Dexter, would you recommend 1:15 or 1:30? What would you prefer?

MR. DEXTER: Well, 1:30 I think, at least. It's very hard to find food quickly in Concord.

CHAIRMAN GOLDNER: Okay. Okay.

MR. SHEEHAN: That's fine.

CHAIRMAN GOLDNER: Are you okay, Mr. Dexter, 1:30? Would you like a little more time?

MR. DEXTER: 1:30 is fine.

CHAIRMAN GOLDNER: Okay. All right. Let's break here, and return at 1:30. Thank you.

(Lunch recess taken at 12:41 p.m., and the hearing resumed at 1:31 p.m.)

CHAIRMAN GOLDNER: Okay. So, we'll resume with Commissioner questions, and then move to redirect.

BY CHAIRMAN GOLDNER:

Q So, first question I think is for Ms. Menard. Does the Company -- how does the Company treat laptops, as a capital item or expense? You can phone a friend, if you'd like.

MR. SHEEHAN: She left.

[Laughter.]

BY THE WITNESS:

A (Menard) I believe it's capital.

BY CHAIRMAN GOLDNER:

Q It's capital. And does the Company have like a limit as expense, typically above, you know, is there an expense, sort of capital line at the Company that you use? That's kind of normal, isn't it?

A (Menard) Yes.

Q At a thousand bucks or two thousand bucks or something, you capitalize, below you expense?

A (Menard) Yes.

Q Do you have any recollection what that might be?

A (Menard) I'm just pulling up the policy.

Q Okay.

A (Menard) I'm not finding it right this second. But I know it's in here somewhere.

Q And the reason I ask is that, you know, a laptop is, you know, what, a thousand bucks or something like that. And what's the cost of a meter these days? So, your standard meter, is it a thousand bucks? 500 bucks? 200 bucks?

A (Mostone) So, a meter itself is, a standard residential AC250, that's our lowest cost meter, it's probably running around $70.

Q $70.

A (Mostone) $70 to $80. With the ERT installed, that's the index with the mobile collecting device, because that also has to be installed, it's probably around 130 to 140 right now.

Q And it's puzzling to me that you would be capitalizing those expenses, those seem like -- or, you should be capitalizing those costs. It seems like those would be expenses. But that's, I think, where I'm a little baffled, in terms of your accounting.

And, if it's standard industry procedure, then I suppose that's a separate question. But, just conceptually, it doesn't make sense that something of that nature would be a capital item.

A (Menard) So, I can answer your question for the laptop. It's a $1,000 threshold to capitalize either a desktop or a laptop.
Q Okay.
A (Menard) For the meter, --
Q So, it would mean below a thousand it would be expense, right?
A (Menard) Yes.
Q Yes.
A (Menard) Yes. I'd have to dig into the plant side of it. You know, we have, as far as I know, meters have been historically capitalized. It's the labor to install, it's the meter itself. So, there's, you know, a whole ball of wax associated with a meter.
Q Okay. Yes. It's just a curious accounting quirk that doesn't make sense on its face. Okay. That's fine on that.
A (Mostone) Can I just add something to that?
Q Yes, please.
A (Mostone) I don't know if it matters here. But, when it comes to meters, and pre-capping them, we also refurbish meters. So, when we refurbish meters, we, you know, move the asset or, you

know, improve the asset, to expand the lifespan of the meter when it comes into the meter shop. Those are not capitalized. Those are expensed.

Q Okay.

A (Mostone) So, it does -- in a way, when you're looking at meters, and I gave you the lower end, meters can run upwards of thousands of dollars a piece, depending on the meter. But our most popular meter is the category that I gave you. And we have to buy thousands of those, you know, yearly to keep up to demand on those.

Q Okay. Okay, very good. Thank you. Some engineering questions, maybe, Mr. Marx, these might be in your wheelhouse.

I assume that you're replacing the cast iron/bare steel with PVC mostly, or no?

A (Marx) High-density polyethylene is what we use.

Q Okay. And how long does that last?

A (Marx) I'm not positive.

Q Because I've read, like, PVC underground lasts like a hundred years. So, I would assume the product you're using would be, you know, something on that scale. And the reason I ask, this might go over to Ms. Menard again, but, you

know, if we have depreciation schedules of 45-ish years, and we have pipes that last 100, I'm just trying to understand the Liberty, you know, sort of accounting principles?
A (Menard) Associated with the pipe replacement?
Q With the new pipe. So, you put new pipe in, and you have it on like a, I think, a 47-year depreciation schedule, but it sounds like it lasts -- it seems like it would last much longer. But, if the Engineering Department says that I'm incorrect, that would be good to know. But I think it lasts much longer than that.
A (Menard) The mains?
A (Marx) The mains, yes.
A (Menard) The mains are 60 years.
Q So, that's your -- your depreciation schedule is 60 years?
A (Menard) Yes.
Q Okay. So, your overall depreciation rate, I think, in the filing, is 47 years after the depreciation study. But for new pipe that's going in today, this polyethylene, it's 60 years on that particular pipe?
A *(No verbal response).*

Q Okay. Yes, we won't know for a while if you're wrong or not, but I guess we'll trust you on the 60 years.
A (Mostone) Can I just add something to that also?
Q Yes.
A (Mostone) When it comes to the polyethylene, you're correct in saying a higher amount. But coated steel pipe that we still have in the ground, that's where the averages come down a little bit.
Q Okay.
A (Mostone) Okay. Because that's more susceptible to corrosion. Whereas, polyethylene, obviously, corrosion is not an issue.
Q Right. But you do have the issues with the o-rings or the seals, right, with the other pipe?
A (Mostone) That was just that timeline. The process was done differently after-the-fact. So, during the -- and, please, '50, late '50s, '60s, maybe early '70s, they went to that dresser coupling method. Not all gas utilities in New Hampshire, back then there was three different utilities, okay? It was more down in the southern end of the state where they were using

the dresser coupling design. It was quicker, more cost-effective to do it that way.

