NON-CONFIDENTIAL

BEFORE THE
STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. **DE 23-039**

IN THE MATTER OF: Liberty Utilities (Granite State Electric) Corp.
D/B/A Liberty
Request for Change in Distribution Rates

# DIRECT TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO NEW HAMPSHIRE DEPARTMENT OF ENERGY

DECEMBER 13, 2023

## TABLE OF CONTENTS



## LIST OF TABLES

## LIST OF ATTACHMENTS

| | |
|---|---|
| DHM-1 | Professional Experience and Education of Donna H. Mullinax |
| DHM-2 | Traditional Historical Test Year Revenue Requirements Schedules |
| DHM-3 | Multi-Year Rate Plan Revenue Requirements Schedules |
| DHM-4 | DE 23-039 Liberty Utilities 11-27-23 Revenue Requirements Update.pdf |
| DHM-5 | DOE 6.4.pdf |
| DHM-6 | DOE 8.17.pdf |
| DHM-7 | DOE 9.15.pdf |
| DHM-8 | DOE 4.13 with Public Attachment.pdf |
| DHM-9 | DOE 4.16.pdf |
| DHM-10 | DOE 10.15.pdf |
| DHM-11 | DOE 4.20.pdf |
| DHM-12 | DOE 4.18.pdf |
| DHM-13 | DOE 4.17 with Excerpts from Public Attachments_Redacted.pdf |
| DHM-14 | DOE 4.25.pdf |
| DHM-15 | OCA TS 1.10.pdf |
| DHM-16 | Excerpts from Algonquin Notice of Annual Meeting 6-20-23.pdf |
| DHM-17 | OCA 3.50.pdf |
| DHM-18 | DOE 4.38 Public.pdf |
| DHM-19 | DOE 10.8.pdf |
| DHM-20 | OCA 3.110.pdf |
| DHM-21 | OCA 5.30.pdf |
| DHM-22 | DOE 4.36 Revised.pdf |
| DHM-23 | OCA 3.105.pdf |
| DHM-24 | OCA 3.106.pdf |
| DHM-25 | DOE 4.37.pdf |
| DHM-26 | OCA 3.34.pdf |

| | |
|---|---|
| DHM-27 | OCA 5.16.pdf |
| DHM-28 | OCA 3.68.pdf |
| DHM-29 | OCA 3.5.pdf |
| DHM-30 | OCA 3.42.pdf |
| DHM-31 | OCA 5.3.pdf |
| DHM-32 | DOE 4-10.pdf |

**Introduction and Purpose**

**Q. Please state your name, occupation, and business address.**

A. My name is Donna H. Mullinax. I am President of Blue Ridge Consulting Services, Inc. ("Blue Ridge"). My business address is 114 Knightsridge Road, Travelers Rest, SC 29690

**Q. Please summarize your educational background and professional work experience.**

A. I graduated with honors from Clemson University with a Bachelor of Science in Administrative Management and a Master of Science in Management. I am a Certified Public Accountant (CPA) licensed in South Carolina, a Certified Internal Auditor (CIA), a Certified Financial Planner (CFP)—Retired, and a Chartered Global Management Account (CGMA) designation holder. I am a member of the South Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

I have over 44 years of professional experience. I have been the President of Blue Ridge since May 2016. Prior to becoming President, I held the position of Vice President and Chief Financial Officer (CFO) for 20 years for Blue Ridge and my previous employer. As Vice President/CFO, I was responsible for all aspects of finance and administration, including accounting, cash management, tax planning and preparation, fixed assets, human resources, and benefits for my current employer and my previous employer. I have also served on various Boards of Directors.

I have been a utility industry consultant for the last 30 years. My consulting assignments include numerous rate cases filed by public utilities and litigation support for various construction claims. Other project experience includes management, financial, and compliance audits, due diligence reviews, prudence reviews, and economic viability and financial studies. I have worked with public service commissions, attorneys general, and public advocates in Arizona, Colorado, Connecticut, Delaware, District of Columbia, Hawaii, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, Utah, and West Virginia.

**Q. Have you included a more detailed description of your qualifications?**

A. Yes. A description of my qualifications is included as Attachment DHM-1.

**Q. Have you previously testified before the New Hampshire Public Utilities Commission?**

A. Yes. I have testified before this Commission in Docket Nos. DE 16-383, DE 16-384, DG 17-048, DG 20-105, DW 20-184, DE 21-030, and DG 21-104. In addition, Blue Ridge has provided analysis and reported on our findings in Docket Nos. DG 17-070, DW 18-047, DW 18-054, and DW 18-056.

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

A. I am testifying on behalf of the New Hampshire Department of Energy (DOE or "Department").

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to address the revenue requirements proposed by Liberty Utilities (Granite State Electric) Corp., d/b/a Liberty Utilities ("Liberty" or "Company") and to present the effect of the Department's recommended ratemaking adjustments on the Company's revenue requirements.

## Summary of Recommended Revenue Increase

**Q. Please summarize the Company's requested revenue increase.**

A. The Company is proposing a forward-looking multi-year (three-year) rate plan with the following increases in distribution revenues and a proposal to moderate customer impact by leveling the increases to $9.25 million in each Rate Year. The deferred portion of the revenue increase would accumulate carrying charges of $768,135 at the end of Rate Year 3.[1]

**Table 1: Company's Proposed Revenue Increase**

| | Rate Year 1 | Rate Year 2 | Rate Year 3 |
|---|---|---|---|
| **Proposed Increase** | | | |
| Revenue Increase | $15.49 million | $2.64 million | $2.98 million |
| Cumulative | $15.49 million | $18.12 million | $21.10 million |
| Distribution % Change | 33.3% | 5.7% | 6.5% |
| **Levelized Increase** | | | |
| Revenue Increase | $9.25 million | $9.25 million | $9.25 million |
| Cumulative | $9.25 million | $18.49 million | $27.77 million |
| Distribution % Change | 20.1% | 20.1% | 20.1% |

**Q. What Revenue Increase does the Department recommend?**

A. As discussed in the testimonies of Elizabeth Nixon and Nicholas Crowley, the Department does not support the Company's proposed multi-year rate plan. The

[1] Direct Testimony of K. Jardin and D. Dane at 5:6–7:4 (Bates II-273–II-275).

Department's recommended revenue requirement calculation uses the historical Test Year ended December 31, 2022, adjusted for known and measurable change. The Department's recommends a Step Increase with several caveats. The Department's recommended revenue increase based upon the Company's update filed on November 27, 2023, and the Department's Step adjustment is summarized in the following table.

**Table 2: Department Recommended Revenue Deficiency with Step Adjustment**

| | |
|---|---|
| Company's Updated Revenue Deficiency | $ 10,378,758 |
| Recommended Adjustment | (8,336,858) |
| Recommended Revenue Deficiency | $ 2,041,900 |
| Step Adjustment | 2,447,915 |
| Total with Step Adjustment | $ 4,489,815 |

The following table summarizes the Department's recommended adjustments to support the Department's recommended change in revenues.

**Table 3: Summary of The Department's Recommended Adjustments and the Effect on Rate Base, Operating Income, and Revenue Deficiency**

| | |
|---|---|
| Recommended Rate of Return | 7.61% |
| Revenue Conversion Factor | 1.36846 |

| | | Rate Base | Operating Income | Revenue Deficiency (Sufficiency) |
|---|---|---|---|---|
| | Company Updated Proposal | **$ 187,977,587** | **$ 8,244,384** | **$ 10,378,758** |
| Adjustment 1 | Plant in Service | $ (16,318,774) | $ 374,116 | $ (2,211,586) |
| Adjustment 2 | Regulatory Assets and Liabilities | (41,349) | - | (4,307) |
| Adjustment 3 | Cash Working Capital | 25,883 | | 2,696 |
| Adjustment 4 | Revenues | | 1,595,581 | (2,183,484) |
| Adjustment 5 | Payroll | | 681,630 | (932,781) |
| Adjustment 6 | LTIP and ESPP | | 49,779 | (68,121) |
| Adjustment 7 | Severance | | 86,707 | (118,655) |
| Adjustment 8 | SERP | | 18,719 | (25,616) |
| Adjustment 9 | D&O Liability Insurance | | 9,434 | (12,911) |
| Adjustment 10 | Outside Legal Expense | | 15,643 | (21,407) |
| Adjustment 11 | Advertising | | 11,687 | (15,994) |
| Adjustment 12 | Sponsorships | | 6,278 | (8,591) |
| Adjustment 13 | Vegetation Management | | (220,963) | 302,378 |
| Adjustment 14 | Depreciation Reserve Imbalance | | 778,932 | (1,065,935) |
| Adjustment 15 | Interest Synchronization | | (75,126) | 102,807 |
| | Uncollectible Expense | | | (29,973) |
| | Impact of Recommended Cost of Capital | | | (2,045,382) |
| | Rounding | | (1) | 3 |
| | Recommend Adjustments | **$ (16,334,239)** | **$ 3,332,417** | **$ (8,336,858)** |
| | Recommended Totals | **$ 171,643,348** | **$ 11,576,800** | **$ 2,041,900** |

**Organization of Testimony**

**Q. Are you sponsoring any exhibits as part of your testimony?**

A. Yes. Besides my qualifications already mentioned as Attachment DHM-1, Attachment DHM-2 includes the Department's "Traditional Historical Test Year Revenue Requirements" schedules, Attachment DHM-3 includes the "Multi-Year Revenue Requirements" schedules, and Attachments DHM-4 through DHM-32 are copies of selected documents I refer to in my testimony.

