BEFORE THE STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Liberty Utilities (Energy North Natural	)	
Gas) Corp d/b/a Liberty Distribution	)	Docket No. DG 23-067
Service Rate Case	)	

DIRECT TESTIMONY OF

THE OFFICE OF CONSUMER ADVOCATE

JOHN DEFEVER, CPA

FEBRUARY 21, 2024

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is John Defever. I am a Certified Public Accountant, licensed in the State of Michigan. I am a senior regulatory consultant in the firm of Larkin & Associates, PLLC, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings including numerous water and sewer, electric, gas, and telephone utilities.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which summarizes my experience and qualifications.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION?

A. Yes. I submitted testimony in Docket Nos. DE 23-039, Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Request for a Change in Distribution Rates and DE 19-057, In the Matter of Public Service Company of New Hampshire, d/b/a Eversource Energy, Distribution Service Rate Case on behalf of the Office of Consumer Advocate ("OCA").

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC was retained by the OCA to conduct a review of the Liberty Utilities (Energy North Natural Gas) dba Liberty ("Liberty Gas" or "Company") proposed revenue requirement. Accordingly, I am appearing on behalf of the OCA.

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. The testimony is organized as follows: Introduction, Overall Financial Summary, Rate Base, and Operating Income.

OVERALL FINANCIAL SUMMARY

Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared Exhibit JD-1, consisting of Schedules A, B, C, and D with supporting Schedule B-1 and C-1 through C-14.

Q. WHAT STARTING POINT DID YOU UTILIZE FOR CALCULATING YOUR ADJUSTMENTS TO RATE BASE AND NET OPERATING INCOME?

A. My recommended adjustments to rate base and net operating income are based on the Company's original filing. I did not reflect any subsequent updates.

Q. DID YOU REVIEW THE AUDIT REPORT ISSUED BY THE DEPARTMENT OF ENERGY?

A. No.

Q. HAVE YOU INCORPORATED THE RECOMMENDATIONS OF OTHER OCA WITNESSES IN YOUR SUMMARY SCHEDULES?

A. Yes, I have incorporated the capital structure and rate of return recommendations of OCA witness Aaron Rothschild.

Q. PLEASE DISCUSS SCHEDULE A OF EXHIBIT JD-1, WHICH IS ENTITLED "OVERALL FINANCIAL SUMMARY."

A. Schedule A presents the overall financial summary for the rate year in this case, giving effect to all the adjustments I recommend in my testimony and the rate of return testimony sponsored by Mr. Rothschild.

The rate base and operating income amounts for the rate year ending December 31, 2022 are taken from Schedules B and C, respectively. The overall rate of return of 6.18 percent for the rate year as presented in the pre-filed testimony of OCA Witness Mr. Rothschild, is provided on Schedule D for convenience. The income deficiency shown on line 6 is obtained by subtracting the required operating income on line 5 from the operating income on line 2.

Q. PLEASE DISCUSS SCHEDULE B, WHICH SUMMARIZES RATE BASE, AS ADJUSTED.

A. Adjusted rate base amounts are taken from Liberty's Schedule RR-EN-5 for the rate year ended December 31, 2022. The adjustment I recommend to the Company's rate base amount is summarized on Schedule B.

Q. PLEASE DISCUSS SCHEDULE C, WHICH SUMMARIZES OPERATING INCOME, AS ADJUSTED.

A. The starting point on Schedule C is the Company's operating income for the rate year, as found on Liberty's Schedule RR-EN-1. My recommended adjustments to Liberty's expenses for the rate year that are presented in this testimony are summarized on Schedule C. Schedules C-1 through C-14 provide further support and calculations for the adjustments I recommend.

Q. BASED ON THE OCA'S REVIEW OF LIBERTY GAS'S FILING, WHAT CHANGE IN REVENUE REQUIREMENT IS THE OCA RECOMMENDING AT THIS TIME?

A. Based on the adjustments that have been quantified to date, coupled with the OCA's recommended overall rate of return of 6.18 percent, the result is a projected revenue increase of $10,701,636 for the rate year ended December 31, 2022.

STEP INCREASES

Q. IS THE COMPANY REQUESTING STEP INCREASES FOR FORECASTED CAPITAL ADDITIONS BEYOND THE TEST YEAR?

A. Yes. The Company is requesting step increases for non-growth capital additions of $46,439,223 in 2023, $62,892,420 in 2024 and $52,306,751 in 2025.[1]

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY's REQUEST?

