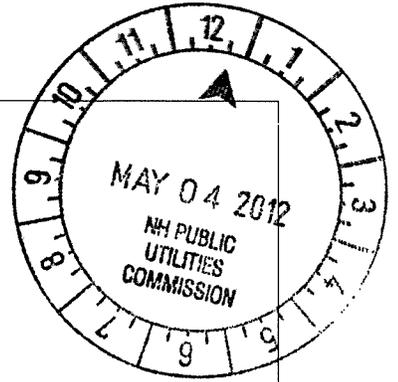


STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION



April 16, 2012 - 1:20 p.m. DAY 1  
Concord, New Hampshire AFTERNOON SESSION ONLY

RE:

DG 11-040 NATIONAL GRID USA, ET AL:  
Joint Petition for Authority to  
Transfer Ownership of Granite State  
Electric and EnergyNorth Natural Gas,  
Inc. to Liberty Energy Utilities Corp.

PRESENT: Chairman Amy L. Ignatius, Presiding  
Commissioner Michael D. Harrington  
Commissioner Robert R. Scott

Sandy Deno - Clerk

APPEARANCES:

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COURT REPORTER: SUSAN J. ROBIDAS, N.H. LCR NO. 44

{DG 11-040} [04-16-2012/AFTERNOON SESSION ONLY]

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I N D E X

WITNESS: SCOTT J. RUBIN

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\* \* \* \* \*

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## 1 P R O C E E D I N G S

2 CHAIRMAN IGNATIUS: So it looks  
3 as though we may be switching order of  
4 witnesses to accommodate Mr. Rubin's schedule,  
5 which is great. Is that where we are?

6 MS. HOLLENBERG: Yes, it is.  
7 Thank you.

8 CHAIRMAN IGNATIUS: And that's  
9 agreeable with everyone?

10 (No verbal response)

11 CHAIRMAN IGNATIUS: All right.  
12 Ms. Hollenberg.

13 MS. HOLLENBERG: Thank you very  
14 much. The Office of Consumer Advocate calls  
15 Scott Rubin to the stand, please.

16 (WHEREUPON, SCOTT J. RUBIN was duly  
17 sworn and cautioned by the Court  
18 Reporter.)

19 SCOTT J. RUBIN, SWORN

## 20 DIRECT EXAMINATION

21 BY MS. HOLLENBERG:

22 Q. Good afternoon, Mr. Rubin. Could you please  
23 state your name for the record.

24 A. Scott Rubin, R-U-B-I-N.

1 Q. And in what capacity are you participating  
2 in this proceeding?

3 A. I am a consultant for the Office of Consumer  
4 Advocate.

5 Q. Are your -- is your experience and  
6 qualifications summarized for the Commission  
7 as part of prefiled testimony which you  
8 filed on October 7, 2011?

9 A. Yes.

10 Q. And do you have any corrections or changes  
11 that you would like to make to that  
12 testimony at this time?

13 A. No corrections or changes, though some of  
14 the information probably should be updated.

15 Q. Okay. Thank you. So your testimony was  
16 prepared about six months ago. Have you  
17 received any information in the last six  
18 months that changes any of your conclusions  
19 or recommendations?

20 A. Yes. My conclusions and recommendations  
21 were summarized on Page 4 of the testimony.  
22 The first dealt with the financial,  
23 technical and managerial fitness of Liberty.  
24 I still have concerns with Liberty's

1 technical and managerial fitness. The  
2 settlement addresses those concerns, as I  
3 think we'll get into a little later. But  
4 the level of Staff involvement contemplated  
5 in the settlement does not make Liberty any  
6 more fit to own and operate these utilities,  
7 but it does provide some limited protection  
8 for the public against the consequences of  
9 an inexperienced company taking over these  
10 utilities.

11 On the financing terms and conditions,  
12 we have now received information from  
13 Liberty about the expected terms, conditions  
14 and covenants in that financing. I have  
15 reviewed them with a particular focus on the  
16 special covenants the lenders will impose on  
17 Liberty and the New Hampshire utility. I do  
18 not object to the Commission's approval of  
19 that financing, assuming that the terms,  
20 conditions and covenants are as they were  
21 provided to us on March 7th of this year in  
22 a supplemental response to Staff, TS-2-22.

23 On the service quality issues, there's  
24 no change in my testimony. I don't see a

1 benefit or a harm to the public in terms of  
2 service quality.

3 So I think that updates where I am  
4 based on additional information other than  
5 the settlement.

6 Q. And turning to the proposed settlement  
7 agreement, have you reviewed that?

8 A. Yes, I have.

9 Q. And does the proposed settlement agreement  
10 affect any of your conclusions or  
11 recommendations?

12 A. Yes, it does. The settlement provides an  
13 extraordinary level of Staff oversight and  
14 National Grid's continued involvement for  
15 the next two or three years. And those  
16 provisions combined address most of my  
17 concerns about service quality and the  
18 transition process.

19 In addition, there are several  
20 ratemaking provisions in the settlement.  
21 These include the EnergyNorth staff, the  
22 transition period caps on information  
23 technology-related investment and  
24 unaccounted-for gas, the provision

1 preventing any change in accumulated  
2 deferred tax balances as a result of the tax  
3 treatment of the transaction, and limits on  
4 rate case expenses in each of the companies'  
5 first base rate cases under Liberty's  
6 ownership. Taken together, those provisions  
7 provide further protection for customers  
8 against what otherwise would have been a  
9 significant risk of higher rates under  
10 Liberty's ownership than under National  
11 Grid's ownership.

12 When I read all of the settlement  
13 provisions together, I have reached the  
14 conclusion that the settlement -- if the  
15 settlement provisions are approved,  
16 implemented and vigorously enforced, then I  
17 believe it is likely that the public would  
18 not suffer a net harm from the proposed  
19 transaction.

20 Q. Thank you. This morning, Commissioner  
21 Harrington asked about the potential loss of  
22 economies of scale under Liberty ownership.  
23 Do you have any information about that  
24 issue?

1 A. Yes. I address this issue on Pages 13  
2 through 15 of my testimony. And that  
3 testimony largely remains true, based on  
4 what we know today, except that we now have  
5 a cap on IT investment of \$8.1 million.  
6 When I prepared the testimony last fall,  
7 Liberty's estimate was that the IT  
8 investment would be \$6.3 million. So that  
9 results in additional depreciation expense  
10 and a higher return on investment. So the  
11 net detriment now would be closer to  
12 \$3 million, where in my testimony last fall  
13 it was at about \$2.5 million. That is  
14 offset somewhat, probably about a million to  
15 a million and a half dollars, by a lower  
16 cost of debt.

17 So, based on the information that I  
18 have available, in my opinion, there's no  
19 question that Liberty will not be capturing  
20 some of the economies of scale that National  
21 Grid provides today. That's especially a  
22 concern in the early years, before the new  
23 investment has depreciated. And we have  
24 addressed that concern in the settlement by

1           having an extended stay-out for EnergyNorth  
2           and by limiting rate case expenses for the  
3           first rate case for each of the utilities.

4                       So, in my opinion, these and the other  
5           ratemaking provisions in the settlement are  
6           designed to mitigate and essentially offset  
7           Liberty's higher operating costs, at least  
8           in the first few years.

9    Q.    Thank you.  Also this morning, Commissioner  
10       Scott asked, basically, what's in it for  
11       ratepayers.  How would you answer this  
12       question?

13   A.    I mean, with all respect to the Joint  
14       Petitioners here, my answer to that question  
15       is:  Nothing.  I don't believe there's  
16       anything in the settlement or in the  
17       transaction that provides a net benefit to  
18       ratepayers.  The settlement provides  
19       reasonable assurances, but no guaranty, that  
20       customers will not be harmed as a result of  
21       the transaction.  But I do not find a net  
22       benefit or any compelling reason from the  
23       customer's perspective why the transaction  
24       should occur.  I do recognize, though, that

1 the current owner wants to get out of the  
2 retail business in New Hampshire; and thus,  
3 there is also a risk to forcing that owner  
4 to remain in the business. Considering all  
5 of these factors, I have concluded that the  
6 transaction is in the public interest, as  
7 long as the settlement provisions are fully  
8 implemented and vigorously enforced.

