STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 11-040

In the Matter of:
National Grid USA et al. and Liberty Energy Utilities Co. et al.
Joint Petition for Authority to Transfer Ownership of Granite State Electric Company and EnergyNorth Natural Gas, Inc. to Liberty Energy Utilities Corp.

Direct Testimony

of

Steven E. Mullen
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October 7, 2011

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I. Introduction and Summary

Q. Please state your name, position and business address.

A. My name is Steven E. Mullen. I am employed by the New Hampshire Public Utilities Commission as Assistant Director of the Electric Division. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. Please summarize your educational background and work experience.

In 1989, I graduated *magna cum laude* from Plymouth State College with a Bachelor of Science degree in Accounting. I attended the NARUC Annual Regulatory Studies Program at Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School sponsored by Florida State University. I am a Certified Public Accountant and have obtained numerous continuing education credits in accounting, auditing, tax, finance and utility related courses.

From 1989 through 1996, I was employed as an accountant with Chester C. Raymond, Public Accountant in Manchester, New Hampshire. My duties involved preparation of financial statements and tax returns as well as participation in year-end engagements. In 1996, I joined the Commission as a PUC Examiner in the Finance Department. In that capacity I participated in field audits of regulated utilities' books and records in the electric, telecommunications, water, sewer and gas industries. I also performed rate of return analysis, participated in financing dockets and presented oral testimony before the Commission. In 1998, I was promoted to the position of Utility Analyst III and continued to work in all of the regulated industry fields, although the largest part of my time was concentrated on electric and water issues. As part of an internal reorganization of the Commission's Staff in 2001, I became a member of the Electric Division. I was promoted to Utility Analyst IV in 2007 and then Assistant Director of the Electric Division in 2008. Working with the Director of the Electric Division, I am responsible for the day-to-day management of the Electric Division including decisions on matters of policy. In addition, I evaluate and make recommendations concerning rate, financing, accounting and other general industry filings. I represent Staff in meetings with company officials, outside attorneys, accountants and consultants relative to the Commission's policies, procedures, Uniform System of Accounts, rate case, financing and other industry and regulatory matters.

Q. Have you previously testified before this Commission?

A. Yes. I have testified before the Commission on numerous occasions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a summary of Staff's position regarding the proposed ownership transfer of Granite State Electric Company (Granite State) from National Grid USA and EnergyNorth Natural Gas, Inc. (EnergyNorth) from National Grid NE Holdings 2 LLC[1] to Liberty Energy Utilities (New Hampshire) Corp. (Liberty Energy NH)[2]. I also provide comments and recommendations regarding certain aspects of the transactions including the effects on Granite State's – and to a limited extent EnergyNorth's – utility rates, services and operations. In addition, I will discuss Liberty

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[1] Hereinafter, National Grid USA and National Grid NE Holdings 2 LLC will be collectively referred to as "National Grid." "National Grid" may also be used in a generic sense to refer to the corporate family from which Granite State and EnergyNorth are being transferred.

[2] Throughout the remainder of my testimony, "Liberty Energy NH" and "Liberty" are both used to refer to the parent company of Granite State and EnergyNorth.

Energy's managerial, financial and technical abilities as well as Liberty's plan to finance the stock transfers of Granite State and EnergyNorth.

Q. Before summarizing your testimony, do you have any general comments?

A. Yes. I want to make it clear at the outset that comments in my testimony reflecting my views on the electric side of the transaction should not be viewed in isolation. Nor should they be construed as overriding any comments made by other Staff witnesses regarding the transfer of EnergyNorth's gas operations or issues involving customer service, emergency response, the transfer of information technology systems and data, etc. This ownership transfer involves direct and indirect impacts to electric and gas utilities currently operating in New Hampshire, and the impacts to each of those utilities must be separately analyzed.

Q. Who else is submitting testimony on behalf of Staff?

A. In addition to my testimony, testimony is being filed by:

- Stephen Frink, Assistant Director of the Gas & Water Division, discussing the impacts of the proposed stock transfer on EnergyNorth and its customers;
- Randall Knepper, Director of the Safety Division, on the issues of safety and emergency response;
- Amanda Noonan, Director of the Consumer Affairs Division, regarding customer service issues and impacts; and
- Gregory L. Mann and Timothy M. Connolly of Gorham, Gold, Greenwich & Associates, LLC (G^3), discussing its investigation of Liberty Energy's information technology program, including plans for the transfer of data from National Grid to Liberty Energy.

Q. What is Staff's overall position regarding the proposed stock transfers?

A. Staff's recommendation is that the stock transfers not be approved as filed. Based on its review of the information provided in the filing as well as during the discovery process, it is Staff's position that there are many uncertainties that need to be addressed in order to provide more confidence not only in the ultimate success of the proposed transactions but also the future operations of Granite State and EnergyNorth.

Q. You stated that Staff's recommendation is that the stock transfers not be approved "as filed." Does Staff identify areas of concern and offer any specific recommendations that would help address what Staff currently sees as shortcomings or potential risks of the transactions?

A. Yes. Some of those recommendations are discussed in my testimony while others can be found in the testimony of other Staff witnesses.

Q. Please summarize your testimony and recommendations.

A. Notwithstanding Staff's position on the proposed stock transfers, my testimony describes my analysis of various aspects of the proposed transactions as if the transactions were to go forward. In terms of financing the transaction, Liberty Energy NH has proposed a plan that is reasonable in structure. While I do not have particular concerns regarding management or technical issues with respect to Granite State, there are many uncertainties regarding financial issues that need to be addressed and/or clarified. In relation to those issues and the stock transfers overall, I have made the following recommendations which are discussed further in my testimony:

- The Joint Petitioners must file for review and consideration certain agreements identified in their petition, namely the site agreement relating to the ongoing operation of six electric substations and a management services agreement relating to ongoing management services and working capital lending arrangements;

- Liberty must file for review and consideration the final terms and conditions of the long-term debt associated with financing the proposed transactions along with copies of the promissory notes to be executed by both Granite State and EnergyNorth and payable to Liberty Energy NH;

- Liberty must file copies of the finalized loan documents for its short-term credit facility;

- Liberty should consider including borrowing limitations applicable to each participant in the short-term credit facility;

- Liberty should a) provide additional information describing how it plans to ensure that the utilities within its family of companies have sufficient short-term funds available to meet their requirements and b) develop additional plans as necessary;

- Liberty should be required to file quarterly reports regarding the status of transition activities and the related costs;

- A financial contingency should be established to provide assurance of National Grid's continued commitment to performance with respect to the Transition Service Agreements; and

- Liberty must provide a clear description of exactly what costs are and are not included in transition costs, including full identification of all non-labor costs.

Without measures taken by Liberty Energy NH and National Grid to address identified areas of concern, I cannot at this time recommend approval of the stock transfer as filed.