**Q. How are your revenue requirement schedules organized?**

A. The Department's revenue requirement schedules, included in Attachments DHM-2 and DHM-3, are organized into summary schedules and adjustment schedules. The schedules consist of Schedules 1, 1.1, 1.3, 2, 3, 4, 5, adjustment-supporting schedules beginning with Schedule 5.1, and Schedule 6.

**Q. What is shown on Schedule 1?**

A. Schedule 1 is a summary comparison of the Company's and the Department's computations of the revenue requirement and the revenue deficiency. The schedule summarizes the impact of all the Department's adjustments and reflects the revenue requirement needed for the Company to have the opportunity to earn the Department's rate of return on the Department's rate base.

**Q. Did the Department have to make an inference to the presentation of the Company's position on Schedule 1 when it developed the Traditional Historical Test Year revenue requirements?**

A. Yes. The Company's revenue requirement and all supporting workpapers presented a multi-year rate plan. The Department does not support the Company's proposed multi-year rate plan. To present an appropriate comparison of the Department's recommendation and the Company's position, the Traditional Historical Test Revenue Requirement Schedule 1, shows the Company's Adjusted Test Year 2023 balances and an Inferred Company Adjusted Test Year balance. The Department modified the Company's Adjusted Test Year revenue requirement to use the 2023 weighted average cost of capital[2] and the 2023 gross-up factor for taxes.[3]

**Q. What is shown on Schedule 1.1?**

A. Schedule 1.1 presents the calculation of the gross revenue conversion factor (GRCF). The GRCF grosses up the Income Deficiency amount to account for the necessary tax increase and expected uncollectibles to realize the total Revenue Deficiency amount. The conversion reflects that the Company must collect more than one dollar in gross revenue for each dollar of net operating income because of the imposition of taxes on those earnings.

---

[2] 2022 Weighted Average Cost of Capital reflects 2022 average capitalization with a long-term debt cost of 5.97% and return on equity of 9,.10%. The Company's 2023 Weighted Average Cost of Capital modified the average capitalization and cost of long-term debt and return on equity.

[3] 2022 Gross-Up for Income Taxes reflects a NH Business Profits Tax Rate of 7.60%. The rate was changed to 7.50% in 2023.

**Q. What is shown on Schedule 1.2?**

Schedule 1.2 presents the calculation uncollectible expense factor used to calculate the uncollectible expense associated with the calculated revenue increase/decrease.

**Q. What is shown on Schedule 2?**

A. Schedule 2 presents the Company's historical test year rate base and the Department's adjustments used to derive the Department's rate base. I address the Department's adjustments separately in my testimony.

**Q. What is shown on Schedule 3?**

A. Schedule 3 presents the Company's proposed test year net operating income and the Department's adjustments used to derive the Department's net operating income. The Department's adjustments are presented separately in my testimony.

**Q. What is shown on Schedules 4 and 4.1?**

A. Schedule 4 summarizes the capital structure and cost of capital proposed by the Company and the capital structure and cost of capital supported by the Department's witness Zhen Zhu that was used to derive the weighted average cost of capital or rate of return. Schedule 4.1 isolates the impact on the revenue deficiency for the difference between the Company's proposed rate of return and the Department's rate of return.

**Q. What is shown on Schedule 5 and supporting schedules beginning with 5.1?**

A. Schedule 5 summarizes the Department's adjustments to rate base and net operating income (i.e., revenues less expenses). The supporting schedules beginning with Schedule 5.1 provide further support and calculations for the Department's adjustments.

**Q. What is shown on Schedule 6?**

A. Schedule 6 summaries the Department's Step Increase.

**<u>Establishment of Current Base Rate Revenue Requirement</u>**

**Q. When was the Company's current Distribution bae rate revenue requirement established?**

A. Liberty's current rates were established in Order No. 26,376 (June 30, 2020), based on a test year for the 12 months ended December 31, 2018, effective for service rendered on and after July 1, 2020. The current rates were the result of a Settlement, resulting in an increase in Distribution revenues of $4.15 million. The rate change was followed by three additional step adjustments: for capital additions as of December 31, 2019—an increase of $1.4 million; for Capital additions as of December 31, 2020—an increase of $1.8 million; and for Capital additions as of December 31, 2021—an increase of $1.8 million.[4]

[4] DE 16-383, Order No. 26,242 (April 30, 2019), page 1.

**<u>Company's Requested Revenue Increase</u>**

**Q. What revenue increase was requested by the Company?**

A. The Company is proposing a forward-looking multi-year (three-year) rate plan. The revenue increase from the Company's initial filing and the Company's November 27, 2023, update is summarized in the following table.[5]

**Table 4: Company's Proposed Revenue Increase: Initial Filing and 11/27/23 Update**

| (in millions) | Rate Year 1 2023–2024 | Rate Year 2 2024–2025 | Rate Year 3 2025–2026 |
|---|---|---|---|
| **Initial Filing** | | | |
| Proposed Increase | $ 15.49 | $ 2.64 | $ 2.98 |
| Cumulative | $ 15.49 | $ 18.12 | $ 21.10 |
| **11/27/23 Update** | | | |
| Proposed Increase | $ 15.20 | $ 2.42 | $ 2.90 |
| Cumulative | $ 15.20 | $ 17.62 | $ 20.52 |

The update also reflects a change in the Company's proposal to moderate customer impact by leveling the increases to $9.02 million in each Rate Year. The deferred portion of the revenue increase would accumulate carrying charges of $758,276 at the end of Rate Year 3.[6]

**Q. What changes did the Company make to its updated revenue requirement filing?**

A. On November 27, 2023, the Company modified its revenue requirement schedules to "reflect updates to the revenue requirements that the Company identified during discovery and audit processes."[7] The Company provided a summary of the 25 changes

[5] Direct Testimony of K. Jardin and D. Dane at 5:6–7:4 (Bates II-273–II-275) and Liberty's November 27, 2023, Updated Revenue Requirements (Attachment DHM-4).
[6] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-1.2 (Attachment DHM-4).
[7] Liberty's November 27, 2023, Updated Revenue Requirements Cover Letter (Attachment DHM-4).

that it made to the revenue requirement schedules. The changes included changes from 11 audit findings and 14 changes identified during discovery.

**Q. Does the Department agree with the revision the Company made to its revenue requirement?**

A. The Department did not have sufficient time between when the Company filed its updated revenue requirements and when testimony was due to assess whether the Company addressed the numerous issues raised in the Audit Report and during discovery.

**<u>Test Year</u>**

**Q. What Test Year has the Company proposed in this case?**

A. The Company has based its request for a revenue increase on a test year ending December 31, 2022 ("Test Year").[8]

**Q. Did the Company adjust its historical Test Year?**

A. Yes, the Company stated that it began with the Company's financial results in the Test Year (i.e., the 12-months ending December 31, 2022). From those results, the Company removed flow-through items (e.g., purchased power and transmission wheeling revenues and expenses), and made pro forma known and measurable adjustments. The resulting Test Year pro forma net operating income reflects normalized revenues at current rates, expenses, and net operating income for ratemaking purposes.[9]

[8] Direct Testimony of K. Jardin and D. Dane at 4:9–13 (Bates II-272).
[9] Direct Testimony of K. Jardin and D. Dane at 8:11–17 (Bates II-276).

**Q. Did the Department use the same historical Test Year as the Company?**

A. Yes. The Department's calculations use the same historical 12 months ended December 31, 2022, for the Test Year.

**Q. Did The Department audit the Company's historical Test Year results?**

A. Yes. The Department's auditors conducted an audit of the historical financial results. The Department auditors identified numerous adjustments that should be made to the Company's filings.

**Q. Does the Department support the Company's use of a multi-year rate plan?**

A. No. As discussed in the testimonies of Elizabeth Nixon and Nicholas Crowley, the Department does not support the Company's proposed multi-year rate plan nor the proposed increases for the rate years ending June 30, 2024 ("Rate Year 1"), June 30, 2025 ("Rate Year 2"), and June 30, 2026 ("Rate Year 3").