But Northern Division, Tilton area, Manchester area, central, we don't have that issue. It wasn't installed there. It's just the Southern Division, where they adopted that concept way back in the '50s/'60s area.

Q Okay. The commissioner should have asked more questions, it sounds like, back then. Is there -- how do you seal the pipes today? So, you have a metal pipe, and it's deteriorating, but there's nothing wrong with the pipe and you want to save it, how do you seal it today?

A (Mostone) Sealing the outside or how do we -- how do we put them together?

Q The connection.

A (Mostone) Welding.

Q Okay. So, you're welding?

A (Mostone) A welding connection.

Q Okay. Okay. Very good. And I'll go back to Ms. Menard, on Exhibit 4. And I'm looking at Page 1, Column (e). There's the $1.1 million that we talked about earlier in that category, spread through four different areas.

And I'll tell you, when I look at this, what is concerning is it looks like, in accounting control or lack of control issue at the Company, it seems like, if the issues were that large, can you maybe tell the Commission why we shouldn't be concerned about a lack control -- accounting control at the Company?

A (Menard) Not all of these items are, you know, some of these items -- so, for example, the "Nashua Paving Project", that was -- that was something that was placed into service. And then, when we were going through this audit process, we realized that not all of it was actually complete. So, we've done some education to educate on how and when to consider something "in service", you know, "used and useful", and a certain end point in the project.

So, we have, as a result, done some internal education, and also put some review around how we -- how we place service in projects -- or, how we place projects in service.

Q So, I'm sorry for interrupting. But, on that particular line item, I think the point you're making is, that the Company has acknowledged a mistake, has taken the lessons learned, and then retrained the folks to do it better next time?

A (Menard) Yes. There are certain -- there are certain groups of people who deal with capital projects on a day-to-day basis, and then there are others that deal with them on a less frequent basis, you know, a facilities-type project is on a less frequent basis. So, we've done some education internally on the paving project, which is a facilities-type project.

For the, you know, for the meters, I'll jump down to Line 18, that's not an accounting issue. That is really what should be included and not included in this step. So, the question there was "whether growth should or shouldn't be included?" So, the accounting is fine. It's just really inclusion in a step, and requirements with the Settlement Agreement.

For the IT project, that was an accrual, which is normal, typical accounting practice. You accrue for when work is -- or, you know, an estimate of work that has been complete, you accrue it on the books. I don't know why that was not reversed. So, we definitely do need to look into that, as to, you know, was it reversed on another project and we just didn't pick it up? So, I don't think the accounting is an issue. I think it's just a matter of picking up information for this step.

And, then, I can't remember what was the minor --

Q Yes, that's just $3,000. I wouldn't worry about that one there.

A (Menard) So, it doesn't concern me from an accounting standpoint. I think there are processes that need to be reiterated. And then, you know, further review when we do pick up for inclusion in a step.

You know, if we were in a rate case, you know, everything gets included and reviewed. When you're in a step, and according to the Settlement Agreement, you know, it's a different way to look at projects and look at dollars in service. So, it doesn't necessarily concern me. But there are areas for improvement, yes.

Q And you, of course, have your own internal Accounting staff and an Audit Department at the Company, correct?

A (Menard) Correct.

Q Okay. Yes. My encouragement would be to find it before the DOE finds it in the future.

A (Menard) Absolutely.

Q So, that would be -- that would be better news as we move forward.

Okay. One last accounting question. And that is, I'm on Exhibit 3, Page 2 I think, yes, Bates Page 002. So, there's shown there a "Depreciation Reserve/Accumulated Depreciation" of $181 million. And I'm looking at the Company's Annual Report dated December 31st of the same year. And it shows accumulated depreciation of $230 million. And, so, I'm trying to understand what the difference is?

A (Menard) Sitting here right now, I don't know.

Q And my concern is that, I think earlier it was acknowledged to Commissioner Simpson that there were other errors on the same page, and I think this is an additional error, and a meaningful and significant one. So, I would encourage the Company to go back and look at this schedule, and make sure that it is accurate.

A (Menard) Understood. And, while we were at break, I did look into Commissioner Simpson's question as to what the weighted cost of capital component is. And, when I go back to the rule, the 509.01, that is listed as the Company's current capital structure. So, in the event that the current capital structure differs than the approved, you would see a different number.

So, the next question you would ask me is "does it vary from the approved?" And I don't know, sitting here, as to, you know, whether that -- whether the actual is different than the approved.

Q Okay. Thank you. Yes, Commissioner Simpson may want to follow up on that later.

So, the last couple of questions are, does the Company have a process by which it ties its annual capital spending to its LCIRP, that is its long-term Capital Plan approved by management? Do you tie those two out or are those independent processes?

A (Menard) So, in the LCIRP, historically, that has been focused on what the demand forecast is and how we're going to meet that demand forecast. I know there has been interest in moving forward of having, you know, having it be more focused on the Company's five- to ten-year Capital Plan. So, going forward, it should align. There is one capital forecast. We are currently working on the current five-year capital forecast. And, so, it should align.

There are, obviously, changes that happen within the year. But, you know, the forecast is -- the long-term forecast is set.