Q. How have you organized your testimony?

A. My testimony begins with a discussion of the standard of review for utility ownership transfers. Next, I describe the transaction and provide some background on the parties involved in the acquisition of Granite State and EnergyNorth. That section is followed by analysis of the managerial, financial, and technical qualifications of Liberty Utilities, including discussion of ownership transition period issues. Finally, I discuss one issue related to another open docket that can be referred to as a "housekeeping matter."

II. Proposed Stock Transfer Transactions

a. Standard of Review for Acquisitions

Q. What standard(s) has Staff used to evaluate the approvals requested in the petition?

A. The petition requests the Commission to find that the acquisition of the stock of Granite State and EnergyNorth by Liberty Energy NH is in the public interest and to authorize the transfer of all the stock of the two public utilities to Liberty Energy NH in accordance with the relevant stock purchase agreements. These requests are based on the requirements and standards set forth in RSA 374:30 ("transfer of franchise, works or system . . .[must be] for the public good") and RSA 374:33 ("acquisition [must be] lawful, proper and in the public interest"). Petition, paragraphs 18-22. Under both statutes, the Commission has frequently applied the "no net harm" standard described in more detail below.

In addition, the petition requests approval pursuant to RSA 369:1 for the two public utilities to borrow money from Liberty Energy NH to help finance the acquisitions. This statute requires the Commission to find that the borrowings are "consistent with the public good" in order to approve them.

Staff has evaluated these requested approvals with reference to these standards.

The Joint Petitioners also request that the Commission approve the recording by the two public utilities of certain regulatory assets related to their pension plans and postretirement benefits other than pensions at fair market value at closing, as required by applicable accounting rules. In reviewing this request, Staff has considered applicable accounting requirements and has assumed for purposes of its analysis that the standards for approving the acquisitions are satisfied.

It should be noted that the petition indicated that the Joint Petitioners would be filing a site agreement relating to the ongoing operation of six electric substations where facilities of both Granite State and another subsidiary of National Grid USA, New England Power Company, are located and, pursuant to RSA 366, a management services agreement relating to ongoing management services and working capital lending arrangements that are anticipated between the two public utilities and certain affiliates of the ultimate parent of Liberty Energy NH. Since these agreements have not been filed, Staff has not had an opportunity to review them. Prior to any approval of the transfers, the Joint Petitioners should be required to file those agreements for review and consideration.

Q. Please describe your understanding of the "no net harm" standard mentioned above.

A. In *New England Electric System*, Order No. 23,308 (1999), the Commission explained that "[i]n essence, the 'no net harm' test requires approval of a transaction if the public interest is not adversely affected . . . . [The Commission] must assess the benefits and risks of the proposed merger [or acquisition] and determine what the overall effect on the public interest will be . . . ." The focus of the "no net harm" standard is thus on the effects of the proposed transaction on the public interest and on New Hampshire ratepayers. In this respect, it is closely related to the standard set forth in RSA 369:8, II (b)(1), which provides for Commission approval of an acquisition where the transaction will not have any adverse effect on rates, terms, service, or operation of the public utilities.

The Commission has stated "in applying [the applicable standards of review], we consider all the interests involved and all the circumstances in determining what is reasonable," citing *Grafton County Electric Light and Power Co. v. State*, 77 N.H. 539, 540 (1915), *Parker-Young Co. v. State*, 83 N.H. 551, 561-562 (1929) and *Appeal of Pinetree Power*, 152, N.H. 92, 97 (2005). *National Grid plc et al.*, Order No. 27,777 (July 12, 2007) at 70-71; *see also Unitil Corporation,* Order No. 24,906 (October 10, 2008) at 32. Among the important circumstances to be considered and weighed are the managerial, technical, and financial capabilities of the acquirer, the corporate commitment by all the Joint Petitioners to the success of the acquisitions, and the financial costs of the acquisitions to ratepayers. These considerations will be discussed in detail throughout my testimony.

b. Background on Algonquin/Liberty Energy NH

Q. Please provide some background on Algonquin and Liberty Energy NH.

A. A full description of Liberty Energy NH and its corporate structure can be found in the testimony of Ian Robertson, the Chief Executive Officer of Algonquin Power & Utilities Corp. (Algonquin). In brief, Liberty Energy NH is a wholly owned subsidiary of Liberty Energy Utilities Co., which in turn is a wholly owned subsidiary of Liberty Utilities Co.

Liberty Utilities Co. is a wholly owned subsidiary of Liberty Utilities (Canada) Corp., a wholly owned subsidiary of Algonquin established for Algonquin's regulated businesses. According to Mr. Robertson, Liberty Energy has formed a separate state-level subsidiary for each state in which it intends to operate. As relates to the instant proceeding, Granite State and EnergyNorth would be wholly owned by Liberty Energy NH.

Q. Prior to this transaction, were you familiar with Algonquin and Liberty Utilities?

A. Regarding Algonquin, I was aware that it owned a number of small hydroelectric generating plants in New Hampshire. Liberty Utilities was a name that was new to me.

Q. Given your general unfamiliarity with Algonquin and Liberty, especially as it relates to the ownership and operation of regulated electric and gas distribution utilities, does that create some concerns about the viability of the transaction?

A. Any time one is faced with previously unknown circumstances as opposed to familiar circumstances, there are always additional questions and concerns that might not otherwise have arisen. Accompanying the uncertainty is also a layer of caution. Such situations, however, also provide the opportunity for fresh perspectives and new opportunities.

Q. Has Liberty testified to any expected benefits to customers as a result of its ownership that, in its view, support its position that the transfers are in the public interest?

A. Yes. Mr. Robertson's testimony identified the following considerations as support for the stock transfers being in the public interest:[3]

- Transaction Structured to Preserve Safety and Reliability of Service
- Experienced Utility Owner
- Algonquin Model Emphasizes Local Presence

[3] Testimony of Ian Robertson at 29-32 of 32.

- Improved Regulatory Transparency
- No Impact on Rates from Stock Transfers
- Financially Capable Owner
- Focus on Reinvestment in New Hampshire

Q. Please provide your comments on those items.

A. Many of those considerations will be discussed later in my testimony. However, I will offer some general observations at this point. Liberty has stressed that its business model is one of decentralization. That is, compared to National Grid's highly centralized corporate structure, Liberty Energy NH will be much more locally managed and operated. Along those lines, Liberty plans to establish a New Hampshire headquarters and call center, will be hiring additional New Hampshire workers, and plans to open walk-in customer service centers. In addition, Liberty intends to provide continuity of electric and gas service by employing many of the same individuals to operate the utility systems who are currently operating the systems for National Grid.