**Q. How does the Department recommend calculating revenue requirements?**

A. The Department recommends calculating revenue requirements using the historical Test Year ended December 31, 2022, adjusted for known and measurable change.

**Q. Please describe the Department's presentation regarding its revenue requirement calculations.**

A. The Department provides two revenue requirement calculations. The Department's recommended revenue requirement calculation uses the historical Test Year ended December 31, 2022, adjusted for known and measurable changes, and identified as "Traditional Historical Test Year Revenue Requirements" with supporting schedules in Attachment DHM-2. Should the Commission decided to approve the Company's multi-year rate plan methodology, the Department has reluctantly provided a revenue requirement calculation identified as "Multi-Year Revenue Requirements" with supporting schedules in Attachment DHM-3.

<u>**Traditional Historical Test Year Revenue Requirements**</u>

**Q. Did the Company provide a proposed revenue increase using the Traditional Historical Test Year Revenue Requirements adjusted for known and measurable changes?**

A. Indirectly. The Company's multi-year rate plan began with the actual Test Year (12-months ended December 31, 2022) and made various pro forma adjustments to develop the Adjusted Test Year. The Company's Updated Adjusted Test Year revenue increase of $8,302,870 did not reflect the Company's proposed weighted average cost of service or known and measurable changes effective in 2023.

**Q. Did the Department use the Company's updated Adjusted Test Year Revenue Requirements as its starting point for the Department's recommendation?**

A. Yes. The Company's updated Test Year revenue requirement and information provided in the Company's Multi-Year Rate Plan Revenue Requirements was the only data available.

**Adjustments to Rate Base**

**Q. What is included in the Company's Adjusted Test Year rate base?**

A. The Company's Test Year rate base is comprised of (1) utility plant in service as of December 31, 2022, including the amount in Federal Energy Regulatory Commission (FERC) account 106, Completed Construction not Classified, net of accumulated depreciation, (2) the 13-month average balance in supplies and inventory, (3) the 13-month average of prepaid expenses, (4) an allowance for cash working capital, (5) a deduction for the 13-month average balance of customer deposits, (6) regulatory assets and liabilities, (7) a deduction for accumulated deferred income taxes (ADIT), and (8) a rate base adjustment per Docket No. DG 11-040. The Adjusted Test Year rate base was calculated to be $187,944,145.[10] In November 27, 2023, the Adjusted Test Year rate base was revised to $187,977,587.[11]

**Q. Is the Department proposing any adjustments to the Company's proposed rate base?**

A. Yes. The Department proposes the adjustments to the following rate base items.

- Plant in Service

[10] Direct Testimony of K. Jardin and D. Dane at 10:3–13 (Bates 11-278).
[11] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-4 (Attachment DHM-4).

- Regulatory Assets and Liabilities
- Cash Working Capital

*Plant in Service*

**Q. What plant-in-service balance is included in the Company's rate request for the Adjusted Test Year?**

A. The Company's Adjusted Test Year balance for net plant is based on the year ended December 31, 2023, balances as shown in the following table.

**Table 5: Plant in Service as of 12/31/2022**

| | | |
|---|---|---|
| Plant in Service | $ | 349,877,082 |
| Accumulated Depreciation | | (123,212,283) |
| Net Plant | $ | 226,664,799 |

**Q. Please explain the Department's recommended adjustment to Plant in Service.**

A. The Department's overall adjustment to Plant in Service includes the individual adjustments that are supported by the testimony of the Department witness Jay Dudley.

**Q. What is the effect of the Department's recommended adjustments to Plant in Service?**

A. The effect of these plant adjustments and the associated adjustment to the accumulated depreciation and a placeholder for accumulated deferred income taxes *reduces* rate base by $16,318,774. The adjustments to Plant in Service will also *reduce* depreciation expense by $523,809. The Department's recommended adjustment is presented on Schedule 5.1.

***Regulatory Assets and Liabilities***

**Q. What regulatory assets and liabilities has the Company included in rate base?**

A. The Company included the following regulatory assets and liabilities in its rate request.

**Table 6: Regulatory Assets and Liabilities**

| | Amount |
|---|---|
| Battery Storage Regulatory Asset | $ 280,455 |
| DOE OCA Consultants Regulatory Asset | 220,982 |
| Lost Revenue Adjustment Mechanism Regulatory Liability | (460,088) |
| | $ 41,349 |

The Company stated the Battery Storage Regulatory Asset reflects costs incurred by the Company to hire an evaluation, measurement, and verification consultant to assess a battery storage pilot in Docket No. 11 DE 17-189. The second regulatory asset reflects costs incurred by the Company for consultants hired by the Commission, the Department of Energy, and the Consumer Advocate. The regulatory liability relates to the Lost Revenue Adjustment Mechanism which is designed to compensate the Company for lost revenue due to the installation of energy efficiency measures by customers resulting in lower kilowatt-hour sales/revenues. The Lost Revenue Adjustment Mechanism due to Energy Efficiency ended when the Company implemented Revenue Decoupling; however, amounts remain from billing adjustments when the LRAM rate was in effect.[12]

**Q. Has the Company reflected amortization of the regulatory assets and liabilities in the Adjusted Test Year?**

[12] Direct Testimony of K. Jardin and D. Dane at 14:7–19 (Bates II-282).

A. No. The Company's proposal does not include amortization of these regulatory assets and liabilities in the Adjusted Rate Year. The Company included the full amortization of these regulatory assets and liabilities in Rate Year 1.

**Q. What does the Department recommend?**

A. Based on the analysis and testimony of Department witnesses Elizabeth Nixon and Mark Toscana, the Department has removed the Battery Storage and the DOE OCA Consultants Regulatory Assets and the Lost Revenue Adjustment Mechanism Regulatory Liability from rate base. As shown on Schedule 5.2, rate base is *reduced* by $41,349.

***Cash Working Capital***

**Q. Please explain The Department's recommended Cash Working Capital adjustment.**

A. The Department's adjustment to Cash Working Capital updates the revenue and expense components of the Company's lead-lag study to reflect the Department's adjustments that are discussed within this testimony. As shown on Schedule 5.3, the Department's adjustment to Working Capital *increases* jurisdictional Rate Base by $25,883.

**Q. Please explain the Department's adjustment to update the revenue and expense components of the Company's lead/lag study to reflect the Department's adjustments.**

A. Cash Working Capital was developed through the preparation of a lead-lag study. The lead-lag is applied to each component of the cost of service to quantify the cash working capital requirement associated with that cost-of-service item. The Cash Working Capital balance must be updated to reflect the Department's adjustments.

***Impact of Rate Base Adjustments***

**Q. What is the impact of the Department's recommended adjustments to the Company's requested rate base?**

A. The Company's updated requested rate base was $187,977,587. The Department's recommended adjustments *reduce* the rate base to $171,643,348.

## Adjustments to Operating Income

**Q. What net operating income has the Company proposed?**

A. The Company originally proposed an Adjusted Test Year operating income of $8,056,552.[13] The Adjusted Test Year rate base was revised to $8,244,384.[14]

**Q. Is the Department proposing any adjustments to the Company's proposed operating income?**

A. Yes. The Department is recommending adjustments to the following operating income components:

- Revenue
- Payroll
- Long Term Incentive Comp (LTIP) and Employee Stock Purchase Plan (ESPP)

[13] Liberty's Initial Filing, Attachment KMJ/DSD-1, Schedule RR-2 (Bates II-308).
[14] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-4 (Attachment DHM-4).

- Severance
- Supplemental Executive Retirement Plan (SER)
- Directors and Officers (D&O) Liability Insurance
- Outside Legal Expenses
- Advertising Expense
- Sponsorships
- Vegetation Management
- Depreciation Reserve Imbalance
- Interest Synchronization

***Revenue***

**Q. Please discuss the Department's adjustment to Revenues.**

A. The Company acknowledged that the 2022 revenue included in its rate request was understated and that the 2022 revenues should be $2,129,170 higher than what was included in the Company's application.[15] The amount that 2022 revenues was understated was subsequently changed during discovery to $2,133,063.[16] The Department expected to see this correction in the Company's November 27, 2023, update but did not see it. Therefore, the Department's adjustment reflects this correction to Adjusted Test Year revenues. As shown on Schedule 5.4, revenues were *increased* by $2,133,063.

[15] Liberty's response to DOE 6-4 (Attachment DHM-5) and DOE 8-17 (Attachment DHM-6).
[16] Liberty's response to DOE 9-15 (Attachment DHM-7).