A. Yes. The response to OCA 1-21 states that:

> a. Estimates for engineering designed projects are completed by the project engineer ahead of construction. Guidelines have been established to help determine the appropriate amount of contingency to apply to a project estimate. The further a project progresses through the design process, the lower the contingency

[1] Direct Testimony of T. Culbertson and C. Drew Cayton, page 15 Bates II-071.

> becomes. As a project is researched and designed, project specifics are established and factored into the estimate. When a project has a prepared work package ready to be sent for construction, a 10% contingency is applied to account for potential unknown factors that increase project cost, in accordance with the Company's Capital Approval Policy, provided in Attachment 23-067 OCA 1-21, which provides guidance for suggested contingencies based on how defined the project's scope of work is.
>
> b. The Company applies a 10% contingency to all engineering designed projects that are sent to the field for construction. (Emphasis added).

Q. IS THE INCLUSION OF CONTINGENCIES APPROPRIATE?

A. No. A contingency, by definition, is a cost that may or may not occur. For ratemaking, this violates the known and measurable standard. The Company has the burden to support the costs it is seeking to recover from ratepayers. Contingency costs cannot be supported because they are not known and measurable. Furthermore, contingencies improperly shift the burden of risk from the Company to the ratepayers.

Q. ARE CONTINGENCIES DISALLOWED IN OTHER JURISDICTIONS?

A. Yes. The California Public Utilities Commission has disallowed the use of contingencies. The CPUC stated in D.19-05-020:

> Consistent with ratemaking policy, disallowing these contingencies should motivate SCE to remain within its forecast budgets for these projects.[2]

Q. WHAT ARE YOU RECOMMENDING?

[2] Page 152, May-16-2019.

A. I recommend that the Commission disallow the inclusion of contingencies in the STEP increases.

RATE BASE

Cash Working Capital

Q. ARE YOU MAKING ANY ADJUSTMENTS TO CASH WORKING CAPITAL?

A. Yes, this adjustment is a flow through of the OCA's adjustments to O&M expenses. My adjustment decreases cash working capital by $361,761, as shown on Exhibit JD-1, Schedule B-1.

OPERATING INCOME

Payroll

Q. WHAT IS THE AMOUNT OF PAYROLL INCLUDED IN THE RATE YEAR?

A. The Company has included $15,792,241 in the rate year.[3]

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S REQUEST?

[3] Schedule RR-EN-3-2, Bates II-084.

A. Yes, as can be seen, the Company has consistently carried vacancies during the last five calendar years, averaging 30.5 and had 44 vacancies as of August 2023. (OCA 1-92, DOE 2-5, OCA 1-90)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Avg Actual	Budget	Vacancies
2018	230.00	232.00	233.00	235.00	239.00	240.00	241.00	242.00	249.00	249.00	253.00	255.00	241.50	294.00	(52.50)
2019	255.00	255.00	260.00	264.00	264.00	265.00	265.00	267.00	271.00	271.00	272.00	274.00	265.25	305.00	(39.75)
2020	275.00	282.00	296.00	286.00	297.00	285.00	301.00	286.00	288.00	290.00	287.00	287.00	288.33	319.00	(30.67)
2021	289.00	294.00	289.00	293.00	295.00	293.00	297.00	301.00	296.00	292.00	290.00	293.00	293.50	315.00	(21.50)
2022	291.00	299.00	302.00	299.00	304.00	303.00	302.00	306.00	306.00	316.00	315.00	310.00	304.42	312.50	(8.08)
2023	311.00	305.00	304.00	305.00	312.00	313.00	311.00	314.00					309.38	358.00	(48.63)
												Five Year Avg 2018-2022			(30.50)

Q. DID THE COMPANY APPLY A REDUCTION FOR VACANCIES TO THE RATE YEAR PAYROLL EXPENSE?

A. It does not appear so. OCA 1-97 asked the Company whether it applied a vacancy adjustment to the rate year payroll. The Company's response stated:

> Please see the Company's response to DOE 2-4 that describes the payroll adjustment reflected on RR-EN-3-2.

The response to DOE 2-4 and RR-EN-3-2 indicate that the Company is requesting recovery for "Labor to Full Compliment" in the rate year.