Q. Please comment on Algonquin's experience as a utility owner.

A. While it is true that Algonquin has been providing utility service to water and wastewater customers in other states for approximately ten years, it has no experience owning and operating a gas distribution utility, and its experience owning and operating an electric distribution utility is very limited, with such experience only beginning on January 1, 2011 with its acquisition of the assets of California Pacific Electric Company, LLC (CalPeco) from Sierra Pacific Power Company. While it is important to know the ins and outs of the regulated utility business in general, the recent expansion into the electric and gas distribution businesses will present Algonquin with new challenges. Algonquin has also announced plans to acquire additional gas and water utilities in other parts of the country.[4]

Q. To what areas of New Hampshire does Granite State currently provide electric service?

A. Granite State provides electric service to over 42,000 customers in located in the southern and western portions of New Hampshire and has operating centers located in Salem, Lebanon and Charlestown.

Q. What has been the Staff's experience in relation to its interactions with Granite State under National Grid's ownership in recent years?

A. I think it can be best described as a "mixed bag." While National Grid does have competent employees, it seems that in many areas of the company, people's jobs and/or their responsibilities have been in a constant state of flux in recent years. From a regulatory perspective, trying to get answers to questions has been very frustrating at times as sometimes it can take a while just to find the proper person to answer a particular question. In speaking with our Audit Staff, I also know that many times they have run into difficulties trying to verify information due to a combination of the personnel issues I just discussed and dealing with computer systems that do not communicate well with each other.

Q. You mentioned above that Mr. Robertson highlighted Algonquin's focus on maintaining a local presence. How does that compare with the current situation with National Grid?

A. As mentioned earlier, National Grid has a centralized corporate structure based in Massachusetts. As part of that centralization, National Grid does not have a New Hampshire headquarters and the company executives are located out of state. Related to

[4] See Attachment SEM-1, Algonquin press releases dated April 19 and May 13, 2011.

that, operating decisions are based more on a corporate-wide basis. Conversely, Liberty Energy NH's focus on local operations would be a welcome change that, in the event the transfers are eventually approved, Staff would view as something important not just for the short-term but continuing on into the future.

III. Discussion of Managerial Issues

Q. What have been your impressions of the Algonquin/Liberty Energy management personnel to this point in the proceeding?

A. I have found the management to be highly competent, well-spoken and responsive. They seem very eager and committed to take on the challenges of owning and operating Granite State and EnergyNorth.

Q. Please comment on the managerial structure that has been proposed for Liberty Energy NH.

A. The organizational structure they have put forward in this case appears to be well thought out. In addition, although the hiring process is continuing – and will, in many cases continue throughout the transition period – Liberty appears to be hiring qualified individuals. Of course, managing utilities involves not only people but providing those people with the proper resources (e.g., computer systems) to effectively and efficiently perform their jobs. Extensive discussion of Liberty's plans regarding implementing and transferring computer systems and data is included in the testimony of Staff's consultant, G^3.

Q. You mentioned that they have been "responsive." Could you expand on that?

A. Liberty has provided most answers to questions in a timely manner. One caveat to that, however, is that in many cases we have received responses to the effect of "we are working on that and will provide it a later date." While such responses can be understandable in certain respects, especially as many services will not be provided by Liberty Energy on Day 1 but will instead be provided by National Grid through Transition Service Agreements, they do make analyzing the pros and cons of the proposed stock transfer transaction more challenging as what is left for consideration in many areas are unknowns and uncertainties.

Q. Do such unknowns and uncertainties cause you to recommend disapproval of the stock transfers?

A. Not automatically, but they certainly bring to light an element of risk involved in proceeding with the transfers. Granted, there are risks involved in any proposed transfer of utilities that provide vital services to customers. I do not believe that the risks in this proceeding are insurmountable by any means, but the challenge is to develop appropriate means of containing and limiting those risks.

IV. Discussion of Financial Issues

a. Transaction Financing

Q. How does Liberty plan to finance the proposed stock transfers?

A. As described in the testimony of Ian Robertson and the joint testimony of Gerald Tremblay and David Bronicheski, the aggregate purchase price of the transactions is approximately $285 million. Of that total, Liberty plans to fund approximately $135 with equity and the remainder with debt.

Q. How does Liberty plan to obtain the equity financing?

A. As described in the testimony of Ian Robertson, the equity financing will be obtained in two parts. $60 million has already been obtained through a subscription commitment from Algonquin's largest shareholder, Emera, Inc. Algonquin plans to raise the remaining equity through a public offering that will occur close to the time of the stock transfers.[5] Algonquin plans to have an equity offering of a size that will not only provide funds for the acquisition but will also provide funds for equity contributions for other subsidiaries and other corporate purposes.

Q. Please provide further information regarding Emera and its relationship to Algonquin and the particular aspects of this proceeding.

A. On April 29, 2011, Algonquin Power & Utilities Corp. entered into a Strategic Investment Agreement (SIA) with Emera, Incorporated. At the time of filing testimony, which predated the SIA, Mr. Robertson described Emera's role as follows:

> Emera is an energy holding company with approximately $5.8 billion (US) of energy related assets. In addition to its role as our largest individual shareholder, Emera's President and CEO, Chris Huskilson, is one of six directors of Algonquin. In addition, the two companies are in the process of negotiating a more formal strategic alignment relationship to allocate investment opportunities between Emera and Algonquin. It is anticipated that, under such a strategic arrangement, Algonquin would be Emera's preferred vehicle to invest in small to moderate sized utility acquisitions together with investments in renewable power projects. Consistent with this approach, Emera staff participated in Algonquin's technical, financial and other due diligence evaluation teams formed to advise Algonquin in respect of its decision to purchase Granite State and EnergyNorth. . . Participating indirectly through an equity position in Algonquin provides Emera the opportunity to enjoy the benefits of owning and operating smaller U.S. utilities that, given the diseconomies of scale, would not otherwise make sense for Emera to own outright. As an example, Emera is currently developing a $1.8 billion generation and transmission project from Canada into the U.S. In light of investment opportunities of that magnitude, we understand

[5] Testimony of Ian Robertson at 16 of 32, lines 1-5.

> that Emera believes that it is not practical or efficient for its management team to focus on the acquisition and operation of modest sized utilities such as Granite State and EnergyNorth. By contrast, given the relative difference in size between Emera and Algonquin, Granite State and EnergyNorth (which together will constitute close to 20 percent of our asset base going forward) represent an important strategic investment for Algonquin.[6]

Following the execution of the SIA, Staff asked Liberty whether Emera would have any financial, managerial or corporate governance role with respect to Liberty Energy. In response, Liberty stated,

> The only import of the SIA on the acquisition transaction is that Emera's equity interest in Algonquin has the potential to increase over time to a 25% holding. The CEO of Emera, Chris Huskilson, is currently a member of the Board of Algonquin, and this will not change. Emera will not acquire a management or corporate governance role through the SIA. The treasury subscription of subscription receipts by Emera convertible into 12.0 million common shares of Algonquin will assist in financing the acquisition transaction and is consistent with the SIA.[7]

Q. In your view, what implications does the existence of the SIA with Emera have for the proposed transactions in this proceeding?