***Payroll Expense***

**Q. What is the Company requesting regarding Payroll Expense?**

A. The Company reported total salaries and wages in the Test Year of $4,916,416. The amount was adjusted to $5,799,709 (17.966% increase) for the Adjusted Test Year.[17]

**Q. Please explain the 17.966% increase to actual Test Year Payroll Expense.**

A. The Company stated the adjustment reflects the annual cost of the normalized complement of Liberty employees as of December 31, 2022, including wage increases and labor costs for vacancies actively being recruited for during the Test Year.[18] The Company added the wages and salaries of 47 open positions and four new positions to the actual wages and salaries of the 135 filled positions[19] to create a full complement of employees in the Adjusted Test Year.

**Q. In recent years, has the Company had a full complement of employees?**

A. No. The Company has not had a full complement of employees in recent years. As shown in the following table, between 2019 and July 2023,[20] the Company has averaged between 78% to 96% of its budgeted number of employees, with the Test Year reporting 96% of its budgeted full complement.

---

[17] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-3.4 (Attachment DHM-4).
[18] Direct Testimony of K. Jardin and D. Dane at 19:5–9 (Bates II-287).
[19] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-3.4 and RR-3.5 (Attachment DHM-4) and Liberty's response to DOE 4-13.a Confidential Attachment 23-039 DOE 4-13.a (Attachment DHM-8).
[20] Attachment DHM-3, Table and Chart derived from Liberty's response to DOE 4-16 (Attachment DHM-9).

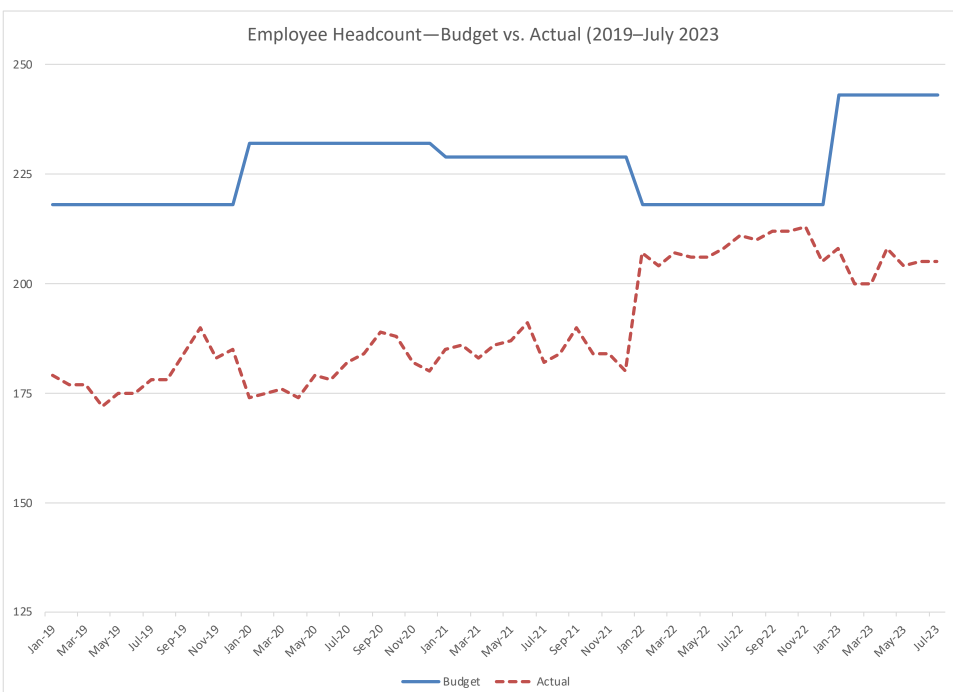
**Table 7: Employee Headcount Budget vs. Average Actual (2019–July 2023)**

| | Union | Non-Union | Total | % Actual to Budget |
|---|---|---|---|---|
| 2019-Budget | 96 | 122 | 218 | |
| 2019-Average Actual | 78 | 101 | 179 | |
| Difference | (18) | (21) | (39) | 82% |
| 2020-Budget | 83 | 149 | 232 | |
| 2020-Average Actual | 79 | 101 | 180 | |
| Difference | (4) | (48) | (52) | 78% |
| 2021 Budget | 89 | 140 | 229 | |
| 2021-Average Actual | 77 | 109 | 185 | |
| Difference | (12) | (32) | (44) | 81% |
| 2022 Budget | 89 | 129 | 218 | |
| 2022-Average Actual | 74 | 135 | 208 | |
| Difference | (15) | 6 | (10) | 96% |
| 2023 Budget | 89 | 154 | 243 | |
| 2023-Average Actual | 70 | 135 | 204 | |
| Difference | (19) | (19) | (39) | 84% |

*Derived from DOE 4-16a*

The following chart shows the annual budget versus the actual monthly employee head count from 2019 through July 2023.

**Figure 1: Employee Headcount Budget vs. Actual (2019–July 2023)**



**Q. What conclusion does the Department draw from the historical budget versus actual employee headcount?**

A. Based on recent history, it is unlikely that the Company will have a full complement of its budgeted employees in the future, and ratepayers should not be asked to fund labor costs for an unlikely level.

**Q. Does the Department have additional concerns regarding the Company's assumption of a full complement of employees?**

A. Yes. The Company has included the annual cost associated with 47 open positions. To the extent the duties of the vacated positions were performed by temporary help, the cost associated with nonpermanent workers would be reflected in the test year as an outside services expense.[21] If the Company incurred overtime expense to perform the duties associated with any vacant position, the incremental cost would be reflected in Test Year payroll expense.

**Q. If the Company has included the costs associated with temporary labor and/or overtime to perform the duties of vacant positions, along with its adjustment to assume a full complement of employees, is the Company over-recovering its expenses?**

A. Most likely, it is. The Test Year expenses include overtime and costs associated with temporary labor recorded as outside services. By adjusting Test Year payroll expense to reflect a full complement of employees and including the temporary and/or overtime

[21] Liberty's response to DOE 4-16.d (Attachment DHM-9).

costs to fulfil the requirements for the positions that were vacant, the Company is likely double recovering on the duties that were performed associated with the vacant positions.

**Q. Have the 47 open positions been filled?**

A. No. As of October 13, 2023, 19 of the 47 open positions were still unfilled. The positions have been open from 289 to 376 days.[22]

**Q. What is the Department's recommendation regarding using a full complement of employees.**

A. The Department recommends that the Commission reject the use of a full complement of employees. It is not reasonable to expect that every vacated position during a normal year will be filled seamlessly. There will always be vacancies.

**Q. Has the Commission issued an order on the use of vacancies in forecasted payroll expense?**

A. Yes. The Commission recognized that vacancies should be accounted for when calculating payroll when it ruled on the appropriateness of setting payroll costs using a full employee complement in Order No. 26,122 in Docket No. DG 17-048, Liberty's 2017 gas rate case:

> The Commission prefers a more traditional approach where a utility develops a reasonable test year payroll amount and then applies known and measurable percentage payroll increases to that normalized test year amount . . . Vacancies are a fact of doing business and should be accounted for when calculating a payroll figure for ratemaking purposes

[22] Liberty's response to DOE 10-15 (Attachment DHM-10).

> that includes a level of employees that is adjusted beyond the test year, as is the case here."[23]

**Q. How did the Department develop its recommended Payroll expense?**

A. The Department's Payroll expense adjusts *actual* Test Year payroll expense for the known and measurable merit increases in 2023. The Department's adjustment reflects the known and measurable 2023 merit increase of 4.0% for non-union employees[24] and the 2023 merit increases reflected in union contracts.[25] As shown on Schedule 5.5, payroll expense was *reduced* by $844,936.

**Q. Did the Department also adjust Payroll Taxes?**

A. Yes. Payroll Taxes were *reduced* by $95,913 as shown on Schedule 5.5 to reflect the changes recommended for Payroll Taxes.

***Incentive Compensation Plans***

**Q. Please describe the Incentive Compensation Plans reflected in the Company's test year.**

A. This list includes bonus and incentive programs available to Company officers and employees:

1. Shared Bonus Pool Plan (SBP): All employees of the Company who are employed in a non-leadership position grade 1−6 on a regular, full-time, or part-time basis on or before September 30 of the plan period

[23] Docket No. DG 17-048, Order No. 26,122 at page 11.
[24] Liberty's response to DOE 4-20 (Attachment DHM-11).
[25] Liberty's response to DOE 4-18 (Attachment DHM-12) and DOE 4-17 with Confidential Attachments (DHM-13).