9 Q. Thank you.

10 MS. HOLLENBERG: I don't have  
11 any other questions. The witness is available  
12 for cross-examination.

13 CHAIRMAN IGNATIUS: Ms.  
14 Hollenberg, are you planning to introduce Mr.  
15 Rubin's testimony?

16 MS. HOLLENBERG: Yes, I am.  
17 Actually, if I could ask that that be marked  
18 for identification as Exhibit 10. I've  
19 already distributed a copy to the clerk and to  
20 the stenographer.

21 CHAIRMAN IGNATIUS: Thank you.  
22 So marked for identification. That was  
23 prefiled testimony on October 7, 2011?

24 MS. HOLLENBERG: Yes, ma'am.

1 (Exhibit 10 marked for identification.)

2 CHAIRMAN IGNATIUS: In order of  
3 cross-examination, the Joint Petitioners,  
4 Legal Assistance, Mr. Sullivan and  
5 Ms. Fabrizio. Does that work? Mr. Camerino.

6 MR. CAMERINO: The Joint  
7 Petitioners have no questions for Mr. Rubin.

8 CHAIRMAN IGNATIUS: Mr.  
9 Sullivan.

10 MR. SULLIVAN: No questions from  
11 us. Thank you.

12 CHAIRMAN IGNATIUS: Ms.  
13 Fabrizio.

14 MS. FABRIZIO: No, thank you,  
15 Madam Chairman. I have no questions. Staff  
16 has no questions.

17 CHAIRMAN IGNATIUS: All right.  
18 Commissioner Harrington.

19 CMSR. HARRINGTON: Yeah.

20 INTERROGATORIES BY CMSR. HARRINGTON:

21 Q. Just referring to Page 13 of your  
22 testimony -- and I think this time there's  
23 only one number on the page, so it won't  
24 confuse me -- at the very bottom of that it

1 says, Liberty's analysis shows that it would  
2 require more employees and a higher level of  
3 expenses to provide the same service that  
4 National Grid is providing today.

5 Specifically, Slides 22 to 23 from Liberty  
6 show the cost of service would be \$889,000  
7 more than National Grid's cost of service.

8 First, over what period of time is that  
9 referring to?

10 A. That's an annual number.

11 Q. That's an annual number. Okay. And could  
12 you expand on exactly why that's going to be  
13 that much more, and what does it break down  
14 to as a rough percentage? I mean, is this  
15 1 percent or 50 percent or --

16 A. I cannot explain why, other than that  
17 National Grid is providing, let's call them  
18 "back-office" types of services for a much  
19 larger group of customers. When we think  
20 about billing, customer service, accounting,  
21 issues of that nature, they're able to  
22 spread those costs over a much larger  
23 customer base than Liberty will be able to.  
24 That's, I think, what you were referring to

1 this morning as the economies of scale.

2 In terms of percentage, I don't know if  
3 I have those numbers, off the top of my  
4 head. If you could give me one moment,  
5 maybe we do.

6 Q. Sure.

7 A. In Attachment SJR 3, on Page 3 -- and I  
8 apologize for the tiny print -- that is a  
9 summary of Granite State's operating and  
10 maintenance costs for 2011. And the total  
11 cost for Granite State in 2011 is...

12 Q. You got me.

13 CHAIRMAN IGNATIUS: Yeah.

14 A. Yeah, this is not an exhibit I prepared.  
15 This is something that was provided by the  
16 Petitioner. I believe what this is showing  
17 is -- yes, the very bottom line says "O & M  
18 Expenses Plus Labor." And the budget  
19 figure -- sorry. The National Grid figure  
20 is the third number from the left on the  
21 bottom. I think that's \$16,181,000. And  
22 the figure to the right of that is Liberty's  
23 budget, or the equivalent number for 2011,  
24 which would have been \$17,070,000. And then

1 to the right of that I think is inflating  
2 that number into 2012. That's probably a  
3 little less relevant because we don't know  
4 what National Grid's numbers would be for  
5 2012. But for 2011, that's that \$889,000  
6 difference. So that's 889,000 out of  
7 16 million is, in round numbers, about 4 or  
8 5 percent, and that's for Granite State.  
9 The next page has the same type of analysis  
10 for EnergyNorth.

11 Q. But we can read this page.

12 A. Yeah, this one's a little easier to read.  
13 And that shows the \$876,000 difference out  
14 of about \$28 million in 2011. That's  
15 probably about around 3 percent higher,  
16 something in that range. Again, this is  
17 just looking at operating and maintenance  
18 expenses and labor. It doesn't include the  
19 rate base side of the equation. But I think  
20 that puts it in some perspective for you.

21 Q. Yeah, that's very helpful. Thank you.

22 And you mentioned that the debt costs  
23 were going to be lower. And that's just  
24 because of Granite State, they're

1 refinancing something at a better interest  
2 rate?

3 A. Yes. Liberty will be replacing most of the  
4 existing debt, which is really debt -- as I  
5 understand it, most of that is debt owed by  
6 the utilities to National Grid. It's not  
7 debt that's owed to unaffiliated third  
8 parties. So that debt will be replaced by  
9 debt that Liberty is issuing on the open  
10 markets, and that's at a lower cost than  
11 it's currently reflected on the books of  
12 EnergyNorth and Granite State. So I think  
13 the latest estimate I saw was a savings of  
14 about a million and a half dollars in annual  
15 interest costs from doing that.

16 Q. Now, so, would it be fair, then, to add  
17 those two numbers together, the 800 -- in  
18 the case of Granite State, the 889,000,  
19 which is a higher expense, and then the  
20 million dollars, which is a lower expense,  
21 and come out with a net slight decrease  
22 or --

23 A. No. If you look on Page 15 of my testimony,  
24 there's a table at the top of the page that

1 summarizes it. The Granite State number was  
2 updated somewhat from the exhibit we were  
3 just looking at. So that's \$963,000 instead  
4 of \$889,000 in increased costs -- the  
5 increased cost to EnergyNorth -- and then,  
6 you know, non-labor cost increase for IT  
7 investment and then the return on IT  
8 investment. If we were to update those  
9 numbers today, the non-labor IT cost  
10 increase would be higher because of  
11 additional depreciation. The return on IT  
12 investment would be higher because we're at  
13 \$8.1 million instead of \$6.3 million when  
14 this was prepared. So we'd be up closer to  
15 \$3 million as Liberty's increased costs to  
16 do business compared to National Grid's.  
17 And then we would reduce that by about a  
18 million and a half dollars for the lower  
19 debt cost. So the net would be about, you  
20 know, again, ballpark numbers, about  
21 \$1.5 million in higher costs under Liberty  
22 ownership, or the two utilities combined.

23 Q. And that's for per year?

24 A. Yes.

1 Q. Okay. So, about one and a half million  
2 higher per year, all included. Okay. Thank  
3 you.

4 A. Yes. And I think I referred to this  
5 earlier. That's in the early years before  
6 that IT investment has depreciated. Once,  
7 you know, depreciation on that investment  
8 has accumulated, the cost to consumers  
9 becomes much lower on an annual basis. So  
10 that \$1.5 million number starts to shrink.  
11 And that's why I referred to the ratemaking  
12 provisions in the settlement as largely  
13 offsetting the cost increase in the early  
14 years. And then in the later years we just  
15 have to see what happens.