A. As the SIA provides for Algonquin and Emera to jointly pursue certain types of business opportunities, and as Emera is Algonquin's largest shareholder whose ownership interest could rise to as high as 25% over time, Emera has a vested interest in the success of Algonquin including the proposed stock transfers of Granite State and EnergyNorth. With that in mind, and given Algonquin's and Emera's shared interest in pursuing investment opportunities, the SIA provides the existence of potential additional future financial backing and involves an entity with experience in managing United States based energy distribution utility businesses.

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[6] Id. at 16-17 of 32.
[7] See Attachment SEM-2, Liberty response to Staff 2-34.

Q. What are Liberty's plans concerning the debt financing?

A. During a technical session held on September 7-8, 2011, Liberty presented the following information in terms of indicative pricing for the transaction over various debt maturities:

Maturity	5 yrs	7 yrs	10 yrs	12 yrs	15 yrs
Yield Range	3.07–3.57%	3.71–4.21%	4.43–4.93%	4.58–5.08%	4.83–5.33%

Regarding the expected maturity of the debt, Liberty stated that it was targeting a 10-year maturity.

Q. How much of the debt will be assigned to Granite State and EnergyNorth?

A. At the time of its filing, Liberty testified that the amount of the debt assigned to the utilities would not exceed $120 million, with the amounts assigned to Granite State and EnergyNorth being $35 million ($20 million of new debt in addition to $15 million of existing debt) and $85 million, respectively. As of the September 7-8 technical session, those amounts of new debt for each of the utilities had been revised to $23 million for Granite State and $77 million for EnergyNorth.

Q. What caused the change?

A. Liberty explained that in keeping with its plan to capitalize both utilities using 45% debt, the revisions were related to estimated increases in rate base amounts expected at closing as compared to the original estimates.

Q. Will the terms and conditions of the debt for Granite State and EnergyNorth be the same as those for Algonquin?

A. Yes. Liberty stated in a discovery response, "The debt is expected to be passed through at the rate and costs incurred by Liberty Energy NH."[8]

Q. Has Staff had the opportunity to review the loan documents?

[8] See Attachment SEM-3, Liberty response to Staff 2-97.

A. No. As discussed in the filing, upon Algonquin's issuance of the long-term debt, Granite State and EnergyNorth will each issue promissory notes to Liberty Energy NH for their respective portions of the allocated debt. The debt documents, however, have not yet been finalized. Therefore, Staff intends to reserve its rights to revise its comments regarding the debt upon reviewing the finalized terms and conditions.

Q. As a result of Liberty's financing plans, what would be the impact to Granite State's capital structure and overall cost of capital?

A. As explained earlier, Granite State is currently subject to a multi-year settlement agreement from Docket No. DG 06-107 that established its overall capital structure using 50% debt and 50% equity. The following table presents an analysis of Granite State's overall capital structure and cost of capital using a) actual balances as of June 30, 2011; b) the hypothetical capital structure used in DG 06-107; and c) the proposed capital structure that would exist for Granite State if the stock transfers are approved[9]:

	Actual @ June 30, 2011			@ Settlement 50/50 Structure			As Proposed by Liberty		
Component	Ratio	Cost Rate	Weighted Cost Rate	Ratio	Cost Rate	Weighted Cost Rate	Ratio	Cost Rate	Weighted Cost Rate
Common Equity	82.93%	9.67%	8.02%	50.00%	9.67%	4.84%	55.00%	9.67%	5.32%
Long-Term Debt (Existing)	17.07%	7.54%	1.29%	50.00%	7.54%	3.77%	18.00%	7.54%	1.36%
Long-Term Debt (New)							27.00%	5.00%	1.35%
Totals	100.00%		9.31%	100.00%		8.61%	100.00%		8.03%

Q. Please explain the results of your analysis.

A. As shown in the table, the overall cost of capital resulting from this transaction would actually be lower than the existing cost of capital using either Granite State's current

[9] For the purpose of this analysis, I used an assumed 5.00% cost rate for the new debt which roughly estimated the indicative long-term debt rates described earlier in my testimony. The actual cost of capital for Granite that results from the stock transfer transaction will depend on the final pricing of the long-term debt. Also, I used the 9.67% return on equity that was approved in DG 06-107. The appropriate return on equity to be applied to Granite State on a going forward basis will be a subject of its next distribution rate case.

actual capital structure or the hypothetical capital structure included in the DG 06-107 settlement.

Q. Please comment on the appropriateness of the proposed capital structure of 55% equity and 45% debt.

A. Overall, the plan to capitalize Granite State and EnergyNorth with 55% equity and 45% debt appears reasonable. Although such a capital structure could be considered slightly thick in terms of its equity composition, Mr. Robertson explained during the September 7-8, 2011 technical sessions that Liberty made the decision to have thicker equity initially as there will be no initial rate change as a result of the stock transfer transactions and will leave it to the Commission to determine the appropriateness of the capital structure.

Q. Do you think such a position is reasonable?

A. Yes. I view the proposed capital structure as a reasonable starting point, especially given that Granite State's earnings are currently less than robust. Consistent with Mr. Robertson's statement, the appropriateness of Granite State's capital structure is a subject that will be fully reviewed during the expected distribution rate proceeding that will be filed during 2012.

Q. It is notable that there is no short-term debt in the proposed capital structure. Why is that?

A. Granite State has historically not carried significant balances of short-term debt. In the upcoming rate case, we will examine Liberty's use of short-term debt and make any appropriate recommendations with regard to the capital structure at that time.

b. Other Financial Issues

i. Sources of Short-Term Debt

Q. Do you have any additional comments regarding Liberty's financing plans in general?

A. Yes. During the discovery process, Liberty was asked about planning for Granite State and EnergyNorth's short-term debt needs. In response, Liberty stated,

> Algonquin will be arranging for a revolving bank credit facility that is appropriate for meeting the short term financing requirements of Granite State and EnergyNorth. The financing will be arranged with a syndicate of US banks experienced in the utility sectors.[10]

Q. What details do you know about the proposed short-term debt financing?

A. Although not a component of financing the stock transfers, Liberty is in the process of finalizing a $60 million short-term credit facility. According to discussions with Liberty during technical sessions held on September 7-8, 2011, the credit facility will support all utilities within the Liberty Utilities family, which, according to Mr. Robertson's testimony, currently include nineteen water and wastewater utilities and CalPeco.[11] At the time of our discussions, Liberty anticipated that the credit facility would have a term of three years and be priced at either U.S. Prime less 1% (2.25%) or LIBOR plus 1.75% (1.95%). Liberty further expected to close on the short term debt financing during September 2011.