2. Short Term Incentive Plan (STIP): All employees of the Company who are employed in a leadership position grade 7 or above on a regular full-time or part-time basis on or before September 30 of the plan period
3. Long Term Incentive Plan (LTIP): Leadership level position (grades 10 and above) on a regular/permanent full-time basis are eligible for LTIP
4. Employee Stock Purchase Plan (ESPP): Open to all employees who qualify for other Company benefits[26]

**Q. How does the Company determine whether payouts are made under each bonus program?**

A. Awards for the STIP and SBP plans are determined based on results measured against a Corporate Scorecard.[27]

**Q. What type of goals and objectives does the 2022 Corporate Scorecard incentivize?**

A. The 2022 Balanced Scorecard measures the results of three primary business objectives: (1) Operational Excellence, (2) Growth with Strong Balance Sheet, and (3) Sustainability. The 2022 objectives and goals along with weightings are listed below.[28]

[26] Liberty's response to DOE 4-25 (Attachment DHM-14).
[27] Liberty's response to OCA TS 1-10.c (Attachment DHM-15).
[28] Liberty's response to DOE 4-25.d (Attachment DHM-14).

**Table 8: 2022 Corporate Scorecard**

| Goals | Weight |
|---|---|
| **Operational Excellence** | |
| Safety | |
| OHSA Recordable Incident | 15.0 |
| Reliable Service | |
| Electric: SAIFI Rate | 2.5 |
| Gas: Gas Leak Response Time | 2.5 |
| Water: Unplanned Water Disruption | 2.5 |
| Renewables: Operational Perf Index | 2.5 |
| Customer Expectations | |
| Customer Satisfaction–J.D. Power | 7.5 |
| Customer First Program Delays | 7.5 |
| | 40.0 |
| **Growth with Strong Balance Sheet** | |
| Meet Earnings per Share | 15.0 |
| Meet EPS Growth Target | 12.5 |
| Funds from Operations/Debt Ratio | 12.5 |
| | 40.0 |
| **Sustainability** | |
| Environmental–Renewable Projects | 10.0 |
| Social–Women in Leadership Roles | 5.0 |
| Governance–Compliance Framework | 2.5 |
| Governance–Cybersecurity Risk Mgmt. | 2.5 |
| | 20.0 |
| Total | 100.0 |

**Q. Is the Department recommending an adjustment to the STIP and Shared Bonus Pool reflected in the Test Year?**

A. No. The Scorecard metrics appropriately balance the interests of ratepayers, employees, and shareholders.

**Q. Please describe the Company's LTIP.**

A. The Long-Term Incentive Plan (LTIP), or the Performance and Restricted Share Unit Plan, compensates executive employees for the achievement of corporate objectives in the form of performance and restricted share units tied to the value of the Company's stock at the end of the year preceding the award.[29]

**Q. What goals must be meet before an LTIP award is made?**

A. The LTIP performance share units were awarded based on performance achieved from January 1, 2020, to December 31, 2022, that had the following goals.[30]

**Table 9: LTIP Award Performance Goals**

| Goals | Weight |
|---|---|
| **Average Efficiency Achievement over three years** | 85% |
| 2020 Goals | |
| Targeted Cash Flow (Operating Profit) | |
| Targeted Earnings (Net Profit) | |
| 2021 Goals | |
| Targeted Operating Performance | |
| Targeted EPS Growth | |
| Targeted FFO/Debt Ratio | |
| 2022 Goals | |
| EPS | |
| EPS Growth | |
| Funds from Operations (FFO) to Total Debt Ratio | |
| **Safety—OSHA Recordable Incident Rate** | 10% |
| **Customer Service** | 5% |
| Total | 100% |

*Source: Algonquin Notice of Annual Meeting 6/20/23 p. 62 and DOE 4-25.d*

**Q. What does the Department recommend regarding the LTIP?**

A. The LTIP awards are heavily weighted to goals that benefit shareholders. The Company's LTIP, in the words of the parent company, Algonquin Power & Utilities Corp., "is intended to incentivize and reward behaviour that creates long-term value for Shareholders by aligning the interests of executives with long-term Shareholder

[29] Liberty's response to DOE 4-25 Attachment c.6 (Attachment DHM-14).
[30] Excerpt from Algonquin Notice of Annual Meeting June 20, 2023, page 62 (Attachment DHM-16) and Liberty's response to DOE 4-25d (Attachment DHM-14)

interests." The LTIP compensation is in the form of performance and restricted share units tied to the value of the Company's stock. The realization of the common stock value is dependent on "the achievement of performance-vesting criteria and share price growth."[31]

The LTIP rewards behavior that promotes the interest of shareholders. The Department recommends that all the costs of the LTIP included in the Company's rate request be transferred to shareholders. As shown on Schedule 5.6, the Company included LTIP expense of $57,273 in the Adjusted Test Year amount, which reflects the Test Year amount escalated by the O&M Labor Escalator of 17.966%.[32] The escalated portion of LTIP was included in the Department's recommended adjustment to Labor costs. To avoid removing these costs twice, the Department's adjustment removes the Test Year amount of $48,550 from A&G.

**Q. Please discuss the Employee Stock Purchase Plan.**

A. The Employee Stock Purchase Plan (ESPP) is a voluntary program that allows employees to purchase Algonquin Power & Utilities Corp. stock. An employee can contribute up to $10,000 annually. For contributions up to $5,000 each year, the Company adds 20% (or up to $1,000) to the employees' account. For contributions over $5,000 and up to $10,000 each calendar year, the Company adds 10% (or up to $500) to the employee's account.[33]

[31] Excerpt from Algonquin Notice of Annual Meeting June 20, 2023, page 58 (Attachment DHM-16).
[32] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-2.10, line 12 (Attachment DHM-4) and Liberty's response to OCA 3-50 (Attachment DHM-17).
[33] Liberty's response to DOE 4-25.c, Attachment 23-903 DOE 4-25.c.6 (Attachment DHM-14).

**Q. What is the Department's recommendation regarding the costs associated with the ESPP?**

A. The Department recommends disallowing ESPP costs. The program is essentially forcing ratepayers to buy parent company stock for employees. In addition, it is a voluntary program that is not influenced by performance and is not necessary for the provision of service. As shown on Schedule 5.6, the Company included ESPP expense of $24,093 in the Adjusted Test Year, which reflects the Test Year amount escalated by the O&M Labor Escalator of 17.966%.[34] The escalated portion of ESPP was included in the Department's recommended adjustment to Labor costs. To avoid removing these costs twice, the Department's adjustment removes the Test Year amount of $20,424 from A&G

***Severance***

**Q. Please describe the severance expense reflected in the Company's rate request.**

A. The Company includes $118,807 of severance expense in the Test Year. The payments were made to three individuals: one employee was part of a layoff, one employee was being terminated and decided to retire and received salary continuance for the duration of the retirement process, and one employee was terminated.[35] The $118,807 was escalated by the Company's O&M Labor Escalator of 17.966% to calculate the Adjusted Test Year amount of $140,152.[36]

[34] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-2.10, line 134 (Attachment DHM-4) and Liberty's response to OCA 3-50 (Attachment DHM-17).
[35] Liberty's responses to DOE 4-38 Public (Attachment DHM-18) and DOE 10-8 (Attachment DHM-19).
[36] Liberty's responses to DOE 4-38 Public (Attachment DHM-18) and OCA 3-110 (Attachment DHM-20).

**Q. Does the Company have plans to eliminate any positions in the rate years?**

A. No. The Company stated that it included "a representative level of severance expense in the revenue requirement based on its historical experience."[37]

**Q. If the Company's inclusion of severance is based on historical experience, what severance has the Company paid in prior years?**

A. The following table summarizes the severance paid over the past five years and the reason for the payment. [38]

**Table 10: Severance (2018–2022)**

| Period | Amount | Reason |
|---|---|---|
| 2018 | None Paid | |
| 2019 | None Paid | |
| 2020 | $ 15,776 | 2 Terminations |
| 2021 | $ 36,425 | 4 Terminations |
| 2022 | $ 118,807 | 2 Terminations, 1 Layoff |
| Average | $ 57,003 | |

*Source: DOE 4-38, DOE 10-8, and OCA 3-110*

The Company's justification to include $140,152 for severance in the Adjusted Test Year based on "historical experience" is not consistent with the historical average of $34,202.

**Q. Does the Department recommend an adjustment for severance expense?**

A. Yes, in addition to the concern that the included amount is inconsistent with the historical experience, most of the severance paid is in connection with terminations. Consistent with its recommendation in DG 17-048, in which the Commission agreed, the Department recommends excluding severance paid to employees who were terminated.

[37] Liberty's response to OCA 5-30 (Attachment DHM-21).
[38] Liberty's responses to DOE 4-38 Public (Attachment DHM-18), DOE 10-8 (Attachment DHM-19), and OCA 3-110 (Attachment DHM-20).