Q Okay. Yes, I think there's the opportunity to simplify the step process moving forward. If the LCIRP is tied to your annual process, I think it could greatly simplify things.

A (Menard) The only issue I would raise is that, you know, a long-term forecast is at a point in time, and it does change, and, you know, it does adjust. And, so, how do you, you know, and, certainly, this is a topic for another day, but how do you reconcile something that, you know, you look five years out, we budget with big buckets of dollars or general categories. And, when you get into you one-year plan, that's when you really get down into the detail, very specific projects, and measure yourself against that.

So, you know, having a point in time looking five years out, and then having to reconcile that, you know, just some things we need to think through.

Q Yes. Yes, I think it's good to have a plan that you've carved in stone, and it's good to transition off that plan to understand how things have changed over time, and understanding that things do change over time. So, I don't think anyone would recommend being so rigid as to just blindly follow a five-year plan.

But, you know, it is true that, you know, the forecast is wrong before the ink is dry, right? So, it's --

A (Menard) Absolutely.

Q That's the nature of forecasting, and you just have to transition off of it in order to understand what happened.

Okay. Do you -- do you, for this Capital Plan, and I don't think you do, and it's not a criticism, I'm just trying to understand if I missed something, anywhere in this step is there a summary of spending by what I'll call "functional area"? That is, you know, is there a bucket for maintenance? Or, is there a bucket for system improvements? Is there a bucket for system expansion? Is there a bucket for new capacity? Is that incorporated in this Plan anywhere that I can find or would that be something that we would want to ask for in the future?

A (Menard) So, when you're looking at this step, it's different than the Plan. So, the step is for projects or spending placed into service within the year. That differs from the Plan. So, there was a budget for 2021, and it does have all the categories, and I'm sure it's probably summarized. And then, when we're filing for this step adjustment, it is based on the amount of in-service plant within that year.

So, it's slightly different. It should align in some cases, but it doesn't always align. So, if you have a three-year project in your budget, you're spending dollars in year one, but it may not go into service until year three. So, you wouldn't see it in a step until year three, but it might be in your plan for year one spend.

Q That makes sense. And I think, in this, and please correct me on this, I think, in a step, you would see system improvements, I think you would see maintenance, you would not see system expansion, or would you?

A (Menard) For the step?

Q For the step.

A (Menard) If it's growth-related, we would not see that.

Q Right, if it was growth-related. And, if it was new capacity, would you see it?

A (Menard) No.

CHAIRMAN GOLDNER: Okay. Very good. Okay. I'll go back to Commissioner Simpson and Commissioner Chattopadhyay, to see if there's any additional questions?

CMSR. SIMPSON: No. Nothing from me. Thank you.

CMSR. CHATTOPADHYAY: It's more in the nature of just noting this.

BY CMSR. CHATTOPADHYAY:

Q So, for example -- just a moment.

If you go to Exhibit 2, Page 58 of 69, are you all there, or at least -- Mr. Normand, this is related to you as well.

So, I want to make sure that, in response to the RR, the record request, if the change in COR changes, for example, if you go to Line 380 in that page --

A (Menard) What's the Bates Page again?

Q I'm sorry, I probably didn't mention that, did I? No. So, the Bates page is 068.

A (Normand) I'm sorry, is that Schedule A, Commissioner?

Q Yes.

A (Normand) Okay. Thank you.

Q I am on --

A (Menard) Yes.

Q Do you want me to repeat?

A (Normand) Please.

A (Menard) It's Schedule A, Mr. Normand.

Q Okay. Yes. You're probably able to, I'm not sure. So, okay.

So, if you go to the Line, for example, 380, "Services", and you go all the way, in Column (6), you have "minus 60", right? So, I would -- I'm indicating very clearly that, when you do an analysis with a different COR number, if this changes, for example, to minus 45, please let that flow through. Don't make your own assumptions there.

CMSR. CHATTOPADHYAY: So, that's all I have to say. Thank you.

CHAIRMAN GOLDNER: Okay. Okay, thank you, Commissioner.

And, so, we can now move to redirect, and Attorney Sheehan.

MR. SHEEHAN: Sure. I just have a smattering of questions, just to try to tie up some loose ends.

REDIRECT EXAMINATION

BY MR. SHEEHAN:

Q Mr. Mostone, you were asked some questions about the change in the standards for the meter protection, and you were able to find the answer that you didn't have an hour ago. Could you explain the delta between the Company's policy and the standard referenced by Commissioner Simpson?

A (Mostone) So, that is correct. I got a little confused on the numbering, that's why, when you said "6060", it threw me off.

But, back in 2019, the Safety Division requested Liberty to change their scope of how they're doing meter protection. Based on -- we didn't break it out by residential and commercial. The Safety Division wanted us to break it out. It was really a general scope of how we did meter protection across the base.

We then took a more stringent -- went through everything, broke it out into commercial and residential, we used different rules, which were more tolerance, you know, closer tolerance. Curbing nowadays, back in -- back in 2019, curbing had a factor. If there was curbing there, we didn't put meter protection in. Now, it's, without curbing there, we use a 10-foot rule, okay, if curbing is there or it's not there.

We also did a thing on drive-throughs, where, because we having moving vehicles going through drive-throughs, the Safety Commission wanted us to look at that also. So, we turned and made all drive-throughs, where vehicles are approaching the buildings and going around the buildings, that we had meter protection for all the drive-throughs in the area. So, that's why you see an expense higher on meter protection.

So, it's more now a shorter distance, used to be 15 feet, and it's now 10 feet. So, that's where the changes came in. And that's why you're seeing on some of the increases that are out there.