16 Q. All right.

17 CMSR. HARRINGTON: Thank you.

18 That's all.

19 CHAIRMAN IGNATIUS: Commissioner  
20 Scott.

21 MR. SCOTT: Thank you.

22 INTERROGATORIES BY CMSR. SCOTT:

23 Q. I just wanted to clarify. Early on in your  
24 statement you expressed you still have

1 concerns regarding managerial capability.  
2 Was that more what you just discussed, as  
3 far as having deep pockets and costs  
4 related, or is it actual technical ability?

5 A. It was more related to experience. Liberty  
6 itself does not have any experience with a  
7 natural gas distribution utility. They have  
8 limited experience with an electric  
9 distribution utility -- you know, one  
10 utility that they acquired within the last  
11 two years or so, and that they're still  
12 working through the transition process for.  
13 So that's where those concerns are coming  
14 there. I recognize that Liberty is bringing  
15 in a number of people from National Grid who  
16 have, you know, the more day-to-day,  
17 hands-on type of experience, which is very  
18 helpful. But at the upper management level,  
19 Liberty really does not have the experience  
20 with a natural gas utility and, again, very  
21 limited experience with an electric utility.

22 Q. And on that same regard, you mentioned,  
23 obviously, you felt a little bit more  
24 comfortable, given all the controls that

1           were, for want of a better word, in place,  
2           assuming the settlement agreement is  
3           approved. Is there something -- what could  
4           the Company do to make you feel more  
5           comfortable regarding that aspect?

6       A.   Well, I think the provisions in the  
7           settlement are sufficient, or at least I  
8           hope they're sufficient, to protect  
9           consumers from any adverse effects.  
10          Basically puts another layer of oversight,  
11          you know, on top of Liberty's management.  
12          That's something we normally would not see  
13          if Liberty were, you know, a fully  
14          experienced and qualified company coming in;  
15          those provisions would not be necessary.

16                 I'm not sure there's anything Liberty  
17                 could do to satisfy me that they, you know,  
18                 have the experience to, you know, reliably  
19                 operate a natural gas distribution company,  
20                 short of bringing somebody in at upper  
21                 management who has that type of experience.

22                 And I talk about this a little bit in  
23                 the testimony, that what is required of a  
24                 natural gas distribution company is very

1 different than what is required of a water  
2 utility. Water utility, we routinely see  
3 lost or unaccounted-for water of 15 to  
4 20 percent; and gas, we have to keep that  
5 usually below 1 percent. In water, we have  
6 fairly frequent -- maybe "frequent" is not  
7 the right word. But it's not unusual to  
8 have main breaks or sporadic outages. In  
9 gas, there is zero tolerance for that. And  
10 it's extremely expensive to respond to a  
11 natural gas outage, even a limited one,  
12 because somebody has to go door to door to  
13 shut off gas and then turn it back on,  
14 re-light pilot lights and so on. It's a  
15 very different type of operation.

16 I've been in this business for close to  
17 30 years. A lot of my work involves water  
18 utilities. I know a lot of people who  
19 operate and own water utilities, and the  
20 mindset is very different than what I see in  
21 the energy industry. And there's very  
22 little experience out there with a company  
23 that is engaged in both water and energy  
24 distribution. There have been some electric

1 utilities that have tried to get into the  
2 water business and quickly left because they  
3 realized it was pretty different from what  
4 they were used to. I'm not aware of any gas  
5 utilities that have even tried to get into  
6 the water business, or any water utilities  
7 that have tried to get into the gas  
8 business. So this is really some new  
9 territory that's being plowed here, and it  
10 makes me a little nervous.

11 MR. SCOTT: Thank you.

12 INTERROGATORIES BY CHAIRMAN IGNATIUS:

13 Q. Mr. Rubin, a couple times you referred to  
14 that cost differential being higher during  
15 the early years and coming down in the later  
16 years. Can you put some time frames on what  
17 "early" and "later" mean?

18 A. I'm not an accountant, and I'm certainly not  
19 a depreciation expert. But I believe the  
20 information we've seen has that initial IT  
21 investment depreciating over either seven or  
22 eight years. So if we take that -- let's  
23 use some round numbers. Let's say it's an  
24 \$8 million investment for IT, and that

1 depreciates over -- well, let's make it real  
2 easy. Say it depreciates over eight years.  
3 That means after a year, there's \$7 million  
4 of investment left that's going to earn a  
5 return. So, when we get out, you know, past  
6 the first two or three years, that number is  
7 getting pretty small and is getting closer  
8 to the level of investment that National  
9 Grid has that's being allocated to the New  
10 Hampshire company. So I think once we get  
11 past probably about three years of Liberty  
12 ownership, then the information  
13 technology-related costs start to become  
14 much closer to what they would be under  
15 National Grid ownership. And that's why  
16 that initial stay-out is so important for  
17 EnergyNorth, because it provides some time  
18 for that investment to depreciate before  
19 that first rate case is filed.

20 Q. In following up on your concerns about lack  
21 of experience with a natural gas utility,  
22 are there any indicators you can think of  
23 that would be important to watch for that  
24 might show you things are operating well or

1 things seem to be getting out of hand, and  
2 before it gets even worse, apply some  
3 greater scrutiny to what's going on?

4 A. Yes. I'll leave a lot of that detail to the  
5 operations and safety experts you'll be  
6 hearing from later.

7 One important measure is the  
8 unaccounted-for gas, which we've included a  
9 cap on that in the settlement. And that cap  
10 was -- I won't go into exactly how that was  
11 calculated. But essentially, that  
12 represents EnergyNorth's typical experience  
13 over the last five to six years. I mean,  
14 there was some averaging and all that  
15 involved. But that's at a level that we  
16 think is comparable to what EnergyNorth has  
17 experienced under National Grid ownership.  
18 So if we see that number really start to  
19 climb, that would be a concern. I think if  
20 we see a big change in the level of  
21 investment that's going into, you know,  
22 replacing bare steel and cast iron in the  
23 distribution system, that would be a  
24 concern. Obviously, if there are customer

1 outages, that would be a very serious  
2 concern -- again, looking at natural gas.

3 So those are, you know, three fairly  
4 high-level indicators that, you know, I  
5 would suggest you watch for. And I know the  
6 settlement includes a number of more  
7 detailed provisions as well. And you'll be  
8 getting, I think on most of them, quarterly  
9 reporting, which would be very useful, just  
10 to make sure things are not deteriorating.

11 Q. Did you hear the testimony this morning  
12 about the relationship between the org chart  
13 that's been marked for identification as  
14 Exhibit 6 and the way that that interacts  
15 with the organization that has EnergyNorth  
16 and Granite State sort of connected down  
17 below through the operations side of things?

18 A. I did hear that, yes.

19 Q. As I understood it -- and we'll have more  
20 testimony on this, so if I'm wrong, I hope  
21 people will clarify for me -- all of the  
22 positions identified in Exhibit 6 are really  
23 sort of service -- providing services to  
24 those two utilities. Utilities are

1 stand-alone businesses, but they obtain many  
2 of their services through the Liberty  
3 Utilities positions that we see identified  
4 in Exhibit 6. Does that meet your  
5 understanding of what's going on?

6 A. That is my understanding. Now, some of the  
7 functions shown here as Liberty Utilities  
8 New Hampshire are only going to be provided  
9 to either Granite State or EnergyNorth. You  
10 know, the gas supply function is an  
11 EnergyNorth function. The electric supply  
12 function is a Granite State function. So,  
13 some of what's shown here, you know, is very  
14 specific to one utility or the other. But  
15 it's all reporting up to a Liberty Utilities  
16 New Hampshire executive; you know, both gas  
17 an electric supply are under the Liberty  
18 utilities New Hampshire Director of Energy  
19 Procurement.

20 And the same thing on the operating  
21 side. Gas operations and electric  
22 operations are shown as separate boxes here,  
23 but they're both under the Vice-President of  
24 Operations and Engineering, which is a

1 Liberty Utilities New Hampshire executive.

2 Q. Does that structure, splitting -- let's  
3 stick with gas here -- splitting the gas  
4 function into different lines of authority  
5 that are separate and apart from the actual  
6 gas distribution company make sense to you?