Q. HOW MANY POSITIONS HAS THE COMPANY FORECASTED IN THE RATE YEAR?

A. In OCA TS 1-5, the Company was asked for the number of employees in the rate year and stated the following:

> The Company interprets the request to be for the number of employees used in the annualized labor calculation used in the

> adjustment for salary and wage expenses shown in Schedule RR-EN-3-2 (Lines 1-3).
>
> …
>
> | | |
> |---|---|
> | Employees as of December 31, 2022 | 310 |
> | Employees in labor to full complement | 33 |
> | Total employees used in annualized labor | 343 |
>
> (footnotes omitted)

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO PAYROLL?

A. Yes. As the Company has averaged 30 vacancies from 2018-2022, it cannot be assumed that the Company will hire and retain all of its budgeted employees. The employee level of 314 as of August 2023 is the most current employee count and is the most known and measurable amount. This is 29 employees less than the Company used in its annualized labor calculation.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT TO PAYOLL?

A. I recommend the disallowance of costs related to 29 unhired employees. This is a reduction of $1,335,204, which is shown on Exhibit JD-1, Schedule C-1.

As an alternative, the costs related to 30 vacancies could be disallowed based on the Company's average historic vacancies.

Severance Expense

Q. IS THE COMPANY REQUESTING RECOVERY OF SEVERANCE EXPENSE IN THE RATE YEAR?

A. Yes, the Company's responses to OCA TS 1-2 and OCA 1-116 indicate that $7,932 of severance expense is included in the rate year.

Q. IS IT APPROPRIATE TO RECOVER THIS COST FROM RATEPAYERS?

A. No, if the Company wants to offer this generous benefit for employees that are no longer providing utility service, the Company and its shareholders should be responsible for the costs.

Q. WHAT DO YOU RECOMMEND?

A. I recommend removing this entire expense from the rate year, a reduction of $7,932 which is shown on Exhibit JD-1, Schedule C-2.

Incentive Compensation

Q. HAS THE COMPANY INCLUDED INCENTIVE COMPENSATION EXPENSE IN THE RATE YEAR?

A. Yes, according to the response to OCA 1-50, the Company has included $1,561,147 for incentive compensation expense in the rate year. This is comprised of short-term incentives, long term incentives and the employee share purchase plan.

Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S INCENTIVE COMPENSATION PLANS?

A. Yes.

Q. PLEASE ELABORATE.

A. Below is a chart comparing the number of employees eligible for a reward and the number that did not receive one. As can be seen, in four out of the last five years, every employee received an award. In 2021, only 1 employee out of 273, did not receive an award.

	2018	2018	2020	2021	2022
Eligible for Award	219	249	222	273	206
Received Award	219	249	222	272	206
Did Not Receive Award	0	0	0	1	0

(OCA 1-54)

As such, the Company's incentive plan does not provide sufficient motivation. To the extent that employees feel that an award is guaranteed, the resulting motivation will be negatively impacted. An incentive plan must motivate employees for ratepayers to benefit.

Q. DO YOU HAVE ANY OTHER CONCERNS?

A. Yes. The incentive payments are based on corporate scorecards which include financial measures. Financial measures or goals primarily benefit shareholders. Since financial goals primarily benefit shareholders, the related costs should not be borne by ratepayers.

Q. DID THE COMPANY IDENTIFY THE AMOUNT OF THE INCENTIVE COMPENSATION EXPENSE THAT RELATES TO FINANCIAL GOALS?

A. No. OCA 1-59 requested the amount of incentive compensation related to financial goals but the Company's response stated:

> Incentive plan payouts are based on Balanced Scorecards, which may include financial measures. The formula for incentive payouts considers the overall scorecard achievement and does not isolate financials goals. The Company is unable to report on the percentage or dollar amounts that are related specifically to financial goals.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT?

A. Yes. I recommend that this expense be shared equally between shareholders and ratepayers. The result is a reduction of $780,574, which is shown on Exhibit JD-1, Schedule C-3.

<u>Supplemental Executive Retirement Plan</u>

Q. IS THE COMPANY REQUESTING SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP") EXPENSE IN THE RATE YEAR?

A. Yes, according to OCA 1-111, the Company has included $56,631 in the rate year. According to the response to OCA 1-114, this represents amounts allocated from the parent Company to Liberty Gas.