Q. What are your thoughts regarding the proposed short-term debt financing?

A. Providing a readily accessible source of short-term debt funding is a reasonable course of action and the targeted pricing is also reasonable. I do have some concerns, however,

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[10] See Attachment SEM-4, Liberty response to Staff 2-115.
[11] Testimony of Ian Robertson at 8 of 32, lines 5-9.

regarding what has been described as the unlimited ability of any Liberty Utilities company to draw on the facility. That is, Liberty has stated that the credit facility will have no restrictions as to the amount any particular company could draw from it. With at least twenty-two utilities potentially drawing from the facility, I also have concerns regarding the adequacy of the total amount of the facility.

Q. Would this credit facility be available for only those utilities that currently exist in the Liberty Utilities family, or will it also be available to utilities that will be subsequently acquired?

A. As it was explained during a technical session, the $60 million credit facility will be available to current and future utilities in the Liberty Utilities family. Without having seen the finalized documents, I can only go on the verbal representations that have been made to date. Liberty should file copies of the short-term credit facility documents when finalized.

Q. What concerns do you have with any individual utility's unlimited ability to draw upon the facility?

A. I am concerned that circumstances involving a major event such as a storm or other types of emergencies may create situations where one or more of the utilities in the Liberty Utilities family may have immediate or simultaneous needs for short-term debt. Such needs could severely limit the ability of other utilities within the corporate family to obtain low-cost short-term funds.

Q. Do you have a recommendation as to how to address this potential problem?

A. Yes. While it is common for utilities within a corporate family to share a revolving credit facility, it is also common that the loan documents include specific borrowing limits applicable to each potential drawer on the facility. The limits are developed based on the respective size and needs of the individual utilities. I recommend that Liberty consider including such limitations in the loan documents supporting the short-term credit facility.

Q. Do Granite State and EnergyNorth currently have Commission-imposed limitations on short-term debt borrowing authorization?

A. Yes. Granite State is subject to the restriction found in Commission rule Puc 307.05 that limits an electric utility's short-term (i.e., less than 12 months maturity) debt to 10% of the utility's net fixed plant without prior Commission approval. Based on Granite State's June 30, 2011 Form F-1, the current limitation pursuant to that rule would be approximately $7.6 million.

EnergyNorth currently has two short-term debt borrowing limits.[12] For fuel financing purposes, the level is reset annually at 30% of the total gas costs. For non-fuel purposes, EnergyNorth can borrow up to 20% of its forecasted net plant for the next calendar year. Using information provided in EnergyNorth's most recent cost of gas filing, the short-term borrowing limits for fuel and non-fuel purposes are $19.6 million and $52.4 million, respectively.

Q. Do you know if Liberty has any plans to request revisions to those short-term debt limits?

A. Liberty has testified that the short-term borrowing limits for both Granite State and EnergyNorth are adequate and do not require any changes.[13]

Q. Has Granite State historically operated within the short-term debt limitations of

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[12] See Order No. 24,824 (February 29, 2008) in Docket No. DG 06-122.
[13] Testimony of Peter Eichler at 16 of 20, lines 9-13.

Puc 307.05?

A. Yes.

Q. If Granite State and EnergyNorth were to maximize their respective short-term debt borrowing authority by drawing on the credit facility, how much would be available for other utilities in the Liberty Utilities family?

A. If Granite State and EnergyNorth both needed to maximize their short-term borrowing needs, for whatever reasons, they would collectively have exhausted the total $60 million available, assuming that no other utility had drawn upon the facility. Even with the $60 million, Granite State and EnergyNorth would not have sufficient short-term funds available to them. To further demonstrate the point, at December 31, 2010, EnergyNorth alone had an outstanding short-term debt balance of approximately $51 million.

Q. Could the situation also be reversed? That is, could the availability of short-term funds to Granite State and EnergyNorth be impaired by the level of borrowings undertaken by other Liberty Utilities companies?

A. Yes. Other than the fact that none of Liberty Utilities' existing subsidiaries had any short-term debt in 2010,[14] I am unaware of the extent to which each of the current and potential future members of the Liberty Utilities family has historically used short-term debt or is otherwise limited by directives such as loan covenants or other regulatory restrictions. However, the potential exists that Granite State and/or EnergyNorth could find that available short-term funds at a time of need may be limited. If that were to happen, then Granite State and EnergyNorth would have to resort to alternative, potentially more costly sources of funding.

Q. Do Granite State and EnergyNorth currently participate in money pools that

[14] See Attachment SEM-5, Liberty response to Staff 4-114.

provide them access to short-term debt funding?

A. Yes.

Q. Please briefly describe what a money pool is and how it operates.

A. A money pool is an intercompany arrangement involving affiliated companies through which participating companies can contribute available funds on hand, thereby making those funds available for short-term loans to other participants.

Q. Does Liberty plan to establish a money pool to help meet the funding needs of its utilities?

A. In response to a discovery request, Liberty stated that it "…plans to fund Granite State and EnergyNorth independently; however, Liberty Energy may consider a money pool arrangement if deemed to be beneficial."[15]

Q. Does Liberty have any additional potential sources of short-term debt available for its utilities?

A. I am not aware of any other short-term funding sources.

Q. Taking into account what you've described as the inadequacy of the $60 million short-term credit facility as well as your recommendation regarding limiting the borrowing ability of individual utilities from that facility, what are your general comments regarding Liberty's short-term debt plans?

A. Based on what I am aware of at this time, it appears that Granite State and EnergyNorth could find themselves in situations in the future where they may not have access to sufficient short-term debt to meet their needs. Liberty should a) provide additional information describing how it plans to ensure that the utilities within its family of companies have sufficient short-term funds available to meet their requirements, and b)

[15] See Attachment SEM-6, Liberty response to OCA 1-8.

develop additional plans as necessary.

ii. Pension/OPEB Regulatory Asset and Section 338(h)(10) Election

Q. Are there any other financial issues you would like to discuss?

A. Yes, there are two. Specifically, as part of the stock transfers, Liberty has requested approval of a regulatory asset related to pension and other post-employment benefit (OPEB) costs. In addition, as related to the Granite State stock transfer, Liberty will be making a Section 338(h)(10) election for tax purposes.

Q. Please provide details concerning the pension/OPEB regulatory asset.

A. The pension/OPEB regulatory asset is discussed in the joint testimony of Messrs. Tremblay and Bronicheski.[16] In summary, they stated that the requested regulatory asset is in accordance with purchase accounting rules and involves valuing the pension and OPEB assets and liabilities at fair market value at the time of the acquisition. Granite State's and EnergyNorth's pension and OPEB accounting currently has an unrecognized component that is being amortized to expense. Liberty is proposing to defer those unrecognized amounts and amortize them to expense over the same period that is used for pension and OPEB expense.