Ratepayers have already borne the costs of paying all the Company's employees to perform. If circumstances are such that employees are being terminated, shareholders should carry the cost of bad hiring decisions, and if the least cost means of removing employees is severance pay, the Company should take that course to reduce its costs to shareholders. Ratepayers should not bear the costs to remove an underperforming employee. The Commission agreed with Staff in its ruling:

> The Commission is persuaded by Staff's position that ratepayers should bear the expense of payroll for services provided, but should not bear severance costs related to employees who resign to avoid being fired. Layoffs (where Staff did not recommend disallowance of related severance pay) could involve reductions in work force where the saved payroll expense would find its way into lower rates. Involuntary resignations, on the other hand, may involve subpar performance, and customers should not be required to bear an underperforming employee's payroll and the severance cost incurred to remove that same employee.[39]

For these reasons, the Department recommends disallowing severance expense. As shown on Schedule 5.7, the Company included Severance expense of $140,152 in the Adjusted Test Year amount, which reflects the Test Year amount escalated by the O&M Labor Escalator of 17.966%.[40] The escalated portion of severance was included in the Department's recommended adjustment to Labor costs. To avoid removing these costs twice, the Department's adjustment removes the Test Year amount of $118,807 from A&G.

[39] DG 17-048, Order No. 26,122 (April 27, 2018), page 13.
[40] Liberty's response to DOE 4-38 Public (Attachment DHM-18) and OCA 3-110 (Attachment DHM-20).

***Supplemental Executive Retirement Plan (SERP)***

**Q. Please explain the Company's Supplemental Executive Retirement Plan (SERP).**

A. When the Department asked for the level of SERP expenses, by account, included in the Company's cost of service for the test year, the Company responded, "There is no SERP expense at this Company level."[41] However, when a similar question was posed by OCA asking for the amount of SERP included in the adjusted test year and each of the rate years, the Company stated that it allocated a portion of its parent company's SERP through the allocation process. The $25,649 in the Test Year was escalated by the Company's O&M Labor Escalator of 17.966% to calculate the Adjusted Test Year amount of $30,257.[42]

**Q. What employees are eligible for SERP?**

A. There were eleven active C-Suite Executives of the parent company eligible for SERP in 2022. SERP is not available to any other employees.[43]

**Q. What does the Department recommend regarding SERP?**

A. The Department recommends that SERP should be removed from cost of service. This recommendation means that ratepayers would pay for the C-Suite executive benefits included in the Company's <u>regular</u> pension plan and shareholders will pay for the additional executive benefits included in the supplemental plans. For ratemaking purposes, shareholders should bear the additional costs associated with supplemental benefits to highly

[41] Liberty's response to DOE 4-36 (Attachment DHM-22).
[42] Liberty's response to OCA 3-105 (Attachment DHM-23).
[43] Liberty's response to OCA 3-106 (Attachment DHM-24).

compensated executives, since these costs are not necessary for the provision of utility service but are instead discretionary costs to attract, retain, and reward already highly compensated executives. The SERP is exclusive to the eleven C-Suite Executives, and the funding of this benefit should not be borne by the ratepayers. As shown on Schedule 5.8, the Company included SERP expense of $30,257 in the Adjusted Test Year amount, which reflects the Test Year amount escalated by the O&M Labor Escalator of 17.966%.[44] The escalated portion of SERP was included in the Department's recommended adjustment to Labor costs. To avoid removing these costs twice, the Department's adjustment removes the Test Year amount of $25,649 from A&G.

***Director and Officer (D&O) Liability Insurance***

**Q. Please discuss the Department's adjustment to Director and Officer (D&O) Liability Insurance expense.**

A. When the Department asked if the Company has included Director and Officers (D&O) Liability Insurance in its rate request (either directly charged or allocated), the Company responded, "D&O insurance is considered a shareholder expense and is not allocated to Liberty Utility entities."[45] However, when a similar question was posed by OCA the Company stated that $25,877 was included in the Test Year and a general escalator factor was applied to calculate the Interim Period and each of the rate years.[46] OCA issued an additional data request to confirm that the cost of D&O Liability Insurance was included for recovery, and in response, the Company confirmed that the cost was included for

[44] Liberty's response to OCA 3-105 (Attachment DHM-23).
[45] Liberty's response to DOE 4-37 (Attachment DHM-25).
[46] Liberty's response to OCA 3-34 (Attachment DHM-26).

recovery.[47] The Department agrees with the Company's characterization in its initial response: D&O insurance is a shareholder expense. However, instead of removing 100% of the cost, the Department recommends a sharing of the costs between shareholders and ratepayers.

**Q. Why does the Department recommend a sharing of D&O Liability Insurance?**

A. D&O Liability Insurance benefits both ratepayers and shareholders and, therefore, should be split 50/50 between ratepayers and shareholders. D&O Liability Insurance protects the officers and directors from liability. When required to be utilized, shareholders benefit from payouts under the policy that would reduce the cost not recoverable from ratepayers. On the other hand, ratepayers benefit because having the insurance improves the ability of the Company to attract and retain qualified directors and officers and enables the directors and officers to make decisions without fear of personal liability. As a result, it is reasonable for shareholders to bear a reasonable portion of the cost of D&O Liability Insurance. The Department's adjustment removes one-half of the D&O Liability Insurance expense. The 50% removal reflects a sharing of this insurance between shareholders and ratepayers. The Department adjustment removes 50% of the D&O Liability expense. As shown on Schedule 5.9, the Department's adjustment *reduces* A&G Expense by $12,939.

[47] Liberty's response to OCA 5-16 (Attachment DHM-27).

***Outside Legal Expense***

**Q. Please discuss the Department's recommended adjustment to outside legal expense.**

A. The Company recorded $73,053 to outside legal services during the Test Year.[48] As shown in the following table, there is significant variability for year to year. The Department recommends normalizing Legal Services. The industry-wide practice of normalizing such identified items in the test year ensures the Company does not over-recover between rate cases. The Department proposes to reduce Outside Services-Legal to the five-year average as shown below.[49]

**Table 11: Outside Service-Legal (2018–2022)**

| Year | Amount |
|---|---|
| 2018 | $ 43,013 |
| 2019 | $ 41,114 |
| 2020 | $ 15,814 |
| 2021 | $ 84,842 |
| 2022 | $ 73,053 |
| Average | $ 51,567 |

As shown on Schedule 5.10, the Department's adjustment *reduces* A&G Expense by $21,486.

***Advertising Expense***

**Q. Please discuss the Department's recommended adjustment to advertising expense.**

A. The Company recorded $61,558 to advertising expense during the Test Year.[50] Due to the variability from year to year, the Department recommends normalizing advertising expense. The industry-wide practice of normalizing such identified items in the test year

[48] Liberty's response to OCA 3-68 (Attachment DHM-28).
[49] Liberty's response to OCA 3-68 (Attachment DHM-28).

ensures the Company does not over-recover between rate cases. The Department proposes to reduce Advertising Expense to the five-year average as shown below.[51]

**Table 12: Advertising Expense (2018–2022)**

| Year | Amount |
|---|---|
| 2018 | $ 31,183 |
| 2019 | $ 38,299 |
| 2020 | $ 74,834 |
| 2021 | $ 21,615 |
| 2022 | $ 61,558 |
| Average | $ 45,498 |

As shown on Schedule 5.11, the Department's adjustment *reduces* A&G Expense by $16,060.

***Sponsorships***

**Q. What did the Company include in its rate request for entertainment and sponsorships?**

A. The Company included event sponsorship costs of $8,600 in the Adjusted Test Year.[52]

**Q. What does the Department recommend?**

A. The Department recommends removing event sponsorship costs from cost of service. Sponsorships are not necessary for the provision of electric service and should not be borne by ratepayers. As shown on Schedule 5.12, A&G expense was reduced by $8,600.

[50] Liberty's response to OCA 3-5 (Attachment DHM-29).
[51] Liberty's response to OCA 3-5 (Attachment DHM-29).
[52] Liberty's response to OCA 3-42 (Attachment DHM-30) and OCA 5-3 (Attachment DHM-31).

***Vegetation Management***

**Q. Please explain the Departments adjustment for Vegetation Management?**

A. Based on the testimony of Jay Dudley, the Department recommends increasing Adjusted Test Year vegetation management from $2.2 million[53] to $2.5 million. As shown on Schedule 5.13, O&M expense *increases* by $300,000.

***Depreciation Reserve Imbalance***

**Q. Does the Department have any recommendation with respect to the Company's Depreciation Study and related test year adjustment?**

A. Yes. Department witness Stephen Eckberg testifies to the Department's position regarding the Company's Depreciation Study. Based upon his testimony, the Department has included an adjustment to amortize the reserve imbalance over nine years. As shown on Schedule 5.14, depreciation expense is *reduced* by $1,065,935.

***Interest Synchronization***

**Q. Please explain the Department's recommended adjustment to Interest Synchronization.**

A. The interest synchronization adjustment synchronizes the rate base and cost of capital with the tax calculation using The Department's recommended weighted cost of debt. The adjustment is shown on Schedule 5.15 and *increases* income taxes by $75,126.