Q. WHAT IS SERP?

A. Typically, this expense is an additional retirement benefit for a limited number of executives that exceeds IRS limits for qualified pension plans. The Company described its SERP plan this way:

> Liberty EnergyNorth does not have a Supplemental Executive Retirement Plan ("SERP"), but it is allocated a portion of its parent company's SERP through the corporate allocation process.
>
> During each fiscal year, a notional amount (a "top-up benefit") is calculated and credited to each participant's account equal to A less B, where:
>
> A = 12% of the participant's earnings for a fiscal year, not in excess of 18% of the participant's earnings; and
>
> B = the Employer contributions actually made to the participant's account under the Registered Pension Plan in the respective fiscal year.
>
> Top-up benefits are credited to the participant's account quarterly. (OCA 1-114)

Q. DID THE COMPANY IDENTIFY THE NUMBER OF EMPLOYEES THAT ARE ELIGIBLE FOR THIS BENEFIT?

A. Yes, the Company's response to OCA 1-112 indicated that in 2022, 11 C-Suite executives were eligible for SERP.

Q. WHAT DO YOU RECOMMEND?

A. I recommended removing the entire SERP expense from the rate year. This is a reduction of $56,631 as shown on Exhibit JD-1, Schedule C-4.

Q. IS THIS ADJUSTMENT CONSISTENT WITH DECISIONS IN OTHER JURSIDICTIONS?

A. Yes, I am aware that this expense has been disallowed in numerous jurisdictions, including Arizona, Connecticut, the District of Columbia, Idaho, Nevada, Oklahoma, Oregon, Texas, and Washington.[4]

Directors and Officers Liability Insurance Expense

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE RATE YEAR FOR DIRECTORS AND OFFICERS LIABILITY INSURANCE ("D&O") EXPENSE?

A. The Company has included $57,580 in the rate year for D&O. (OCA 1-36)

Q. WHAT IS D&O?

A. D&O protects the Company and its officers from lawsuits that arise as a result of their actions.

Q. SHOULD THESE COSTS BE FULLY RECOVERED BY RATEPAYERS?

[4] See, e.g., Pacificorp, Idaho Public Utilities Commission Case No. PAC-E-10-07, at 20-21 (2011); Pacificorp, Oregon Public Utility Commission Case No. UE 116, at 44 (2001); Puget Sound Energy, Inc., Washington Utilities and Transportation Commission Docket Nos. UE-090704 and UG-090705, at 29-32 (2010); Potomac Electric Power Company, District of Columbia Public Service Commission Formal Case No. 939, at 122-128 (1995); UNS Electric, Inc., Arizona Corporation Commission Docket No. E-04204A-09-0206, at 30-31 (2010), Entergy Texas, Public Utility Commission of Texas, PUC Docket No. 39896, page 25, Nevada Power Company, Nevada Public Utilities Commission, Docket No. 03-10001, pages 98-103, The Public Service Company of Oklahoma, Oklahoma Corporation Commission, Cause No. PUD 201500208, page 162, Aquarion Water Company, Connecticut Public Utilities Commission, Docket No. 13-02-20, pages 66-67.

A. No. Because the Company and its directors are the primary beneficiaries of this insurance, ratepayers should not be fully responsible for this expense.

Q. WHAT DO YOU RECOMMEND?

A. I recommend a 75/25 sharing of this cost between shareholders and ratepayers, respectively. This is a reduction of $43,185 as shown on Exhibit JD-1, Schedule C-4.

Q. IS THIS ADJUSTMENT CONSISTENT WITH PRIOR DECISIONS IN OTHER JURISDICTIONS?

A. Yes. In Connecticut, PURA has ordered sharing of these costs by shareholders and ratepayers. The decisions in the following cases ordered 75 percent to be funded by shareholders: Docket No. 16-06-04, *Application of The United Illuminating Company to Increase Its Rates and Charges, pp. 35-36*; Docket No. 13-01-19, *Application of The United Illuminating Company to Increase Rates and Charges, page 71*; and Docket No. 13-06-08, *Application of Connecticut Natural Gas Corporation to Increase its Rates and Charges, page 27*.