Q And, so, Mr. Mostone, the -- excuse me -- the work reflected in this step for additional meter protection is to comply with this relatively new tightened thresholds around meter protection?

A (Mostone) That's correct. And, just to add, you know, we are, you know, currently with all the meters that we have in our system, it's really identified, and there's a three-year cycle, we have a walking survey that goes through. So, we identify all the meters as they're going through. Plus, if we show up at a job site, or we see something, we put in for those meters to be protected properly.

Q And the NOPV referenced in the Audit Report is simply an incident where there was a lack of a meter protection that should have been there at that particular location?

A (Mostone) That is correct.
Q Okay. Another question for you, Mr. Mostone, regarding vehicle replacement. Does the Company have a policy governing when to, you know, how long to keep vehicles and when they should be replaced?
A (Mostone) Yes, we do.
Q And does the Company follow that policy?
A (Mostone) Yes, we do. We're having trouble right now with vehicle purchases, as everybody probably knows in this room. So, we're doing our best to try to locate and get vehicles in as quick as we can. But it's been very difficult.
Q Meaning we're replacing them slower than we would under the policy?
A (Mostone) Yes.
Q Okay. So, we're keeping them longer than we would otherwise?
A (Mostone) Yes.
Q Okay. And I have a couple of questions for Mr. Normand, to hopefully clarify what is a topic that's I think beyond most of us.
Mr. Normand, there was a discussion about assuming different numbers, either the 10

or the 7.5, or the 5.0. Is it correct that, in the record request responses, you did provide analyses using those different figures, and it showed an impact on the reserve balance, is that right?

A (Normand) That's correct. The adjustments at 10, seven and a half, and 4.74, if you look at Schedule A, and I apologize for not keeping track of what --

Q Schedule A is -- I'm sorry, Schedule A is Exhibit 2, beginning at Bates 068.

A (Normand) Okay. If you look at that schedule, when you adjust the 10 percent, seven and a half percent, or the 4.74 percent, what you're doing is you're adjusting the book reserve only, that's Column (12). So, what you'll find here is that the book reserve will change, and be reduced by less than it would. For instance, at 10 percent, you'll have a number, at seven and a half, you'll have less of a number. Because the cost of removal incurred, basically, is impacting the book reserves. You adjust the book reserves for that number. It does not, in and of itself, adjust the net salvage.

But my understanding from the Commissioner is he wants a new estimate for net salvage, given all the information I have. That can be done. I have not done it, because of incomplete. But I can use shorten lives -- shortened averages to get new net salvage numbers. But that's a different column. That would be, basically, in Column (6) would be the "Net Salvage". And the calculations, and I can provide the exhibits supporting the calculations, or for revising the net salvage, that's a different calculation. If that's --

Q Mr. Normand -- go ahead.

A (Normand) -- what I'm interpreting the Commission to want, we can do that.

Q By calculating the options of the 10, 7.5, and 4.97, is it fair to say that those changes do not impact the $660,000 change in depreciation? They're independent, correct?

A (Normand) No, they do not. They effect the book reserves only.

Q Okay. And the book reserve is that $10 million number, which you said was reduced to -- 10.9 million, which was reduced to 8 million, assuming the 7.5. That number is actually, theoretically, money owed by customers to the Company, is that right?

A (Normand) That's correct. That's correct, sir.

Q And it's a number that, right now, or at the last rate case, was in the neighborhood of $10 million. And part of the last rate case, the Company was approved to recover that 10 million at 1.4 or 1.6 per year. But this is, as you say, a very complicated number that's affected by many factors. And your recommendation is to leave it alone for now, until we get some more data under our belts, and, in the next rate case, decide whether any tweaks need to be made to that amortization. Is that fair?

A (Normand) Yes. That is correct.

MR. SHEEHAN: Okay. I don't know if that helped or not. I will feel like we're all on the edge of a very deep black hole.

Those are all the redirect I had. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you. So, we can, I think, at this point, release the witnesses. Thank you very much for your time today, everyone.

Without objection, we'll strike ID on Exhibits 1 through 4. And we'll add the August 12th Record Requests as "Exhibit 5", and admit them as full exhibits.

(The document, as described, was herewith marked as **Exhibit 5**, and **Exhibits 1** through **5** were admitted as full exhibits.)

CHAIRMAN GOLDNER: Then, we'll add the record request from Commissioner Chattopadhyay as "Exhibit 6".

(**Exhibit 6** reserved for record request)

CHAIRMAN GOLDNER: And, Attorney Sheehan, would it be possible to get that back by Friday to enable --

MR. SHEEHAN: Yes.

CHAIRMAN GOLDNER: -- quick issuance of an order? Thank you.

Okay. Is there anything else before we move to closing?

[No verbal response.]

CHAIRMAN GOLDNER: All right. Very good. Attorney Dexter, would you like to begin?

MR. DEXTER: Yes, Commissioners. Thank you. And I appreciate the extra time that you provided. I know this was allotted as a three-hour hearing. I asked a lot of the questions that led to the time overrun, but I'm not going to claim full responsibility for it. I think a lot of that actually lies with Liberty Utilities.

This was set up as a fairly simple process. We had agreed to a little list of seven projects that were set forth in the Settlement two years ago that we all -- that we all agreed to. And what we got in this filing was something along the lines of, I don't know, 13, 14, or 15 different projects that necessitated additional work, additional audit, and additional hearing time.