Q. In the event the stock transfers go forward, do you recommend that the proposed regulatory asset be approved?

A. Yes. The proposed accounting treatment is consistent with my understanding of purchase accounting requirements.

Q. Please provide details concerning the Section 338(h)(10) tax election Liberty is proposing to make with respect to Granite State.

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[16] Testimony of Tremblay/Bronicheski at 18-19 of 19.

A. Section 3.3 of the Stock Purchase Agreement for Granite State[17] spells out the details of actions to be taken by both National Grid and Liberty Energy in support of a Section 338(h)(10) election pursuant to the Internal Revenue Code. Briefly, such an election allows a stock purchase (under certain circumstances) to be treated as an asset purchase for tax purposes. As a result, the tax basis of the assets is stepped-up in an amount equal to the purchase price. Such a step-up in basis results in there being no accumulated deferred tax balances once the transaction closes. Granite State, however, currently has accumulated deferred tax balances that serve as a reduction to rate base. As relates to the proposed stock transfer, Liberty has stated that it will "maintain the accumulated deferred tax balances for regulatory purposes so there should be no difference to ratemaking as a result of the 338(h)(10) election."[18] Staff intends to hold Liberty to its commitment that there will be no impact of the election for regulatory purposes.

Q. Will the same election be made with respect to EnergyNorth?

A. No. As stated by Liberty, the election does not apply to the proposed EnergyNorth transfer because

> EnergyNorth had a higher level of tax basis in its stock as compared to its basis in its assets, so a "deemed" asset sale for tax purposes would not have result[ed] in a tax efficient transaction.[19]

V. Post-Acquisition Issues including Transition Period

a. Cost Allocations

Q. Regarding cost allocations, has Liberty explained its current cost allocation process?

[17] Joint Petitioners' Attachments, Book 1 of 3, Attachment 3, Bates pp. 23-25.
[18] See Attachment SEM-7, Liberty response to OCA 2-10.
[19] See Attachment SEM-8, Liberty response to OCA 2-11.

A. Yes. Mr. Eichler described the methodology in his testimony and attached a copy of Algonquin's cost allocation manual to his testimony. In summary, Algonquin's cost allocation principles involve the use of as much direct charging as possible, with certain shared services allocated to the Liberty companies using a four-factor weighted average of rate base/utility plant (50% weight), total customers (40% weight), non-labor expenses (5% weight) and labor (5% weight).

Q. Does Liberty plan to use the same cost allocation process upon taking ownership of Granite State and EnergyNorth?

A. Yes. Mr. Eichler indicated that the cost allocation process for Liberty Energy NH will be the same as the process that is currently in place.

Q. Has Liberty requested any approvals of its cost allocation process in this proceeding?

A. No.[20]

Q. Do you have any recommendations regarding the cost allocation process?

A. Yes. In light of the fact that Liberty is actively pursuing the acquisition of additional utilities, and with Granite State's planned rate case in the near future, I recommend that the cost allocation process be fully evaluated as part of Granite State's upcoming rate case. Given the number of changes that will take place within the Liberty Utilities family in the near future, it will be important to fully examine whether the allocation factors, the respective weights and, therefore, the resulting costs are appropriate or if they need to be revised in any manner. Additional discussion regarding cost allocations can be found in the Technical Report of G^3.

[20] See Attachment SEM-9, Liberty response to Staff 3-58.

b. Future Cost Levels for Granite State

Q. Is Liberty expecting its annual post-acquisition operating costs to be higher than Granite State's current level of operating costs as a result of this transaction?

A. Liberty has repeatedly represented that it expects to be able to provide electric service to Granite State's customers at a cost level approximate to Granite State's current level of costs as a National Grid company. For example, when asked if rates are expected to be higher than they would have been under continued ownership of Granite State and EnergyNorth by National Grid, Messrs. Tremblay and Bronicheski testified as follows:

> We expect to be able to operate Granite State and EnergyNorth based on an overall cost structure that will be similar to what customers would experience under National Grid ownership, given similar levels of service.[21]

Q. What are your comments regarding that statement?

A. While I can certainly understand why they would make such a statement, and why that would be Liberty's expectation at this point in time, there is too much uncertainty at this time to make a definitive statement regarding ongoing cost and rate levels. The statement reflects more as what can be viewed as a simplifying assumption. Certain factors, such as Liberty's development of a New Hampshire operations base, development of new information technology platforms and Liberty's decentralized management structure versus National Grid's centralized management structure all add many variables to the mix. Only with the passage of time will those variables begin to stabilize, thereby allowing a true picture of costs and rates going forward.

[21] Testimony of Tremblay/Bronicheski at 14 of 19, lines 2-7.

Q. Has Liberty provided any budgeted cost information for the post-acquisition period?

A. Yes. As pertains to Granite State, Liberty has projected that the total operation and maintenance costs for fiscal year 2012 will be approximately $17.5 million. In deriving that budgeted amount, Liberty used Granite State's actual annual costs for the fiscal year ended March 31, 2011, made adjustments to eliminate certain one-time items as well as eliminate other non-applicable items and inflated the remaining costs by 2.5% to arrive at an initial proforma estimate of operation and maintenance costs of $16.2 million for 2012. To that estimate, Liberty then made certain adjustments based on its staffing projections and expected building rent costs to arrive at an adjusted annual level of 2011 costs of $17.1 million. Finally, that adjusted level of costs was inflated by 2.5% to arrive at the projected annual O&M costs of $17.5 million.[22]

Q. Using the above explanation, is it correct to state that Liberty is projecting higher annual O&M costs for Granite State than what would have been expected under National Grid's ownership?

A. Yes. Looking at the "variance" column on the attachment to Liberty's response to Staff 2-111, the expected increases total approximately $900,000, or 5.5%, and are in the areas of labor and rent, with a small offset in the area of corporate non-labor costs. This appears to be at odds with Liberty's statements about providing service at a level of costs approximate to Granite State's current costs.

Q. How are those costs broken down between costs incurred directly by Liberty Energy and those related to costs emanating from the transition service agreements (TSAs)?

A. Approximately $7.2 million of the annual costs in the first year after the transfer of

[22] See Attachment SEM-10, Liberty response to Staff 2-111, Attachment pp. 1-2.

ownership are estimated to be paid to National Grid for services rendered pursuant to the TSAs. The remainder of costs will be incurred directly by Liberty.

Q. How will the services provided under the TSAs be priced?

A. Services provided by National Grid under the TSAs will be priced at cost, with no profit mark-up.[23]

Q. Do the TSAs cover all of the cost areas that can generally be referred to as "transition costs?"

A. That is unclear, but the impression I have at this time is that the answer is "no." I base that impression on Liberty's supplemental response to Staff 1-27.[24] In that response, Liberty identified $630,000 of "transition costs" and stated that since those costs "relate to system implementation that is likely to result in future benefits for New Hampshire customers, Liberty Energy NH will likely apply for recovery of these costs through rates."[25] I do not know how much of the costs would be allocated to Granite State and EnergyNorth or how Liberty plans to make such allocations.