<u>Board of Directors</u>

Q. HAS THE COMPANY INCLUDED EXPENSES FOR BOARD OF DIRECTORS IN THE RATE YEAR?

A. Yes. The Company has included $710,599 in the rate year. (OCA TS 1-3)

Q. WHAT IS THE NATURE OF THESE COSTS?

A. According to OCA TS 1-3, these are costs allocated to Liberty from the Liberty Energy North's Board of Directors and BOD fees incurred for the Algonquin Power & Utilities Corp.

Q. WHO RECEIVES THE BENEFITS ASSOCIATED WIITHTHESE COSTS?

A. The goal of Board of Directors' duty is to serve the interests of the shareholders. Since the shareholders are the primary beneficiaries, they should bear more of the cost.

Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO BOD EXPENSE?

A. Yes, I recommend that BOD expense be shared 75/25 by shareholders and ratepayers, respectively. This results in a reduction of $532,949 and is shown on Exhibit JD-1, Schedule C-6.

Q. DO OTHER JURSIDICTIONS LIMIT THE AMOUNT OF BOD EXPENSE ALLOWED IN RATES?

A. For instance, the Connecticut PURA limited BOD expense in Docket No. 13-01-19, *Application of The United Illuminating Company to Increase Rates and Charges*, which stated:

> The main objective of the BOD is to protect the interest of the Company's investors or shareowners. Ratepayers may tangentially garner benefits from the activities of the BOD; however, they are not the focus of the BOD decisions. Consistent with the

determinations regarding public company costs discussed above, the Authority allows only 25% of BOD costs in rates. (page 72)

Investor Relations Costs

Q. HAS THE COMPANY INCLUDED INVESTOR RELATIONS COSTS IN THE RATE YEAR?

A. Yes, the Company has included $25,680 in the rate year. (OCA 1-81)

Q. WHAT DO THESE AMOUNTS REPRESENT?

A. According to the response to OCA 1-81, these are investor relations costs incurred by the parent company and allocated to Liberty Gas.

Q. SHOULD THESE COSTS BE RECOVERED FROM RATEPAYERS?

A. No. Similar to BOD costs, as investor relations costs primarily benefit shareholders, shareholders should be responsible for a greater share of the costs.

Q. WHAT DO YOU RECOMMEND?

A. I recommend removing 75 percent of the expense, a reduction of $19,260 as shown on Exhibit JD-1, Schedule C-7.

Q. HAS RECOVERY OF INVESTOR RELATION EXPENSE BEEN LIMITED IN OTHER JURISDICTIONS?

A. Yes. In Connecticut, Public Act 23-102 (3) prohibits the inclusion of investor relations costs in utility rates. PA 23-102 Section 3(d) states:

> <u>(d) No public service company shall recover through rates any direct or indirect cost associated with</u> (1) travel, lodging or food and beverage expenses for such company's board of directors and officers or the board of directors and officers of such company's parent company; (2) entertainment or gifts; (3) any owned, leased or chartered aircraft for such company's board of directors and officers or the board of directors and officers of such company's parent company; <u>or (4) investor relations</u>. (Emphasis added)

<u>Customer First</u>

Q. HAS THE COMPANY INCLUDED COSTS FOR THE CUSTOMER FIRST PROGRAM IN THE RATE YEAR?

A. Yes, the Company has included $1,737,945 which represents its estimated allocated share. (OCA 1-29)

Q. PLEASE DESCRIBE THE CUSTOMER FIRST PROGRAM.

A. According to the Company's testimony:

> Customer First is an enterprise-wide project that includes changes to technology and systems, and associated employee training. As a comprehensive project, Customer First serves to install an enterprise-wide solution to replace and improve legacy computer systems. These include systems related to customer information, finance and accounting, network operations, procurement, accounts payable, employee time, and payroll services. The Customer First project provides employees with the tools to deliver the experience that Liberty EnergyNorth's customers demand and deserve. Specifically, Customer First is Liberty EnergyNorth's multi-year, multi-project, transformational journey to create greater consistency around the Company's operations, customer service,

> and financial functions in a way that will create an industry-leading customer experience. (Lauren A. Preston direct at pg. 3)

Q. DID THE COMPANY PROVIDE SUPPORT FOR THIS SIGNIFICANT EXPENSE?

A. No. OCA 1-29 requested documentation supporting the $1,737,945. The Company's response stated:

> Schedule RR-EN-3-10 WP2 reflects Liberty EnergyNorth's allocated share, $1,737,945, of the estimated enterprise-wide, annual Customer First operating expense budget, $20,179,152 (average of estimated annual operating expenses 2023 – 2026). The enterprise Customer First operating expense budget is based on initial estimates, quotes, and contracts prior to the initiation of services. The table below outlines the vendors that will provide post-deployment services and Attachment 23-067 OCA 1-29.xlsx provides the estimated total operating expenses and estimated allocated operating expenses to the Company, by year, project, vendor and type of expenditure.