It's the position of the Department of Energy that the Commission should enforce the terms of the Settlement that it approved, other Commissioners, understandably, but that the Commission approved, I guess, about a year and a half ago. And I understand that there are some clauses that allow for flexibility in the application of the step adjustment. But I don't think -- the Department does not believe that those clauses were appropriately applied in this filing.

Let me start by saying what I've said in other step adjustment proceedings over the last three months. Step adjustments are a useful tool for companies to recover investments that are made between rate cases, without filing a full rate case. And, in my experience, they are always accompanied by a stay-out provision, meaning that a rate case won't be filed until such and such a date. That was true in this Settlement, and this Settlement provides that the Company's next rate case wouldn't be filed until 2023, using a 2022 test year.

Step adjustments are inherently one-sided, and in that what I mean is they reflect changes in plant, but they don't reflect changes in revenues. And, so, it's that reason that investments that are made for growth are generally excluded from step adjustments, because the growth, the additional revenue is not reflected. We're not doing an entire revenue requirement calculation or an entire return on rate base calculation in the step adjustment.

As this one was structured, as many others have been in the past, this was structured on a "list approach". I will state, for the Department of Energy, who were then part of the Commission Staff, that this list was not haphazardly assembled. It was specifically designed to include capital items that were intended to improve safety and service to the customer, plain and simple. And that's why I took the time to go through each and every one of these projects today.

We understand, when we negotiate step adjustments, that a company won't know exactly what they were going -- what they might need to put in service, in this case, two years out. So, the Settlement does provide for substitutions of projects in limited circumstances. And Ms. Menard read the language from the Settlement. And, if I can find it, I'm going to read it again, because I think it bears repeating.

So, yes. We're talking about the second step adjustment in the Settlement, which is Exhibit 49 from the base rate case. And it says that "the revenue requirement for the" -- well, let me start again: "The step adjustment will account for certain capital projects placed in service during 2021." "The revenue requirement for this step will be capped at $3.2 million." It "shall be based on plant that was" -- "projects that were closed to plant in 2021, and they will exclude new business and growth-related projects."

Then, Clause iii of the Settlement, this is Paragraph -- Section 5.1(b)iii is very important, it says "The projects and programs that may be included in the step are identified in the listing attached as Appendix 2, including the Keene CNG Phase I costs. The Settling Parties agree that the Company may substitute other similar non-growth projects prior to the commencement of the review period if the projects identified in Appendix 2 are not deployed."

So, all of the projects, with the possible exception of the dresser coupling replacement, were deployed. We went through that today. We went through each and every project, so that we knew what they were.

So, in the Department's view, the substitution clause is irrelevant. It doesn't apply in this case. Even if it were to apply in this case, the substitution projects must be non-growth, and they must be similar in nature to what was on the list.

I think, with the exception of the meters, which were a substitute project, and the Company, after audit, agreed to remove 20 percent of those meter costs that could be considered "growth-related", the Department wouldn't have an issue that any of these replacements were growth-related. So, to the extent a substitution was allowed, we don't object to them on the "growth-related" element.

We do, however, object strenuously to the substitution criteria that the substitution project be "similar" to the projects that were on the list. And, again, this is why I went through these one-by-one with you. All of the projects that were on the list were testified to today as "reducing leaks", "improving pressures during cold weather", "avoiding outages", and things of that nature.

Of the substitute projects, they fall, in our mind, into two categories: One category is not at all related to system improvement and reducing leaks and safety. And those are the projects that are entitled, I'm shorthanding, but the Tools Project, the IT Project, the Transportation Project, and the Meters Project. Those, it would be a huge stretch of the imagination to say that those were in any way similar to the listed projects, which were primarily, overwhelmingly, replacement of either leak-prone pipe or pipe that was actually leaking.

Three of the other substitute projects arguably would be considered "safety-related", in the sense that they provided us a safety benefit to the customers, the way the leak-prone pipe replacements do. those were the Meter Protection Programs, the Cathodic Protection Program, and the replacement of -- the random replacement of services. Having gone through those projects with the witnesses today, I think the Department would agree that they do have an impact on safety.

But, again, before we even get to that, the plain terms of the Settlement say "no replacements if the original projects were deployed." And, as I said, these were all deployed. So, in reality, we shouldn't even be talking about substitute projects today.

With respect to the Dresser Coupling Replacement Project, whether or not that was deployed, that's a half a million dollar project. I'm actually confused by the testimony that I heard today. I read the written testimony to indicate that that project was not deployed. I think we heard testimony today that it was, in part, deployed and included in one of the other projects. It's unclear to me, you know, whether a substitution of that amount or half that amount is appropriate. It's not that big an impact. Again, in the spirit of simplicity and adherence to the Settlement terms, our position would be -- our primary position in this case is that -- is that no substitutions were warranted today.

I want to emphasize that we are not questioning the prudence of any of the projects, including the substitute projects. We're not saying that they weren't necessary. What we're saying is, that this is a specialized recovery that was set up after arm's length negotiations, and it should be adhered to as written.

All of these projects will presumably find their way into plant-in-service in the next rate case. And, if there were an imprudence argument, we could raise it then. You know, based on what we've seen, that's not our position today. We're not saying that this stuff shouldn't have been. It's just a question of what falls into the specialized recovery mechanism that was set up in the Settlement.

My quick math of the four projects that I believe are wholly unrelated, in terms of being similar and thus appropriate for substitution, if we were to go down the substitutions road, Tools, IT, Transportation, and Meters comes to about $2.5 million. I haven't -- we haven't calculated the revenue requirement impact of that. But, given that the Company provided, on Exhibit 4, Page 2, all the account numbers for those items, it would be a fairly easy calculation for the

Commission to ask the Company to do, you know, to remove any of these particular items from the revenue requirements calculation, depending on how you decide this.