Q. Are there other uncertainties you have regarding "transition costs?"

A. Yes. I am unsure at this time to what extent the transition costs are included in the operation and maintenance budgets I described earlier. For example, it is unclear how much, if any of the costs related to training on new IT systems are included. In addition, despite several attempts during the discovery process to get a detailed breakdown of the transition costs by type of service, we are still left with questions such as: the specifics of non-labor costs and why they are or are not included in various cost areas; whether vendor costs for services such as bill printing and mailing have been included; and other

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[23] See Attachment SEM-11, Liberty response to OCA 2-19.
[24] See Attachment SEM-12.
[25] Id.

similar types of questions. Furthermore, National Grid has recently undergone an audit of its costs allocations. As a result, it is my understanding that National Grid is currently reassessing its cost allocations, and potential changes to those allocations are provided for in the TSAs.[26] Taking all of this into account, rather than Staff going forward on the basis of making assumptions about the transition costs, Liberty Energy NH must provide a clearer picture of its overall transition costs and what is accounted for where.

Q. Has Liberty provided any financial forecasts related to its operation of Granite State and EnergyNorth that extend beyond 2012?

A. On October 3, 2011, Liberty Energy NH provided five-year financial forecasts covering the years 2012-2016.[27] Prior to that date, the only post-2012 projection we had was a five-year capital budget for Granite State.[28] That capital budget was developed by National Grid and covers the fiscal years 2012-2016. Liberty has made no changes to that budget and stated that it initially "…expects to adopt National Grid's capital plan; with the intention of reviewing and amending as required by business conditions."

Q. Having reviewed the five-year forecasts, what are your comments?

A. The forecasts for Granite State are based on the 2012 O&M budget that I described earlier and National Grid's existing capital budget. Other than assumptions regarding 1% annual growth in customers, 0.25% annual growth in usage and 2% annual inflation, the only other change in the forecast for Granite State involves an estimated revenue increase in 2014, which I assume results from the upcoming distribution rate case, although it is not specifically identified. The underlying main assumption remains that Liberty expects the overall cost structure for Granite State to be about the same as it currently is under

[26] Joint Petitioners' Attachments, Book 2 of 3, Attachment 9, Bates pp. 147.
[27] See Attachment SEM-13, Liberty response to Staff Technical Session request 2-21.
[28] See Attachment SEM-14, Liberty response to OCA 1-20.

National Grid. Consistent with my earlier statements regarding variables (including currency exchange rate fluctuations) that will come into play over time as well as uncertainties related to transition costs, it remains to be seen whether the simplifying assumptions will prove out. In some ways, Liberty's use of simplifying assumptions at this point in the process regarding the future can been seen as dovetailing with G^3's comments regarding Liberty's bifurcation of its planning process to deal more with Day 1 (date of transfer) issues versus those issues that continue through the end of the transition period (Day N) and beyond.

c. Transition Period Reporting

Q. Given all your comments and concerns regarding Granite State's future costs, what is your recommendation with respect to Granite State's ongoing levels of costs and rates?

A. Given the uncertainty due to the factors I described above along with Liberty's plan to file a distribution rate case during 2012, I recommend that the Commission make no ruling at this time about the recoverability of transition costs that are in excess of Granite State's current level of operation and maintenance costs. In addition, I recommend that the Commission require Liberty to file periodic reports throughout the transition period.

Q. Do you have any specific recommendations regarding those recommended reporting requirements?

A. Yes. The transition period will vary depending on the particular tasks involved as well as the functional areas involved. If the stock transfers are approved by the Commission, I recommend that, in addition to other filings that are already required pursuant to statutes, rules and orders, Liberty be required to make quarterly filings providing the Commission with updates for each of the transition areas regarding:

- updated timetables;
- costs incurred to date;
- estimated costs over the remainder of the transition period;
- services added;
- services deleted;
- changes in cost allocations;
- updated organization charts; and
- periodic financial forecasts.

Providing such information will keep the Commission apprised not only of progress on the transition plans, but will also provide notice of any problems or concerns that arise during the transition period as well as the continued development of Liberty's operating plans.

d. Future Distribution Rate Case for Granite State

Q. What are Granite State's current earnings compared to its most recent allowed return on equity?

A. Based on Granite State's most recent form F-1 filed in accordance with Puc 308.11, for the twelve months ended June 30, 2011, Granite State reported an overall rate of return of 2.80% which, based on Granite State's actual capital structure of 83% equity and 17% debt, translates to an earned return on equity of 1.51%. However, Granite State is currently subject to a multi-year fixed[29] rate agreement that uses a 50/50 debt-to-equity hypothetical capital structure. Using that capital structure, Granite State's earned return on equity is (1.96%). The allowed return on equity included in the multi-year rate settlement is 9.67%.

[29] Although I use the word "fixed," there is limited ability for Granite State to adjust its distribution rates, as set forth in the settlement agreement in DG 06-107.

Q. When does the multi-year rate agreement period end?

A. The rate plan period terminates on December 31, 2012.

Q. Considering the recent financial results along with the upcoming termination of the fixed rate period, would you have expected Granite State to file a distribution rate case at the end of that period?

A. Yes.

Q. Has Liberty stated its plans with regard to filing a distribution rate case?

A. Yes. Assuming the stock transfers are approved, Liberty has stated that it plans to file a rate case during 2012 for rates effective January 1, 2013.

Q. Is it your testimony, then, that regardless of whether or not Liberty acquires ownership of Granite State, Granite State customers would experience a distribution rate increase as soon as January 1, 2013?

A. Yes.

Q. As you look ahead to the upcoming distribution rate case, does ownership of Granite State by Liberty create any challenges for that case?

A. Considering that Liberty would have owned Granite State for only approximately one year prior to the planned implementation of new distribution rates, there will not be much history to develop a track record of costs and trends in costs. In addition, trying to develop rates on a going forward basis will also be complicated by the fact that not only will many of the services during the one-year historical period be provided by National Grid through TSAs, but many of those services will be through TSAs for part of the year with Liberty directly providing them the remainder of that year. The rate case will, however, provide an excellent opportunity to evaluate programs and costs in all areas and give them a fresh look.

Q. In terms of programs, what do you expect with regard to certain programs such as the Reliability Enhancement Program (REP) and the Vegetation Management Program (VMP) that were created as part of the DG 06-107 settlement?

A. I fully expect all such programs, and all terms and conditions of the DG 06-107 settlement for that matter, to be fully adhered to by Liberty through the scheduled end of the rate plan period of December 31, 2012. As stated above, the upcoming rate case will provide a fresh opportunity to reevaluate the programs to determine whether they should be revised, expanded or terminated.