7 A. I don't feel qualified to really answer  
8 that. I'm not an expert on the management  
9 of any kind of company or management  
10 structure. There are, I think, two  
11 different ways to do it. You know, one  
12 approach would be to have an electric  
13 company and a gas company, each with its own  
14 executive structure; then the service  
15 company would provide fairly limited  
16 support, you know, for common functions like  
17 billing and metering, customer service,  
18 accounting, those sorts of things. That's  
19 one approach. This is a different approach.  
20 This is centralizing most of those functions  
21 at the -- call it the immediate parent  
22 company, you know, the New Hampshire  
23 parent -- and then not -- I don't want to  
24 say each of the operating utilities wouldn't

1 be autonomous, but they would have a limited  
2 level, I think, of executive -- well, I'm  
3 not sure of the right way to say it. But  
4 the operating utilities really would not be  
5 autonomous entities. They would be  
6 reporting up to directors and  
7 vice-presidents at the parent company level.  
8 So, presumably, they would not have that  
9 type of executive leadership on a  
10 stand-alone basis; they're getting it from  
11 the parent company. And that's as far as I  
12 can go, just to say that there are two  
13 different models. I don't know if one is  
14 better than the other.

15 Q. All right. And I think we'll be hearing  
16 more about structuring management in panels  
17 yet to come. So maybe that's fine for now.

18 CHAIRMAN IGNATIUS: All right.  
19 I think that's it for our questions.

20 Any redirect, Ms. Hollenberg?

21 MS. HOLLENBERG: No, thank you.

22 CHAIRMAN IGNATIUS: Thank you  
23 very much, Mr. Rubin. You are excused. And  
24 if you need to travel, that's okay.

1 MR. CAMERINO: Would it be  
2 appropriate if we have a couple follow-up  
3 questions on responses that Mr. Rubin gave to  
4 the Bench?

5 CHAIRMAN IGNATIUS: We don't  
6 normally do that, certainly not as a matter of  
7 course. Is it something that couldn't have  
8 been anticipated, wasn't in the scope of  
9 things that had been prefiled?

10 MR. CAMERINO: It's related  
11 to -- he had answered in a lot more detail,  
12 frankly, a question about why he believed that  
13 Liberty didn't have the experience with regard  
14 to operating a gas company, and I wanted to  
15 just clarify what he had considered in  
16 reaching that conclusion.

17 CHAIRMAN IGNATIUS: All right.  
18 We'll allow it. I do want to not suggest that  
19 we're always going to allow that. But if it's  
20 something fairly brief and specific to things  
21 that really couldn't have been anticipated,  
22 that's fine.

23 MR. CAMERINO: We appreciate  
24 that.

1 CROSS-EXAMINATION

2 BY MR. CAMERINO:

3 Q. Mr. Rubin, when you were sharing your  
4 perspective on Liberty's experience with  
5 regard to operating particularly a natural  
6 gas company, but an electric gas company as  
7 well, I take it your remarks related to --  
8 when you said "Liberty," you meant Liberty  
9 meaning Mr. Pasioka, Mr. Robertson and the  
10 people at that level of the organization.  
11 You were not referring to -- when we look at  
12 this org chart, you were not passing  
13 judgment on the capabilities of people like  
14 Mr. Dafonte, Mr. Saad, Mr. MacDonald, Mr.  
15 McCallum, and people that are here, saying  
16 that those people that Liberty has engaged  
17 don't have that experience. Is that a fair  
18 statement?

19 A. Yes, you are correct. I was talking about  
20 the -- I hope I don't bungle the names --  
21 but at the Liberty Utilities level, the  
22 Toronto-area headquarters, not the specific  
23 people that would be doing the day-to-day  
24 operations in New Hampshire.

1 MR. CAMERINO: Much.

2 CHAIRMAN IGNATIUS: All right.

3 Thank you. You're excused.

4 THE WITNESS: Thank you.

5 CHAIRMAN IGNATIUS: Do we have  
6 now a panel on the settlement itself?

7 MS. FABRIZIO: This is Staff's  
8 panel with its consultants on IT issues  
9 related to the transaction.

10 CHAIRMAN IGNATIUS: You've told  
11 me that twice. Maybe it might sink in at some  
12 point.

13 MS. FABRIZIO: Staff calls  
14 Gregory Mann and Timothy Connolly to the  
15 stand.

16 (WHEREUPON, GREGORY L. MANN AND TIMOTHY  
17 M. CONNOLLY were duly sworn and  
18 cautioned by the Court Reporter.)

19 GREGORY L. MANN, SWORN

20 TIMOTHY M. CONNOLLY, SWORN

21 DIRECT EXAMINATION

22 BY MS. FABRIZIO:

23 Q. Mr. Mann, could you please state your name  
24 and business address for the record?

1 A. (By Mr. Mann) Gregory Mann. The address is  
2 11610 Tomahawk Creek Parkway, Leawood,  
3 Kansas, 66211.

4 Q. And by whom are you employed and in what  
5 capacity?

6 A. (By Mr. Mann) Managing vice-president for  
7 Gorham|Gold|Greenwich & Associates.

8 Q. And what has been your involvement in this  
9 proceeding?

10 A. (By Mr. Mann) Our involvement was to review  
11 the IT systems and preparations and plans  
12 that were being made by Liberty Energy -- or  
13 Liberty Utilities and National Grid for  
14 purposes of equipping Granite State Electric  
15 and EnergyNorth with their IT systems  
16 following the sale.

17 Q. Mr. Connolly, could you please state your  
18 name and business address for the record?

19 A. (By Mr. Connolly) Timothy Connolly,  
20 C-O-N-N-O-L-L-Y. My business address is  
21 2005 Arbor Avenue, Belmont, California.

22 Q. And by whom are you employed and in what  
23 capacity?

24 A. (By Mr. Connolly) I'm the vice-president for

1 regulatory compliance with  
2 Gorham|Gold|Greenwich & Associates.

3 Q. And what has been your involvement in this  
4 proceeding?

5 A. (By Mr. Connolly) As with Dr. Mann, review  
6 of the IT plans and preparations of Liberty  
7 and National Grid towards the implementation  
8 of the systems for Granite State Electric  
9 and EnergyNorth Gas.

10 Q. Thank you. Now I'll direct my next  
11 questions to you both as a panel.

12 You filed direct and supplemental  
13 testimony in this docket; is that correct?

14 A. (By Mr. Mann) That's correct.

15 Q. And was that testimony prepared by you,  
16 under your direction?

17 A. (By Mr. Mann) It was.

18 MS. FABRIZIO: And Chairman  
19 Ignatius, I would like to request that the  
20 October 7, 2011 direct testimony and April 10,  
21 2012 supplemental testimony of  
22 Gorham|Gold|Greenwich & Associates, or G3  
23 Associates, be marked for identification as  
24 Exhibits 11 and 12.

1 CHAIRMAN IGNATIUS: So marked.

2 (11 marked for identification.)

3 (12 marked for identification.)

4 Q. Mr. Mann, do you have any corrections or  
5 changes that you would like to make to your  
6 testimony?

7 A. (By Mr. Mann) We have one minor correction.  
8 I'd refer you to the attachment marked  
9 "G3-1," Paragraph 2 --

10 Q. And are you looking at the April 10th,  
11 2012 --

12 A. (By Mr. Mann) I'm sorry. Yes, the  
13 April 10th, 2012 prefiled testimony and  
14 report. Attachment G3-1, Page 3,  
15 Paragraph 2, Bullet 1, there's a reference  
16 there made in the second sentence to "Mr.  
17 Pasioka will direct Liberty's Project  
18 Management Office." That should be  
19 corrected to refer to Mr. Wood as opposed to  
20 Mr. Pasioka.