Although the response mentions quotes and contracts, none were provided.

Q. SHOULD THIS EXPENSE BE RECOVERED FROM RATEPAYERS?

A. No. The Company was asked for supporting documentation for this cost and did not provide that support. As it is the Company's burden to support this cost, I recommend removing the entire expense from the rate year. I recommend disallowance of $1,737,945, which is shown on Exhibit JD-1, Schedule C-8.

Legal Expense

Q. WHAT AMOUNT OF LEGAL EXPENSE HAS THE COMPANY INCLUDED IN THE RATE YEAR?

A. The Company has included $105,390 in the rate year. (OCA 1-69)

Q. HOW DOES THIS AMOUNT COMPARE TO HISTORICAL YEARS?

A. As can be seen below, 2022 is significantly higher than any of the other years shown (Id).

2018	2019	2020	2021	2022
$ 75,104	$ 17,946	$ 15,785	$ 55,809	$ 105,390

Q. WHAT DO YOU RECOMMEND?

A. As this expense has fluctuated during 2018-2022, the use of a five-year average is appropriate. The use of a 5-year average results in a reduction of $51,383 as shown on Exhibit JD-1, Schedule C-9. ($105,390-$54,007)

Liberty Days Expense

Q. HAS THE COMPANY INCLUDED COSTS FOR “LIBERTY DAYS” IN THE RATE YEAR?

A. Yes, the Company has included $34,863 in the rate year. (OCA 1-70)

Q. WHAT DOES THIS AMOUNT REPRESENT?

A. According to OCA TS 1-1, this is for "paid time off for employees to volunteer in the community."

Q. WHAT ARE LIBERTY DAYS?

A. According to the Company:

> Liberty EnergyNorth promotes volunteerism by its employees through the Company's "Liberty Days" program which allows employees to volunteer in the community for up to three days per year.[5]

Q. SHOULD THESE COSTS BE RECOVERED FROM RATEPAYERS?

A. No. These costs are essentially charitable donations that are not necessary for the provision of utility service. If the Company wants to be charitable it should be at the Company's own expense.

Q. WHAT DO YOU RECOMMEND?

A. No. I recommend removing the entire expense of $34,863 from the rate year, which is shown on Exhibit JD-1, Schedule C-10.

O&M Expense Flow Through Adjustments

Benefits Expense

Q. PLEASE DISCUSS YOUR ADJUSTMENT TO BENEFITS EXPENSE.

[5] Direct Testimony of Neil Proudman, Page 8 of 13, bates II-012.

A. The adjustment is a flow through from the OCA's adjustment to payroll. OCA's adjustment reduces benefits expense by $546,609, which is shown on Exhibit JD-1, Schedule C-11.

Payroll Tax Expense

Q. PLEASE DISCUSS YOUR ADJUSTMENT TO PAYROLL TAX.

A. The adjustment is a flowthrough from the OCA's adjustments to payroll and incentive compensation. OCA's adjustments reduce payroll tax by $165,665 which is shown on Exhibit JD-1, Schedule C-12.

Interest Synchronization

Q. PLEASE DISCUSS YOUR ADJUSTMENT TO INTEREST SYNCHRONIZATION.

A. The adjustment is a flowthrough from the OCA's adjustment to rate base and OCA witness Rothchild's recommendations. Combined, these adjustments increase interest expense, which decreases income tax expense by $486,301 as shown on Exhibit JD-1, Schedule C-13.

Income Tax Expense

Q. PLEASE DISCUSS YOUR ADJUSTMENT TO INCOME TAX EXPENSE.

A. The adjustment is a flowthrough from the OCA's adjustments to O&M expenses. OCA's adjustments increase income taxes by $1,430,576 as shown on Exhibit JD-1, Schedule C-14.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, at this time. I reserve the right to supplement my testimony following the receipt of additional information from the Company. It should be noted that my silence on any issues should not be interpreted as acceptance of the Company's proposals.