[53] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-2.6 (Attachment DHM-4).

***Impact of Operating Income Adjustments***

**Q. What is the impact of the Department's recommended adjustments to the Company's operating income?**

A. The Company's updated operating income is $8,244,384. The Department's recommended adjustments *increases* operating income to $11,576,800.

**<u>Step Increase</u>**

**Q. What does the Department recommend regarding a Step Increase?**

A. As discussed by Department witness Jay Dudley, the Department supports a Step Increase but with caveats:

1) The amounts presented by the Company represent forecasted amounts, not actual. The Department supports the inclusion of only actual amounts related to 2023 non-revenue producing plant additions that have been examined and verified by the Department Audit Staff.
2) The Step Adjustment revenue requirement calculation should reflect the Commission-approved rate of return and depreciation accrual rates in this proceeding.

Since the Company proposed a Multi-Year Rate Plan with all plant included, the Department developed a Step Increase from the Company's forecasted 2023 plant additions[54] excluding revenue-generating and blanket plant additions. At this time, subject to the discussion of items 1 and 2 above, the Department recommends a Step

[54] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-6.1 (Attachment DHM-4).

Increase of $2,447,915. The Department's recommended Step Increase is provided in Schedule 6.

## Multi-Year Rate Plan Revenue Requirements

**Q. What is the Department's recommendation regarding a Multi-Year Rate Plan revenue requirement?**

A. As discussed in the testimonies of Elizabeth Nixon and Nicholas Crowley, the Department does not support a Multi-Year Rate Plan (MYRP). However, should the Commission approve an MYRP, the Department recommends the increases/decreases in revenue as summarized in the following table.

**Table 13: MYRP Revenue Requirements**

| | Company Initial Filing | | Company 11/27/23 Update | | Department's Recommedation | |
|---|---|---|---|---|---|---|
| | Total | Incremental | Total | Incremental | Total | Incremental |
| Rate Year 2023–2024 | $ 15,487,002 | $ 15,487,002 | $ 15,200,551 | $ 15,200,551 | $ 3,923,079 | $ 3,923,079 |
| Rate Year 2024–2025 | $ 18,124,498 | $ 2,637,497 | $ 17,620,007 | $ 2,419,456 | $ 5,146,023 | $ 1,222,944 |
| Rate Year 2025–2026 | $ 21,099,676 | $ 2,975,178 | $ 20,519,934 | $ 2,899,928 | $ 7,492,863 | $ 2,346,840 |

The Department recommends that the increase be levelized over the three-year period.

**Q. What Test Year and Rate Years has the Company proposed in its MYRP?**

A. The Company's revenue increase is based on a test year ending December 31, 2022 ("Test Year"), and for the rate years ending June 30, 2024 ("Rate Year 1"), June 30, 2025 ("Rate Year 2"), and June 30, 2026 ("Rate Year 3") (together, the "Rate Years").[55]

**Q. How did the Company determine the balances used in the MYRP Rate Years 1, 2, and 3?**

[55] Direct Testimony of K. Jardin and D. Dane at 4:9–13 (Bates II-272).

A. The Company explained that it made various normalizing adjustments to the Test Year to develop an Adjusted Test Year. Then, the Adjusted Test Year amounts were escalated into the Rate Years using one of the following approaches: (1) "specifically forecasted" items were adjusted based on specifically identified known and measurable adjustments, (2) "labor escalator" items were adjusted using the labor escalation rate, and (3) "general escalator" items were adjusted using the general inflation rate.[56]

**Q. Does the Department support the use of escalators?**

No. The use of escalators applied to broad categories of expenses should be rejected. Using escalators goes against traditional "known and measurable" ratemaking practices. These estimated escalators are not known and measurable. In addition, using escalators results in a "cost-plus" approach that simply passes through costs on a dollar-for-dollar basis to ratepayers, which can lead to cost and investment inefficiencies. The cost-plus regulatory approach also shifts a considerable amount of performance-related risk away from utilities and onto ratepayers, which leads to inefficient outcomes. Arbitrarily applying an estimated inflation factor to non-labor O&M expenses removes the important responsibility of management to control costs.

***O&M Labor Escalator***

**Q. Please discuss the Company's O&M Labor Escalators and how they were derived.**

A. Using forecasted annual payroll expense that included a full complement of employees, annual merit increases, and the forecasted additional positions, the Company created the

[56] Direct Testimony of K. Jardin and D. Dane at 20:6–13 (Bates II-288).

following "O&M Labor Escalators" and applied these escalators to a variety of other labor-related expenses that were not otherwise specifically forecasted.[57]

**Table 14: Company's O&M Labor Escalator**

| O&M Labor Escalator | Escalator |
|---|---|
| Labor Pro Forma | 17.966% |
| Labor 2022/2023 Interim Period | 2.200% |
| Labor 2023/2024 | 2.179% |
| Labor 2024/2025 | 8.047% |
| Labor 2025/2026 | 3.645% |

**Q. Please explain the 17.966% escalator.**

A. The Company applied the 17.966% escalation to Test Year actual payroll to create an Adjusted Test Year annual payroll expense assuming a full complement of employees.

**Q. What does the Department recommend?**

A. Since the Company has used the Adjusted Test Year as the starting point for labor costs, the Company's MYRP model assumes there will be no vacancies through 2026. This assertion is not reasonable, and the Department modified the 17.966% escalation to reflect that there will be vacancies.

**Q. How did the Company develop the O&M Labor Escalator for the Rate Years 1, 2, and 3?**

A. The Interim Period and Rate Year O&M Labor Escalator was developed using the following weighted merit increases.[58]

[57] Direct Testimony of K. Jardin and D. Dane at 20:6–13 (Bates II-288) and Liberty's November 27, 2023, Updated Revenue Requirements, Schedule Assumptions (Attachment DHM-4).
[58] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-3.5 (Attachment DHM-4).

**Table 15: Merit Increases Used in O&M Labor Escalators**

| Union | Dept. | Merit Percentage 2023 | Merit Percentage 2024 | Merit Percentage 2025 | Merit Percentage 2026 | Weight |
|---|---|---|---|---|---|---|
| IBEW 486 | NH Electric Ops | 2.30% | 5.00% | 4.00% | 4.00% | 24.41% |
| USW 12012_09 | NH Customer Care (Billing & CSR) | 2.70% | 2.70% | 2.70% | 2.70% | 7.65% |
| UWUA 369 | NH Engineering - Electric | 3.00% | 3.00% | 3.00% | 3.00% | 4.21% |
| IBEW 326 | NH Electric Ops | 2.30% | 5.00% | 4.00% | 4.00% | 20.37% |
| Non Union | | 3.50% | 3.50% | 3.50% | 3.50% | 43.36% |

In addition, the Rate Year 3 (2024/2025) payroll includes the wages and salaries for four additional forecasted positions.

**Q. Does the Department have any concerns associated with the forecasted merit increases?**

A. Yes. The 2024 and 2025 merit increases for IBEW 326 and 486 are not supported by the current union contract that extends through March 1, 2026, as shown in the following table.[59] [**BEGIN CONFIDENTIAL**]

**Table 16: Merit Increases Assumptions vs. Contract (IBEW 326 and 486) CONFIDENTIAL**

| Union | Dept. | Merit Percentage 2023 | Merit Percentage 2024 | Merit Percentage 2025 | Merit Percentage 2026 |
|---|---|---|---|---|---|
| <u>**Company As Filed**</u> | | | | | |
| IBEW 486 | NH Electric Ops | 2.30% | 5.00% | 4.00% | 4.00% |
| IBEW 326 | NH Electric Ops | 2.30% | 5.00% | 4.00% | 4.00% |
| <u>**Union Contract**</u> | | [redacted] | | | |
| Scheduled Increase | | | | | |

Source: Attachmemt KMJ/DSD-1, Schedule RR-3.5 and DOE 4-18 and Confidential Attachment 23-039 DOE 4-17.a.1, page 54

[**END CONFIDENTIAL**]

---

[59] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-3.5 (Attachment DHM-4) and Liberty's response to DOE 4-18 (Attachment DHM-12) and Confidential Attachment 23-039 DOE 4-17.a.1, page 54 (Attachment DHM-13).

**Q. What does the Department recommend regarding the merit increases that the Company has included in its Rate Years 1, 2, and 3?**

A. Should the Commission decide to approve a multi-year rate plan, Labor costs should be adjusted to reflect the known and measurable merit increases supported by union contracts.

**Q. Is the Department recommending an adjustment with respect to the 2024 forecasted new positions?**

A. Yes. Based on the testimony of Department witness Mark Toscano and Jay Dudley, the Department recommends removing the costs of the new positions that the Company forecasts it will hire in 2024 related to the Emerging Technologies Facilitation Office and the additional Electric Relay Technicians.[60] There is no assurance that the positions will be filled.