21 Q. And with that change, is this testimony true  
22 and accurate to the best of your knowledge?

23 A. (By Mr. Mann) Yes, it is.

24 Q. Okay. Could you please briefly state how

1           you approached the task asked of you by  
2           Staff and what you concluded in your report?

3       A.    (By Mr. Mann) We were asked by Staff to  
4           review the plans and proposals that were  
5           being made and the efforts that were being  
6           expended by the two companies.

7                        At the time that we were engaged, the  
8           Company was already -- the companies were  
9           already in the process of developing their  
10          approach to transitioning the IT system over  
11          from National Grid to Liberty.  At that  
12          point in time, we found that a considerable  
13          amount of work had been expended by both  
14          parties to achieve a degree of cutover from  
15          the initial state for their financial and  
16          corporate governance systems, as they were  
17          necessary to commence operations.

18                       Liberty had concluded that its need  
19          for -- to achieve the needed flexibility as  
20          it assumed responsibility and worked with  
21          National Grid to establish a process by  
22          which National Grid would assist it in doing  
23          so.  As Liberty saw itself growing into its  
24          new role, Liberty would flush out the IT

1 results that were required at a later date.  
2 What this did was it manifested itself in an  
3 IT strategy that deferred some of the  
4 operational-level questions and requirements  
5 to later times in the development cycle.

6 As a consequence, from our viewpoint,  
7 what we concluded early on was that we were  
8 disappointed in seeing the level of the lack  
9 of detail at the back end of the transition  
10 process. We also felt that, in the course  
11 of events, the implementation schedule was  
12 aggressive and would probably require some  
13 additional extension before it could be  
14 completed.

15 Subsequent to that, in the course of  
16 events, we've had a significant amount of  
17 discussion. We conducted fairly extensive  
18 discovery with both companies, engaged in  
19 quite a bit of discussion, toured the sites  
20 that the Company envisioned its IT support  
21 to be provided from, met with a considerable  
22 number of their managers and executives and  
23 talked about improvements that could be made  
24 in the processes. And subsequently, by the

1 time we issued our October -- our April  
2 report, we were relatively comfortable with  
3 the changes that were being made on the part  
4 of the Company and the improvements that  
5 were being adopted on their part.

6 Q. Thank you. Generally speaking, how did the  
7 Petitioners respond to your conclusions and  
8 recommendations?

9 A. (By Mr. Mann) They were very supportive.  
10 Initially, there was some questions in their  
11 minds as to the things that we were asking  
12 for. But they understood that what we were  
13 attempting to do was put in place supports  
14 that would allow them to be more successful.  
15 And as a consequence, in every instance, the  
16 recommendations that we made have been  
17 adopted.

18 Q. Thank you. The next few questions I'd like  
19 to turn to Exhibit 12. This is the  
20 April 10, 2012 testimony and report prepared  
21 by G3. On Page 4 of your report --

22 MS. FABRIZIO: And when I refer  
23 to page numbers, I'm referring to the middle  
24 at the bottom of the page. And I'm looking at

1 the Attachment G3-1 on Page 4.

2 CMSR. HARRINGTON: Excuse me.

3 Is the report 07? Is that what you're  
4 referring to?

5 MS. FABRIZIO: It's attached to  
6 the April 10, 2012, and there's an April 10,  
7 2012 date in the header. There were two  
8 reports: One filed in October and the  
9 supplemental filed in April.

10 CMSR. SCOTT: To clarify, so the  
11 header says "2011," but it should be "2012";  
12 correct?

13 MS. FABRIZIO: Yes. We filed a  
14 revised version that replaced that date.

15 CMSR. HARRINGTON: I'm sorry.  
16 I'm still -- there's two reports?

17 MS. FABRIZIO: Yes. G3 filed  
18 testimony with an attached report on  
19 October 7th, 2011. That's Exhibit 11. And  
20 then it filed supplemental testimony with a  
21 supplemental report on April 10th, 2012. And  
22 that has been marked as Exhibit 12. I'll be  
23 happy to provide --

24 CMSR. HARRINGTON: So this is

1 the report you're referring to that came with  
2 October 7th, that's dated October 7th, and it  
3 says "National Grid and Liberty Energy  
4 Utilities Company Technical Report"?

5 MS. FABRIZIO: Yes, that's --

6 CMSR. HARRINGTON: That's part  
7 of --

8 MS. FABRIZIO: That's attached  
9 to the testimony. So that's as one with  
10 Exhibit 11.

11 CMSR. HARRINGTON: Okay. Thank  
12 you.

13 A. (By Mr. Mann) And your question related to  
14 the attachments to that report.

15 BY MS. FABRIZIO:

16 Q. To the April report -- to the April  
17 testimony.

18 A. (By Mr. Mann) All right.

19 Q. And my questions really go to more general  
20 remarks from G3. So it's actually not  
21 necessary to flip pages, if that makes it  
22 easier.

23 On Page 4 of the April 10th report, you  
24 mentioned that Liberty has prepared an IT

1 plan and IT migration plan. Could you  
2 outline briefly your assessment of those  
3 plans, and could you also comment on  
4 Liberty's "Greenfield," as you term it, its  
5 approach to IT planning.

6 A. (By Mr. Mann) Liberty Energy has prepared  
7 two documents that principally codify what  
8 constitute their total planning efforts.  
9 The initial plan, the IT plan, is an  
10 over-arching document that outlines the  
11 requirements that their operating company  
12 will have for IT support and how they intend  
13 to approach that.

14 The IT migration plan is actually a  
15 working document that, over time, will guide  
16 the implementation by the companies and will  
17 permit Staff the ability to monitor their  
18 implementation efforts and judge the merits  
19 of their work.

20 The migration plan incorporates many of  
21 the concerns -- or addresses many of the  
22 concerns that we had in our initial report.  
23 It provides for an extensive amount of  
24 testing to ensure that the capabilities of

1 the various software applications that are  
2 being introduced in the system will work.  
3 It provides for a change-management process  
4 that will govern changes that may in fact be  
5 required as the implementation occurs. It  
6 also provides what will serve as the basic  
7 mechanism by which the Staff will be able to  
8 judge both the efficiency of the  
9 implementation, but also to be knowledgeable  
10 early on of anything that may affect either  
11 cost or schedules associated with the plan  
12 to transfer.

13 The question of "Greenfield" -- that's  
14 a term of art that's used. One thing that  
15 was very apparent in this engagement, that  
16 has been generally different than in many  
17 other instances, Liberty Energy has the  
18 ability to institute or introduce many  
19 different, new types of -- let me rephrase  
20 that -- has the opportunity to examine what  
21 its requirements are from the bottom up from  
22 its user standpoint and is in the process of  
23 designing its systems and its capabilities  
24 to meet those user requirements. It's not

1 bound to the legacy systems that have been  
2 employed by National Grid, which in and of  
3 themselves have mutated quite extensively  
4 over the years as National Grid has  
5 assembled many of its operating units.

6 In this particular instance, Liberty  
7 went with the approach that it was looking  
8 to try and balance out the capabilities that  
9 its users needed with the cost of delivery,  
10 and as a result, resulted in a systems  
11 approach that was markedly different than  
12 the approach that National Grid has  
13 employed. And so from that standpoint, we  
14 considered it a "Greenfield" because they  
15 were willing to start from scratch and look  
16 at it from the bottom up.

17 Q. Thank you. On Page 9, at Footnote 6 of the  
18 same April 2012 report, you note that  
19 Liberty's New Hampshire acquisitions will  
20 utilize similar IT development and  
21 deployment approaches as the CalPeco  
22 acquisition in California. Could you  
23 comment on the similarities and whether  
24 there are lessons that have been learned

1 through the CalPeco experience?

2 A. (By Mr. Connolly) There are some  
3 similarities and some parallels between the  
4 CalPeco experience and Granite State/  
5 EnergyNorth. And then there are some  
6 differences and there are some lessons  
7 learned. Let me start with the  
8 similarities.