There's another side effect of not allowing the substitutions, and that has to do with the Keene Phase 1 costs. I will admit, having had a large hand in drafting the Settlement, that it's ambiguous as to how the Keene risk sharing should be handled. In concept, the Keene -- the dispute in Keene was settled on this 50/50 risk sharing to end years of questions about CNG conversion and expansion. And it was designed to put to bed many, many dockets of review concerning past investments in CNG in the Keene plant, whether it was necessary, whether it was appropriate.

It was clear, in Staff's mind at the time, that that 50 percent sharing was supposed to have some bite to it. In other words, the customers would pay 50 percent, the shareholders would pay 50 percent.

It is listed as an appropriate Step 2 adjustment. And, therefore, as it's been presented by the Company, on Exhibit 4, Page 2, it's $22,000, but it's sort of been swept up in the cap. And, therefore, the way I look at this schedule the way it's presented, there is no shareholder pain, if you will, associated with this because of the cap.

And I've gone back and looked at the Settlement, and I will say that it is listed in the Settlement as an appropriate Step 2 project. On the other hand, we did have an example calculation in the Settlement, the equivalent of Exhibit 4, Page 2, and there's no indication on that schedule whether it should be applied above the cap or below the cap. So, bad drafting, I guess, on the part of the Staff back then.

In our view, in order for that 50/50 sharing to have any teeth to it, it shouldn't be tied up in the cap. And, conceptually, there's no reason that it should be.

If certain replacement projects are eliminated from the step adjustment, and taken off of Exhibit 4, Page 2, the cap will go away. In other words, the requested amount will be below the cap. And, therefore, then the Keene sharing can be applied in the way that we believe it should be applied.

So, that's what I have to say on the revenue requirement before the -- before we get to the depreciation study. I did have some notes here about pre-capitalizing meters, but we've already talked about our position on that. That's something that we're going to be looking at in the next rate case.

In terms of the depreciation study, again, in my mind, having been involved in the Settlement of the base rate case, it was going to be pretty simple. Back in the 20-105 rate case, there was I guess I'd call it a "realization" or an "understanding" that the cost of removal rate of 10 percent that had been in place for years was likely too high. And that the Company, not Mr. Normand, but that the Company was doing an investigation of that to come up with a better number based on actuals, instead of the assumed 10 percent.

The second part of the Settlement was that the -- a new depreciation study was in order. And that the amortization of the reserve imbalance that had been put in place in DG 17-048 would continue, and it would get a second look a year after the rate case, or a year and a half after the rate case, in this second step adjustment. And we would have in hand the cost of removal analysis done by the Company, and the depreciation study done by the consultant, and his recommendations.

So, what we have here today is a recommended decrease in depreciation expense of 660,000. We fully support that, as you asked me earlier. But I am, admittedly, very confused by the answers that we got from Mr. Normand, in response to Commissioner Chattopadhyay's questions. Because I thought that I had asked Mr. Normand whether or not the cost of removal figures would affect the 660,000, and I was told "no." And then, I also, I guess, assumed that the 7.5 percent cost of removal would have been reflected in Schedule A or B, because that's what I thought the Settlement said. I thought we were going to do a cost of removal analysis and reflect it in the new depreciation study.

I don't know what to say, except that I

applaud Commissioner Chattopadhyay for issuing the record request, and I think -- I think the inquiry has to continue on this. I'm not really sure what we gained by doing the cost of removal analysis, if we find out that the results aren't reflected in the study. And I'm not sure that's where it is.

So, I'm rambling a bit. But, I guess, for now, until we learn more, we are satisfied with the $660,000 reduction for the depreciation. It seems like the depreciation study was warranted, and it was wise that all parties agreed to doing it a year after the rate case.

The reason, turning to Exhibit 3, the reason I asked that Exhibit 3 be submitted in the record was two-fold. One is, there has been concern expressed by the Commission in EnergyNorth's step adjustment last year, and in other step adjustments this year, that, when using a "list approach", because it is a very limited, narrow focus, we might be losing sight of other changes in rate base that might have obviated the need for a step adjustment.

And, to me, if we're going to compare

changes in net plant, we really should be comparing changes in rate base, not just net plant. And, conveniently, all the companies file these forms quarterly. And, so, I believe, by taking out this year, and comparing it to past years, it would be a fairly easy exercise to see if there was any possibility that the step adjustment was outstripping the change in rate base.

And, secondly, I wanted to submit this for the Commission to be aware that this report exists, I know you know it exists, but to point out that, if a company were overearning, it would be -- that information would be readily available to the Commission.

This report, on its face, shows that the Company is not overearning. Their allowed return was 6.96 percent, and their earned return was 6.35 percent.

Admittedly, the Department of Energy did not do further inquiry into this schedule. And, if -- Commissioner Goldner has indicated that, if we were to go to the Annual Report of the Company, we would find a depreciation reserve

$50 million higher, that would reduce rate base $50 million in this report, and might indicate that the Company were, in fact, overearning.

Now, I'm making, you know, I'm jumping to some conclusions here. But I want to point out that, if this report did show that the Company was overearning, and when I say "overearning", above its allowed rate of return, there is no mechanism in the step adjustment to address that. Other step adjustments I have seen in the past have earnings sharing mechanisms, and they get complicated, and this one was negotiated without an earnings sharing mechanism.