Q. Has Liberty expressed its commitment to the terms and conditions of the DG 06-107 settlement agreement?

A. Yes. With respect to Granite State, the testimony of Peter Eichler included a statement that Liberty was not seeking to change any of the rate adjustment mechanisms that are included in the DG 06-107 settlement agreement, including the REP and VMP. In addition Mr. Eichler stated:

> We believe these rate adjustment mechanisms represent important regulatory responses to particular circumstances and are critical to supporting and encouraging the capital investment that is necessary to maintain and improve system reliability.[30]

In the event the stock transfers are approved, Staff will seek to hold Liberty to those commitments.

Q. What are National Grid's plans regarding its IT systems?

A. Based on discussions and discovery in this case, National Grid is currently in the process of evaluating, consolidating and upgrading its IT systems. Further

[30] Testimony of Peter Eichler at 13of 20, lines 8-10.

discussion of this subject is contained in the testimony of G3.

Q. Without the proposed stock transfers, would a portion of the cost of those IT upgrades be recovered from Granite State customers?

A. Yes, and Granite State would continue to incur costs associated with National Grid's legacy systems that are currently in place.

Q. How should that fact be taken into consideration along with Liberty's plans for its IT systems to serve Granite State and EnergyNorth?

A. Although the ultimate costs of both National Grid's and Liberty's IT plans can only be estimated at this time, it is important to recognize that Granite State's customers would have incurred costs regardless of whether or not the proposed stock transfers take place. An incremental analysis would need to be performed to properly evaluate the net impact of all IT changes.

e. Transition Service Agreement Recommendation

Q. Has there been speculation that National Grid intends to sell its United States operations?

A. While there has been speculation in the press,[31] National Grid has not made any statements to that effect of which I am aware. The existence of speculation, however, is enough to warrant the Commission giving consideration to the possibility of a sale.

Q. Given the speculation, though, does that create some concern about National Grid's

[31] See Attachment SEM-15, copies of press articles dated May 17, 2011 (Providence (RI) Business News); May 18, 2011 (Times Union (Albany, NY)); July 1, 2011 (The Telegraph (UK)).

commitment and ability to provide the services spelled out in the TSAs?

A. It certainly does raise the question of how effectively National Grid or a successor company would be willing and able to provide the services called for in the TSA. The uncertainty is greater with those services that are contemplated to be provided through the TSAs for longer periods of time. I want to state, though, that I have no reason at this time to doubt National Grid's commitment to fully provide the TSA services. I only want to point out that future events have the possibility of having an adverse impact on even the best intentions.

Q. With that in mind, do you have any suggestions about how to mitigate any such potential adverse impacts?

A. One potential method would be to establish a type of financial contingency with regard to the TSAs to provide some protection in the event future developments have an impact on National Grid's current plans. One way to structure the contingency would be that Liberty retains a percentage holdback, say 20%, of the TSA payments until certain agreed-upon milestones are achieved. Providing for an escrow account is another possible way to structure a contingency. In such an arrangement, Liberty would pay for TSA services as called for under the agreements. Upon receipt of payment from Liberty, National Grid would be required to deposit a certain percentage of the payments into an escrow account. The funds would be held in that account until certain milestones were reached, with the rate of release of those funds to be determined based on agreement of the parties. Any amount of contingency or "hold back" must be established at a level sufficient to guarantee National Grid's continued performance with respect to the

TSAs. Further discussion regarding methods for providing assurance of performance under the TSAs as well as protection against cost escalation can be found in the testimonies of Stephen Frink and G[3].

VI. Discussion of Technical Issues

Q. Please provide your views regarding Liberty's technical capabilities as they relate to the operation of an electric distribution utility. Does Liberty have experience owning or operating an electric distribution utility?

A. As mentioned earlier in my testimony, prior to its acquisition of CalPeco (which was effective January 1, 2011), Liberty had neither owned nor operated an electric distribution utility. So, any experience with CalPeco is quite limited.

Q. Does that limited experience cause you concern?

A. I would use the word "concern" interchangeably with "caution." That caution, however, is tempered by the fact that Liberty is hiring a number of National Grid employees who are familiar with Granite State's electrical system and with whom Staff is familiar. By employing individuals who are familiar with Granite State's operations, Liberty will be providing stability and continuity to the electric system operations.

Q. What is the status of the hiring process as it relates to Liberty Energy NH and Granite State?

A. As of early September 2011, all of the senior management level positions at Liberty Energy NH with the exception of the President had been filled.[32] Regarding the President, Liberty informed us that it had met with interested individuals and hoped to conclude the hiring process sometime during the month of October 2011. The person

[32] Currently, David Pasieka, the President of Liberty Utilities Corp., is serving as interim President of Liberty Energy NH.

hired to fill the role of President of Liberty Energy NH will be vital to steering Granite State and EnergyNorth through the transition period as well as guiding those companies post-transition.[33] With respect to Granite State, Liberty continues to fill positions throughout the organization. As stated above, many of the individuals hired for positions with Granite State are not only familiar to Staff but are viewed as competent and possess good knowledge of Granite State's electric system.

Q. How has Granite State historically performed under National Grid's ownership with respect to its energy efficiency programs?

A. Granite State has a very good track record in terms of operating within its budget and the achievement of kilowatt-hour savings. In the event the stock transfers get approved, Staff would expect no less from Liberty Energy NH. While Staff understands that Liberty Energy NH has already hired some National Grid employees familiar with the energy efficiency programs, who will provide a measure of continuity, the hiring process is still incomplete. That being said, in order to maintain the same level of performance, it is important that Liberty Energy NH carefully staff this area. In addition, it is also important that all historic records and reports be transferred to Liberty Energy NH to ensure that vital information does not become irretrievable.

VII. Miscellaneous Issues

Q. Are there any other open dockets that will be impacted based on the outcome of this proceeding?

A. Yes. Currently there is an open docket, DE 10-142, dealing with Granite State's most

[33] This statement is separate and distinct from G3's recommendation regarding the hiring of a senior executive to be responsible for transition activities associated with all of Liberty Energy's acquisitions.

recent Least Cost Integrated Resource Plan (LCIRP). With the filing of DG 11-040, the procedural schedule in DE 10-142 was suspended pending the outcome of DG 11-040.

Q. Do you have any recommendations as to how DE 10-142 should proceed once the outcome of DG 11-040 is determined?

A. Yes. If the Commission were to approve the transfer of ownership to Liberty, I recommend that DE 10-142 be closed and that Liberty be required to file a LCIRP no later than six months from the date of the Commission's order. If, however, the Commission does not approve the proposed transfer of ownership, then I recommend that the parties to DE 10-142 be required to reconvene to recommend a new procedural schedule for the duration of the docket.

Q. Does this conclude your testimony?

A. Yes, it does.