9 Liberty is acquiring the operations of  
10 a company and its about 40 some-odd thousand  
11 electric users in California. And the  
12 systems that are being put into place for  
13 CalPeco operations are "off the shelf" or  
14 "out of the box" -- that's the  
15 terminology -- acquired from vendors,  
16 reputable vendors who have gotten proven  
17 experience in their application. And the  
18 host, the selling company -- in this case,  
19 Sierra Nevada -- has the data that needs to  
20 be populated into these new systems. And  
21 there's some transition services which guide  
22 the operation of the company between the  
23 time that it starts to acquire information  
24 and data and the time it begins to operate

1 on its own. Those three things are very  
2 consistent parallels with what we see here  
3 in New Hampshire with Granite State and  
4 EnergyNorth.

5 In terms of some differences, CalPeco  
6 is just electric, with 7,500 or so users.  
7 It's a lot smaller than the territory that's  
8 being brought in from National Grid. And  
9 the third major one, the third major  
10 difference, is that the National Grid system  
11 that houses the data for New Hampshire  
12 operations is co-mingled with user  
13 information, circuit information, field  
14 information, dispatch information and  
15 records Works management and so forth for  
16 New Hampshire, for Massachusetts, for Rhode  
17 Island, for New York, contrasted with Sierra  
18 Nevada, which had isolated all of the  
19 information about its operations into a  
20 separate system and running it out of their  
21 combined operation network. So the data  
22 bases, for National Grid purposes, are  
23 co-mingled with many other states, and for  
24 Sierra Nevada were isolated into one

1 operating region.

2 So, those two -- set of parallels, set  
3 of differences -- are what apparently what  
4 we have seen that Liberty has learned from  
5 those CalPeco lessons, that IT testing is  
6 critical to the success of turning up these  
7 applications.

8 We have seen -- they've shared  
9 information with us about their experience,  
10 the way it's gone, things that -- they've  
11 had one test plan. They needed to  
12 supplement that with other test plans. They  
13 needed to do more reiterative testing. So  
14 those are the practical lessons learned  
15 about that. They've also learned about the  
16 complications of training users to work with  
17 these systems will take longer than the  
18 initial forecast of however many training  
19 hours and training days. Things take longer  
20 when you have more people involved, and  
21 other training resources need to be  
22 deployed. So I think that was a very  
23 helpful lesson that was learned.

24 I know that they've learned about

1 transition services and what those require  
2 for purposes of managing the cost of those,  
3 managing the delivery and operation of those  
4 transition services as they will be  
5 receiving those services from National Grid.  
6 They've already been receiving them for  
7 Sierra Nevada. So there's an awareness, a  
8 set of lessons being learned there.

9 I think the bottom line is that they've  
10 learned that implementation of these  
11 systems, this IT environment, is  
12 complicated. It requires dedicated people  
13 who have experience in information  
14 technology, and these things take time and  
15 they take resources. And you have to do  
16 them right, and you have to do them well, or  
17 you have to do them over and over again.

18 So I think those are key lessons  
19 learned from the CalPeco environment. And I  
20 think, as I mentioned, there's parallels and  
21 differences about those.

22 Q. Thank you. Now, in your October report, you  
23 mentioned some concerns that you had  
24 regarding Liberty's ability to effect an

1           orderly and cost-efficient transition of  
2           responsibilities for information-related  
3           systems and services. Have you revised your  
4           opinion on that point?

5       A.    (By Mr. Mann) We have. Our original  
6           position on this related more to the fact  
7           that we did not see the type of strong  
8           governance system in place that we would  
9           have liked to have had. Also, we were  
10          concerned about the lack of definition in  
11          the long-term planning area. Subsequent to  
12          that, the companies both have made major  
13          commitments to strengthening both the  
14          governance processes, as well as commitments  
15          for senior executives to monitor or to  
16          manage the process. And we've also seen a  
17          significant amount of clarity that's been  
18          added to the planning, the longer-term  
19          planning requirements, including the  
20          testing, the user needs analysis, vendor  
21          management cost program that's been put in  
22          place to ensure the support that their  
23          vendors are delivering products and services  
24          that they've agreed upon. We've seen

1 formalization of a data-retention agreement  
2 between the two companies that ensures and  
3 preserves long-term access to historical  
4 data that National Grid currently maintains.

5 And so there have been a number of  
6 things that, from our standpoint, are the  
7 things that we would look to, to ensure a  
8 more orderly transition, but also one that  
9 is as close to what is projected in budgets  
10 as could be conceived at this point in time.

11 Q. Thank you. Now, on Page 6 of your April  
12 report, you referred to "subsequent effort  
13 to solidify the Petitioners' commitment to  
14 testing the IT systems." Could you  
15 elaborate on that, please?

16 A. (By Mr. Connolly) Our first report, our  
17 October report, found that the testing that  
18 had been envisioned by Liberty for its Day  
19 One environment was structured around  
20 financial systems and financial reporting  
21 and the limited infrastructure, technical  
22 infrastructure that was necessary for Day  
23 One operations. And we asked about the  
24 testing disciplines that were being

1           embraced. And we thought those -- we think  
2           those involve system testing, integration  
3           testing and user testing and stress testing,  
4           and all the disciplines that go into a  
5           comprehensive, solid, well-disciplined and  
6           well-defined IT testing program. And when  
7           we asked about that nature of testing  
8           commitment for the turn-up of those first  
9           systems, we didn't get the positive  
10          reinforcement that we were looking for. And  
11          then we went and looked beyond those first  
12          set of Day 1 systems and asked about what's  
13          the commitment to testing for the customer  
14          roll-out or the billing roll-out or the  
15          Works management program, which are coming  
16          in their own environments as progress is  
17          made in the IT world. And again, we weren't  
18          strongly reinforced about the level of  
19          commitment to that kind of testing that we  
20          saw as mandatory to turning up quality  
21          applications that met user needs, that  
22          operated consistent with the IT strategies  
23          and so on and so forth.

24                 Since that report was issued, and since

1 we began having the technical sessions and  
2 some of the conferences that Staff led, the  
3 engagement on testing has become very, very  
4 positive. And if you go through -- when you  
5 go through Attachments G and H, which are  
6 the IT plan and the migration plan, you'll  
7 see that Liberty has emphasized testing and  
8 emphasized the continuum of testing from the  
9 first part of the application being ready to  
10 all the way to the users being satisfied  
11 with the commitment that they've made, which  
12 is on -- in the IT plan where it says,  
13 quote, Liberty will ensure that its quality  
14 assurance goal is met by having all  
15 applications tested before they are moved  
16 into production. We see that now. We never  
17 saw that commitment level before. So I  
18 think this goes to Liberty's recognition and  
19 acknowledgment that, in order to succeed,  
20 testing and proving that the systems work  
21 was done, and done well, is really critical  
22 to their success, and certainly critical to  
23 all of the implementations that we know will  
24 be coming up over the next several years.

1 Q. Thank you. On Page 7 of the April report,  
2 you note that further negotiations between  
3 Staff and Liberty will be required with  
4 respect to IT implementation post-close.  
5 What, in your opinion, is the scope of what  
6 will be required?

7 A. (By Mr. Mann) We believe that the Staff will  
8 need to be actively engaged with the  
9 companies in not just monitoring the  
10 schedule that's been set forth, but ensuring  
11 that the commitments that are made in that  
12 schedule are in fact fulfilled. Staff will  
13 have to closely monitor the expenses  
14 associated with the services that are being  
15 provided under the TSA agreements --  
16 specifically, in our instance, the  
17 IT-related expenses.

18 As was pointed out earlier this morning  
19 by one of the panels, the capital costs  
20 associated with the IT project are capped.  
21 The operating expenses associated with it  
22 are not. Those expenses will need to be  
23 monitored by Staff to ensure that not only  
24 are they being incurred on behalf of -- on

1 direct behalf of implementation of the IT  
2 requirements, but also that they reflect  
3 expenses that are judicious and prudent  
4 before they could be -- so that later on  
5 they could be considered, if required, in a  
6 rate case for recovery purposes.