So, we would not be recommending any change to the application of the step adjustment. Even if this report were updated, and it turns out the Company were earning above its allowed rate of return, that would violate the Settlement. However, we would not expect to see the Company in for a rate case in 2023, if their 2022 report shows that they're overearning.

So, I'm pointing all this out, I guess, as information to be forthcoming. I'm very curious about that $50 million discrepancy that

Chairman Goldner identified. I guess I'm assuming there's a reasonable explanation for it. I wouldn't expect, two years after a rate case, that EnergyNorth would be earning above its allowed rate of return, given what we see in plant investments and, you know, relatively slow growth of natural gas in New Hampshire. So, I point that out.

So, in closing, the Department of Energy does not recommend approval of the step adjustment as filed. We believe it needs to be recalculated to closely conform to the terms of the Settlement. We believe the substitute adjustments should not be recovered through the step adjustment.

And that concludes my comments.

CHAIRMAN GOLDNER: Okay. I think I have some additional questions, but I'll table those until Attorney Sheehan's closing.

MR. SHEEHAN: Thank you. I'll start again with a few one-offs, just to try to close some loops.

On the humorous side, I introduced myself as counsel for "Granite State Electric", and no one in the room noticed, except for Mr. Patnaude. So, today, I do represent EnergyNorth, and not Granite State Electric.

Just to confirm, there was a side discussion about the "MEP projects". If you're interested, it's Docket 16-447. It was a program, as the witnesses indicated, that allowed customers to essentially pay their CIAC through an increased distribution charge. So, say we have a neighborhood that's just too far away, it's going to cost a little extra to get the pipe to them, that neighborhood would agree to pay the 30 percent higher for a 10-year period to make it all economic. And it was more or less a pilot project in Windham and Pelham only. We have a handful of customers who are on that rate. So, it's a concept of allowing more customers access to gas.

The Exhibit 3, the return report, if you look at Puc 509.01, you will see that the report tracks line-for-line what that rule requires. And, again, there may be some interpretation issues of what's in the rule, compared to what we put in the report. But that is the logic behind the line items you see on the report, it's right from the rule itself. For example, it does include the gas costs in the -- which would not make sense for what would otherwise be a distribution rate -- a distribution cost report.

On the substance of today's step, I'll take DOE's core argument that, essentially, most of these projects should not be included because of the Settlement Agreement. I think counsel puts more words into the Settlement Agreement than are there. And whether he negotiated the Settlement and I did is irrelevant. What matters is what the words are on the paper. And the paper says that the Company "may substitute other similar non-growth projects". It doesn't say "you have to exhaust all the other projects first". It says we "may substitute additional projects in."

A reasonable interpretation of that is to do exactly what we did here. The projects initially listed did not reach the $3.2 million cap, for one reason or another, under budget, *etcetera*. And we had the ability in the

Agreement to substitute projects in, and that's what we did.

And the critical requirement for those substituted projects is "non-growth". And, other than the meters that has been discussed, there's no dispute that the projects that were substituted in were non-growth.

The other qualifier is "similar". And, as counsel said, "similar to the original list" makes sense. And what was the original list? The original list was replacing old stuff, in essence, pipes, meters, that was the reason for those, the original list. The new list is similarly replacing old stuff, old trucks, old pipes of a different kind, old software. So, we think the Settlement Agreement language is broad enough and clearly anticipates that the new list could include other projects that replace stuff that is no longer of use. And, as the witnesses described, they serve the important goals of increased safety and reliability.

So, I disagree with the argument that that projects should be excluded wholesale for that reason. There is no language in the

Settlement that says "there shall be no" -- let me back up. That's just repetitive.

Last -- well, not "last", on the Keene issue, the Company put into this request its one-half share of the revenue requirement. We are not recovering that second half share that shareholders should eat. There may be a timing piece to DOE's argument. So, if the cap is $100, and absent Keene, we were at $80, and the Keene piece of it gave us that extra $20, then he's right, we're not -- the Company's shareholders are not experiencing that pain of that extra $20 until the rate case, when we don't put in the other $20. So, at most, it's a timing issue.

But, at bottom, we only have sought recovery of that half that we were entitled to seek recovery of. The math is different than half, but it's a discount. So, I do believe that the way we included the Keene costs here is entirely consistent with the Settlement Agreement.

And, on the depreciation issue, we're all, obviously, on board with the $660,000 reduction because of the depreciation study.

With respect, I think all of the other conversation is irrelevant to the step. It's relevant for other reasons, which we will be addressing in the future. But none of those changes affect the step. Mr. Normand said so clearly. If you change the assumptions of the 10 or the 7.5, if you flow that through, it does not affect that $660,000 reduction to the step.

What it does is it affects that imbalance or reserve, whatever the phrase is, of that lump of money, it will increase it or decrease it, but that doesn't have an effect on rates until the next rate case, when the Commission decides we should be amortizing more or less of that amount, again, depending on where that number is a couple of years from now.

It's a very complex number, from what I understand. And two rate cases ago we decided to do it, a -- a number to amortize it, if I remember correctly, it went up, and now it's coming back down. So, it's very complicated. And, again, we will address it next time around. Mr. Normand, or his successor, will make recommendations of how to address it in the rate case. But it's really -- we will certainly respond to the record request, but it's not an issue that affects the step itself, it affects the next rate case.

I think that's all I have. Thank you.

CHAIRMAN GOLDNER: So, I think my question for the parties was, it seems like there's some disconnects, and I may not have the whole list, but we have the $2.5 million issue with tools and IT and Transportation and Metering; we have the Keene issue; we have, potentially, the 10 percent to the 5 percent COR issue; and we have the case of the 50 million missing dollars.