**Q. What was the result of these modifications to the O&M Labor Escalator?**

A. After the Department's recommended modifications, the O&M Labor Escalators are shown below.

**Table 17: Company O&M Labor Escalator vs. Department's Recommendation**

| O&M Labor Escalator | Company | Recommended |
|---|---|---|
| Labor Pro Forma | 17.966% | 0.000% |
| Labor 2022/2023 Interim Period | 2.200% | 3.097% |
| Labor 2023/2024 | 2.179% | 2.880% |
| Labor 2024/2025 | 8.047% | 2.925% |
| Labor 2025/2026 | 3.645% | 3.642% |

[60] Direct Testimony of K. Jardin and D. Dane at 21:12–19 (Bates II-289).

**Q. What expense items did the Company escalate using the O&M Labor Escalator?**

A. Most of the items escalated using the O&M Labor Escalator were related to salaries and wages and incentive compensation. However, the Company used the O&M Labor Escalator for non-labor-related expenses like equipment rentals, fleet repairs and permitting, property insurance, meals and travel, and car allowances as shown in the following table excerpted from the Company's revenue requirements model.[61]

**Table 18: Non-Labor Expenses Escalated Using O&M Labor Escalator**

| Line No. | G/L Account | G/L Account | Forecast Method | Test Year 2022 | Pro Forma Adjustment | Test Year Pro Forma | Interim Period (Annualized) 2022/2023 | Rate Year 2023/2024 | Rate Year 2024/2025 | Rate Year 2025/2026 |
|---|---|---|---|---|---|---|---|---|---|---|
| 14 | OCOA/500500 | Equip & Machin Rents | Labor Escalator | 2,493 | *$ (8,603)* | $ (6,110) | $ (6,245) | $ (6,381) | $ (6,894) | $ (7,145) |
| 15 | OCOA/501220 | Fleet-Repair/Main | Labor Escalator | 34,388 | *$ 6,178* | $ 40,566 | $ 41,458 | $ 42,362 | $ 45,771 | $ 47,439 |
| 16 | OCOA/501230 | Fleet-Permit/Inspect | Labor Escalator | 6,096 | *$ 1,095* | $ 7,192 | $ 7,350 | $ 7,510 | $ 8,114 | $ 8,410 |
| 17 | OCOA/502540 | Prof Svs-Other | Labor Escalator | 10,781 | *$ 1,937* | $ 12,718 | $ 12,998 | $ 13,281 | $ 14,349 | $ 14,873 |
| 39 | OCOA/803114 | Assess Prop Ins | Labor Escalator | 648 | *$ 116* | $ 764 | $ 781 | $ 798 | $ 862 | $ 894 |
| 44 | OCOA/853080 | Assess Meals -Intrc | Labor Escalator | 83 | *$ 15* | $ 98 | $ 100 | $ 103 | $ 111 | $ 115 |
| 45 | OCOA/853085 | Assess Travel-Intrc | Labor Escalator | 259 | *$ 47* | $ 306 | $ 313 | $ 319 | $ 345 | $ 358 |
| 125 | OCOA/853114 | As Prop Ins-Intrc | Labor Escalator | 293 | *$ 53* | $ 345 | $ 353 | $ 361 | $ 390 | $ 404 |
| 135 | OCOA/500270 | Car Allowance | Labor Escalator | 249 | *$ 45* | $ 294 | $ 300 | $ 307 | $ 332 | $ 344 |
| | | | | 55,290 | 883 | 56,173 | 57,409 | 58,660 | 63,380 | 65,690 |

Source: 1/27/23 Update Attachment KMJ/DSD-1, Schedule RR-2.10

***O&M General Escalator***

**Q. Please discuss the Company's O&M General Escalators and how they were derived?**

The Company's filing includes "O&M General Escalators" that it applied to forecast non-labor-related expenses for Rate Years 1, 2, and 3, not otherwise specifically forecasted.[62] The O&M General Escalators provided in the following table were derived from the "Blue Chip Financial Forecast, GDP Chained Price Index, March 1, 2023, at 5. BCFF

[61] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-2.10 (Attachment DHM-4).
[62] Direct Testimony of K. Jardin and D. Dane at 20:6–13 (Bates II-288).

Long-Range Consensus US Economic Projections, GDP Chained Price Index. December 2, 2022, at 14."[63]

**Table 19: Company's O&M General Escalator**

| O&M General Escalator | Escalator |
|---|---|
| General Pro Forma | 0.00% |
| General 2022/2023 Interim Period | 1.51% |
| General 2023/2024 | 2.45% |
| General 2024/2025 | 2.22% |
| General 2025/2026 | 2.12% |

**Q. What does the Department recommend regarding O&M General Escalators?**

A. The Company should follow traditional known and measurable ratemaking practices by applying adjustments that are known and measurable to specific, individual components that are within one year past the end of the test year. However, should the Commission decide to deviate from traditional ratemaking, the Department reluctantly used the O&M General Escalators used by the Company in its multi-year-rate plan revenue requirements.

***Vegetation Management***

**Q. Please explain the Departments adjustment for Vegetation Management?**

A. Based on the testimony of Jay Dudley, the Company's request[64] and the Department's recommendation for Vegetation Management is shown on Schedule 5.7 and summarized in the following table.

[63] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule Assumptions (Attachment DHM-4).
[64] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-2.6 (Attachment DHM-4).

**Table 20: Vegetation Management**

| Period | Company | Department |
|---|---|---|
| Adjusted Test Year | $ 2,200,000 | $ 2,500,000 |
| Rate Year 1 | $ 4,050,563 | $ 2,599,739 |
| Rate Year 2 | $ 4,325,394 | $ 2,657,407 |
| Rate Year 3 | $ 4,576,174 | $ 2,713,653 |

*Source: Attachment KMJ/DSD-1 Sch RR-2.6*

***Forecasted Plant in Service and Revenue***

**Q. Does the Department have any other concerns regarding the Company's MYRP revenue requirements?**

A. Yes. The Company included these growth projects in its forecast[65] without reflecting additional revenue:

- Service to Tuscan Village South
- New Business Residential
- New Business Commercial

**Q. What forecasted revenue did the Company include in its MYRP revenue requirements?**

A. The Company's MYRP reflects the Operating Revenue of $46,060,084 from the 2022 Test Year with no revenue growth in its Rate Year forecasts. The Company stated that it "included normalized test year revenue to represent each year of its proposed rate plan, consistent with past Commission practice."[66]

**Q. What does the Department recommend?**

[65] Liberty's response to DOE 4-10 (Attachment DHM-32).
[66] Liberty's response to DOE 4-10 (Attachment DHM-32).

A. It is not appropriate to included plant for which the Company will earn a return on and return of and not include the associated revenues. Since it would be difficult to estimate revenues for this forecasted plant, the Department recommends that the forecasted plant associated with Service to Tuscan Village South, New Business Residential, and New Business Commercial[67] be removed from the Company's rate request.

**Q. How did the Department develop its recommended MYRP revenue requirements?**

A. The Department's starting point was the Adjusted Test Year revenue requirements developed under traditional ratemaking, reflecting the various adjustments discussed earlier. Since the Company did not reflect an increase in forecasted revenue associated with forecasted growth-related plant additions, the Department removed growth-related plant additions from rate base. The Department applied the modified O&M Labor escalator to the labor-related expenses in the Rate Years. The non-labor expenses that were escalated using the O&M Labor Escalator were corrected to apply the O&M General Escalator. The Department's adjustments also reflect updates for flow through items like cash working capital.

**<u>Conclusions</u>**

**Q. What Revenue Increase does the Department recommend?**

A. The Department does not support the Company's proposed multi-year rate plan. The Department's recommended revenue requirement calculation uses the historical Test

[67] Liberty's November 27, 2023, Updated Revenue Requirements, Schedule RR-6.1 (Attachment DHM-4). Install Service to Tuscan Village South Line, Reserve for New Business Commercial Unident specific & SC, and Reserve for New Business Residential.

Year ended December 31, 2022, adjusted for known and measurable change. The Department's recommended revenue increase based upon the Company's update filed on November 27, 2023, and the Department's Step adjustment is summarized in the following table.

**Table 21: Department Recommended Revenue Deficiency with Step Adjustment**

| | |
|---|---|
| Company's Updated Revenue Deficiency | $ 10,378,758 |
| Recommended Adjustment | (8,336,858) |
| Recommended Revenue Deficiency | $ 2,041,900 |
| Step Adjustment | 2,447,915 |
| Total with Step Adjustment | $ 4,489,815 |

**Q. Does your silence on any issue in this rate filing preclude you from addressing that issue in future testimony?**

A. No, it does not.

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

A. Yes.