7 Q. Thank you. On a related note, on Page 10,  
8 you raise concerns regarding the increased  
9 projections of Liberty's IT costs and  
10 suggest that Staff will need to monitor  
11 implementation. Could you explain what you  
12 mean when you suggest that "Staff should  
13 ensure that all expenditures meet recognized  
14 prudence tests"?

15 CMSR. HARRINGTON: Excuse me.  
16 When you say "Page 10," is that -- there's two  
17 numbers on the page. Which one are you -- is  
18 it in Attachment G3-1?

19 MS. FABRIZIO: I'm looking at  
20 the number in the center.

21 CMSR. HARRINGTON: This is  
22 Attachment G3-1?

23 MS. FABRIZIO: Yes.

24 CMSR. HARRINGTON: The page

1 number in the center. Okay.

2 A. (By Mr. Mann) Essentially what we're saying  
3 here is that expenses may in fact be  
4 incurred.

5 MR. MANN: I think,  
6 Commissioner, you pointed out this morning  
7 that not every implementation goes exactly the  
8 way it's envisioned. And we expect that to be  
9 the case here. That's why we requested that  
10 there be a change-management process put in  
11 place with the implementation so that Staff  
12 could monitor the changes and assess what, if  
13 any, financial impact those changes might  
14 have, as well as schedule changes.

15 A. (By Mr. Mann) Now, expenses that are incurred  
16 need to be justified, even as they go along,  
17 so that Staff can better understand what the  
18 nature of the change is, why it's required,  
19 what its impact is, and whether or not it  
20 reflects poor decision-making that might  
21 have been made previously, or if it's a  
22 result of exogenous factors that were  
23 unforeseen events that were not considered  
24 before.

1           And so the prudence test is essentially  
2           a derivative of a set of tests that were  
3           established for nuclear power plant  
4           construction, which I'm sure you're probably  
5           familiar with. And they basically deal with  
6           the "Reasonable Man Theory" of what was  
7           known at the time those decisions were made;  
8           what options were available and were  
9           considered; why were the options that were  
10          selected chosen, and were those in fact  
11          good; and if so, the expense is prudent; if  
12          not, then it's not prudent.

13        Q.    Thank you. On Page 11, also of the April  
14           report, you note that Liberty has made  
15           material improvements in program governance  
16           with respect to IT planning. Could  
17           you explain that further?

18        A.    (By Mr. Connolly) Well, I think that the  
19           first panel this morning with Mr. Pasioka  
20           and Mr. Horan described the  
21           transition-management approach that the  
22           companies have now put in place, which was  
23           not in place as we did our examination of  
24           the companies' preparedness. So we see a

1 heightened awareness. We see a structure  
2 that's been put in place for transition  
3 management, for program management. And  
4 certainly, most importantly, in order to  
5 make the IT world work is the IT Steering  
6 Committee and its role as its explained in  
7 the planning documents and as the  
8 companies -- as the settlement agreement  
9 provides.

10 There's communication protocols that  
11 are established, frequency of reporting and  
12 meetings to make sure that things are  
13 understood and that action plans are built  
14 and remedies are put in place before they  
15 come out of control. The change-management  
16 program, as Dr. Mann mentioned, is another  
17 element of the governance process being the  
18 subject of a lot of attention and much in  
19 the way of resolution that's been brought  
20 about in the intervening months.

21 Q. Thank you. On Page 12, you refer to a  
22 data-retention agreement reached between  
23 Liberty and National Grid. Can you explain  
24 the significance of that agreement?

1 A. (By Mr. Mann) The data-retention agreement  
2 formalizes an understanding that was reached  
3 between the parties, before we were actually  
4 engaged, that was going to provide the  
5 Company with information -- historical  
6 information that was not going to be  
7 converted or transferred over to Liberty at  
8 the time of the conversion. This related to  
9 customer data, operational data, other  
10 information that was thought to possibly be  
11 useful but didn't warrant moving it across  
12 or trying to convert it at this point in  
13 time.

14 The concern that we had was that we  
15 wanted to see that relationship formalized  
16 in a contract that set forth the rights that  
17 each of the two parties had to that  
18 information, to the use of it in subsequent  
19 years, trying to make sure that in fact  
20 Liberty Energy did not find itself  
21 disadvantaged at some point in the future by  
22 not having access to that historical data.  
23 More importantly was that, by making that  
24 agreement -- putting that agreement in place

1 and ensuring that that information is  
2 retained, it gives to the Staff the ability  
3 to ensure that all the existing reports that  
4 have been provided by National Grid, that  
5 there's sufficient data available, that in  
6 the future, as Staff requires information  
7 and wants to look back before the  
8 transaction, it has the ability to do so.  
9 So we've preserved that capability on  
10 Staff's part.

11 Q. Thank you. Now, who, to your knowledge, is  
12 paying for the IT conversion cost of this  
13 transaction? Is that Liberty, Grid, or both  
14 companies?

15 A. (By Mr. Connolly) Sorry?

16 Q. Who is, to your knowledge, paying for the IT  
17 conversion costs for this transaction?  
18 Liberty, National Grid, or both?

19 A. (By Mr. Connolly) There are seven or eight,  
20 subject to check, IT services in the  
21 Transition Services Agreement for -- seven  
22 or eight for Granite State and similar or  
23 same seven or eight for EnergyNorth. The  
24 services that are provided under there are

1 described in the TSA in Attachment A. Those  
2 costs are borne by Grid to generate the  
3 service and are paid for by Liberty upon --  
4 along with all the other transition services  
5 that are acquired during the period from  
6 Day 1 to ultimate Day N.

7 The IT investment expenses, which are  
8 the start-up costs for licenses, for  
9 systems, hardware, infrastructure and  
10 configuration, expenses that Liberty pays  
11 for to the vendors who do that work for the  
12 people in Liberty, who do that work as  
13 employees of Liberty, those expenses are in  
14 the \$8.1 million cap IT investment pool that  
15 is Liberty's to pay for.

16 Q. Thank you. And you mentioned earlier that  
17 in New Hampshire, utilities data is  
18 co-mingled with that of other utilities  
19 owned by National Grid. Are there National  
20 Grid-related IT conversion costs that will  
21 actually be borne by Grid as a result?

22 A. (By Mr. Connolly) In order to -- yes, there  
23 are. Some of those costs would be for the  
24 staff that is assembled under Madeleine

1 Hanley, who's the head of the IT Steering  
2 Committee. Those Grid employees help to  
3 explain the structure, content and  
4 arrangement of the data within the National  
5 Grid legacy systems. That data needs to be  
6 extracted from the Liberty systems and put  
7 into a transfer medium and given to Liberty,  
8 according to schedules, protocols,  
9 conversion tests, and all the assurances  
10 that go along with making sure that the data  
11 is complete, that it's timely and it's  
12 accurate. Those costs, to my understanding,  
13 are being incurred by National Grid and are  
14 not being passed to Liberty.

15 Q. Thank you. In your October testimony and  
16 report, you express some reservations that  
17 you had with respect to Liberty's IT  
18 efforts. Could you explain those  
19 reservations?

20 A. (By Mr. Connolly) Yes. Actually when you  
21 get all down to it, it's a very long list.  
22 But it's a very important list of things.  
23 For example: We saw Liberty's progress  
24 towards the system and Works operations was

1 not very well advanced, and if imagined to  
2 its fruition, the time frames allowed for  
3 that were terribly compressed and way too  
4 aggressive. We saw that Liberty was relying  
5 very heavily on third-party vendors to  
6 achieve the IT objectives. As Mr. Pasieka  
7 referred to, the SADDIS, S-A-D-D-I-S, data  
8 center is where its applications are stored  
9 and all of the vendors that contribute to  
10 the information technology platform. We  
11 didn't see any demonstrated vendor  
12 management skill sets that are very  
13 necessary for that environment.