One thing I could suggest is, maybe would it make sense to have a continued hearing to give the parties a chance to have some discovery offline and come back with an aligned -- a more aligned proposal?

I just don't know if the parties will be satisfied with a Commission decision, based on the information that we have at this time.

MR. SHEEHAN: Well, given the last phrase of your statement, I'd be happy to talk with DOE and see if we can -- I guess what -- two things. One is, is there more information we could provide to answer some of the questions? And second, and separately, could DOE and the Company come to some agreement? But then, of course, the Commission would have to review that and okay, but that agreement would be based on some resolution of these issues. So, I'm always willing to talk.

CHAIRMAN GOLDNER: Attorney Dexter, any thoughts?

MR. DEXTER: Yes. I don't think there is, as you listed those, there's -- well, let me put it this way. The Keene number was calculated correctly. I point out that it got lost in the cap. And I understand that that's a reasonable interpretation of the Settlement, in fact, it's listed as a legitimate Step 2. And, if it turns out that that's the way it works, DOE is willing to live with that.

However, I did point out that a side effect of reducing the allowable projects under the cap will add teeth back to the Keene sharing adjustment, which I think is the appropriate thing.

I don't think there's any real need for further -- I mean, I would be happy to engage in settlement talks with the Company, if that's what you're recommending? Sure.

In terms of the other numbers, I think there's -- I know there's one, that there is a calculation that would help the Commission, and that is what's the revenue requirement effect of the Department's recommendation?

And I believe we have Exhibit 4, Schedule 2, in Excel version, Mr. Eckberg, is that correct?

MR. ECKBERG: Yes, I think it is.

MR. DEXTER: And we could provide, if you would like, we could put our recommendation in a list form, and run that calculation through and provide that as a record request. But I wouldn't be able to do that until maybe a week from today, if that's all right? If that's too late, then --

CHAIRMAN GOLDNER: Well, I'm just -- I'm trying to be sensitive to the Company's request for a 9/1 resolution. At the same time, I'm not sure, given the size of the disconnect, that we can get there by then. So, I'm just trying to sort through maybe the easiest way to get to -- get to closure.

I think there are many unanswered questions. I think, Attorney Dexter, that would be very helpful what you're suggesting. And I think there's probably a few more items that the Commission might ask for in addition, if there's no let's call them "additional discovery" or "settlement talks" before a continued hearing.

So, we'd -- I guess the choices are, we can talk here, and then maybe issue a procedural order with some additional requests, or the parties can come together and we can have a continued hearing, but a shortened one, out -- when appropriate.

MR. DEXTER: The other thing I wanted to say was the -- the potential discrepancy between Exhibit 3 and the Company's Annual Report is troubling. But, as I've said, I suspect that there's a reason for it. And, so, hopefully, that's a nonissue. And, in fact, it wouldn't really change our recommendation anyway, as I said, because there is no revenue sharing calculation associated with the step adjustment, it just wasn't part of this one. And I don't think it would be necessary.

So, although that's a big number, I think that's something that should be looked at, but isn't necessarily -- it doesn't have to be done before the decision is issued.

I think, at a minimum, the Department ought to provide you the quantification of our recommendation. And we will endeavor to do that by no later than a week from today. And the only reason I say that is that I'm -- why it's not tomorrow or the next day, I'm out of the office the next three days, and just can't work on this. But, by Tuesday, a week from today, we can do that.

CHAIRMAN GOLDNER: Okay. Let me confer with my fellow Commissioners for a moment.

[Chairman and Commissioners conferring.]

CHAIRMAN GOLDNER: Okay. I think we're closing in on a solution.

So, the recommendation I'd like to get

the parties' comments is that, Attorney Dexter, if you and the DOE file your recommendation by the 23rd, it would only be fair, I think, to give Liberty a chance to respond to that, maybe by the 26th. And, if we can get both of those filings, we have a fighting chance of delivering an order by the 1st, if all that were to work out. And, if we're not, then at least we can -- we can, you know, give the best opportunity we can to a September 1st ruling.

Is that acceptable to everyone?

MR. SHEEHAN: That is.

And one point I missed in the closing is to remind the Commission that you have to specifically approve those new depreciation rates, in order to follow through with the -- it's a requirement. We can't do them until you approve it. So, that's just another piece of the order.

But, as to your proposal for dates, that works. And perhaps, we can answer some of the other questions when we make those filings.

CHAIRMAN GOLDNER: Okay. Thank you. And that was clear in your filing, but thank you for pointing that out.

And, Attorney Dexter, that will be -- the depreciation piece will be part of your -- part of your recommendation?

MR. DEXTER: So, I'm not following. The "depreciation piece"?

CHAIRMAN GOLDNER: Attorney Sheehan's point on we have to approve the depreciation schedules --

MR. DEXTER: Oh, the rate, yes. Yes.

CHAIRMAN GOLDNER: You'll make a recommendation in your final -- in the filing for next Tuesday on that topic?

MR. DEXTER: Well, we would recommend that they be approved as submitted by Mr. Normand. I should have addressed that in closing as well. We don't have any dispute with the proposed rates.

CHAIRMAN GOLDNER: Okay. Then, no need for that in the additional filing.

Okay. Let's see. Is there anything else? Have we covered everything?

MR. DEXTER: I think so.

CHAIRMAN GOLDNER: All right. Very

good.

Thank you, everyone. We'll take the matter under advisement, issue an order. And we are adjourned. Thank you.

(Whereupon the hearing was adjourned at 2:39 p.m.)