14 As I mentioned earlier, we didn't see  
15 its ability or its commitment to plan and  
16 thoroughly test its IT systems before  
17 implementation. We didn't see that there  
18 was a clear vision -- there was a clear  
19 vision for IT Day 1, but very little beyond  
20 Day 1 and for the other parts of the  
21 applications that came up and that would be  
22 coming up shortly after Day 1. We didn't  
23 see much had been conceived in solid  
24 planning for those.

1           We saw the transition services as a  
2           huge risk in this area, because it's a \$20  
3           million expense for the two companies. And  
4           those were lifeline services absolutely  
5           required to take everything from the  
6           beginning of Day 1 until Day N. But we  
7           didn't see a service management plan. We  
8           didn't see a way for them to effectively  
9           deal with a \$20 million obligation.

10           And when we met with the Liberty people  
11           and we met with the National Grid people and  
12           we talked with some of the vendors involved,  
13           one of the things that we saw was that  
14           Liberty had an understanding that National  
15           Grid was going to be there all the way  
16           through, and what we found in our analysis  
17           was that Grid was involved but not  
18           committed. And as we've talked through  
19           these things, there's been a marvelous  
20           transformation. There's been tremendous  
21           progress made from the time that we made our  
22           first observations in our report in October;  
23           so now what we see is a fairly changed set  
24           of circumstances. So I think that's where

1 we came from and...

2 Q. So, do the terms of the settlement agreement  
3 that has been filed with the Commission  
4 address the concerns that you have raised?

5 A. (By Mr. Mann) Yes, they do.

6 Q. And do you have any further comments you'd  
7 like to share with the Commissioners with  
8 respect to this proposed transaction?

9 A. (By Mr. Mann) We'd just like to put things  
10 in perspective, if we might.

11 The challenge that's facing Liberty  
12 Energy and National Grid has been to not  
13 only effect an orderly transfer from one  
14 company to another, but to create a safe,  
15 scalable, sustainable operating framework  
16 for those two companies. And we've  
17 concluded that effort remains a work in  
18 progress, an ongoing effort to jointly  
19 achieve a desired outcome, a commitment to  
20 doing so by both parties that merits  
21 endorsement. The level of effort and the  
22 scope of change that's necessitated to  
23 achieve Liberty Energy's vision is  
24 significant, and it requires the concerted

1 attention of Liberty, National Grid, its  
2 consultants, its vendors and its providers.  
3 Liberty's IT vision embodies a lot of moving  
4 pieces: A number of partners, an array of  
5 specialized software applications, a  
6 coordinated transition process, and pieces  
7 that warrant caution and commitment to  
8 ensure the outcome is realized.

9 After our efforts and discussions and  
10 negotiations, we reached a set of conditions  
11 that we believe will substantially improve  
12 the likelihood of their success and are  
13 consistent with the commitments that have  
14 been shown to this by both companies. It's  
15 our opinion that, with agreement to those  
16 conditions, but with active, regulatory  
17 monitoring during the transition period,  
18 that the Petitioners can realize an orderly  
19 transition of responsibilities and a  
20 cost-effective solution to the IT needs of  
21 both companies.

22 Q. Thank you both.

23 MS. FABRIZIO: I have no further  
24 questions.

1 CHAIRMAN IGNATIUS: Thank you.  
2 I think in order of cross, we'll keep going  
3 the way we've been going.

4 Mr. Camerino, for the Joint  
5 Petitioners.

6 MR. CAMERINO: We have no  
7 questions.

8 CHAIRMAN IGNATIUS: Mr. Linder.

9 MR. LINDER: No questions.

10 CHAIRMAN IGNATIUS: Mr.  
11 Sullivan.

12 MR. SULLIVAN: No questions.  
13 Thank you.

14 CHAIRMAN IGNATIUS: Ms.  
15 Hollenberg.

16 MS. HOLLENBERG: No questions.  
17 Thank you.

18 CHAIRMAN IGNATIUS: Commissioner  
19 Harrington, questions?

20 CMSR. HARRINGTON: Yeah, just a  
21 couple.

22 INTERROGATORIES BY CMSR. HARRINGTON:

23 Q. Let me get this right. In Exhibit 12, the  
24 April 10th testimony, on Page 8, these

1 questions were asked. "Have you drawn a  
2 general conclusion from your investigation?"

3 It says, "Yes, despite the initial  
4 reservations expressed in our earlier  
5 testimony, we conclude that Liberty Energy,  
6 given appropriate support from its  
7 partners" -- who are you referring to  
8 specifically there?

9 A. (By Mr. Mann) That's a term that we've used  
10 since the outset of this. The way in which  
11 Liberty is approaching providing its IT  
12 services has defined fairly large roles for  
13 vendors and consultants. At the very  
14 beginning, it was our view that those  
15 vendors and consultants were being viewed  
16 more as partners than providers; and as  
17 partners, they assume a much greater  
18 responsibility. In our view, the term  
19 there, when we talk about "partners," we're  
20 referring to those vendors, those suppliers,  
21 those consultants, and also National Grid,  
22 as well as just the Liberty Utilities family  
23 of employees.

24 Q. And you say that they were originally kind

1 of looked at as more vendors and  
2 consultants, and now they're viewed as  
3 partners. Are there adequate agreements in  
4 place to guarantee performance as a partner  
5 as compared to a vendor or consultant?

6 A. (By Mr. Mann) The "partnership" perspective  
7 was our characterization, not theirs. They  
8 saw them as vendors and suppliers, but we  
9 saw the relationships that they had  
10 developed with them and the dependence they  
11 had upon them, we characterized it more as  
12 "partners" than they did.

13 Subsequent to that, you know, they've  
14 done an extensive amount of work in putting  
15 together a vendor management program that  
16 ensures that they have control over them.  
17 They've also agreed to incorporate into new  
18 contracts a performance-related agreement,  
19 portions of their provisions in their  
20 agreements. They're strengthening their  
21 oversight of those vendors to make sure that  
22 they do deliver on time and on budget. So,  
23 yes, we're comfortable with what's been  
24 done.

1 Q. And just two comments. Further down on that  
2 page, under the -- near Lines 18 through 20,  
3 it says, "We further express our opinion  
4 that the Commission must maintain an  
5 oversight role for an extended period of  
6 time after granting any approval to ensure  
7 the public's interest is served by the  
8 transfer."

9 And on Page 10, starting at Line 19, it  
10 says, "We continue to hold the opinion that  
11 ensuring that an efficient and  
12 cost-effective transfer is achieved requires  
13 active monitoring by NHPUC Staff during the  
14 transition and implementation period." So,  
15 those two statements, I have a couple  
16 questions.

17 First, you mentioned an extended period  
18 of time after granting approval, any  
19 approval, and during transition and  
20 implementation periods. Can you be more  
21 specific as to what amount of time that  
22 involves?

23 A. (By Mr. Mann) It's our opinion that the  
24 commitments that have been made by the two

1 parties, Staff has a responsibility to  
2 ensure that those commitments are adhered to  
3 and honored. Those commitments, from our  
4 standpoint, go through till Day N, at such  
5 point in time as there is a readiness shown  
6 or demonstrated by Liberty to assume  
7 responsibility for all of its IT functions  
8 and capabilities. Staff needs to be  
9 continuously involved in that, in monitoring  
10 those developments. Currently, that's  
11 envisioned to be November -- the end of  
12 November, or the end of the -- somewhere in  
13 the fourth quarter of 2013. But very  
14 reasonably, it could extend beyond that.  
15 That's why we have basically viewed Day N as  
16 the trigger point.

17 Q. Okay. So, tentatively, that was, again,  
18 November?

19 A. (By Mr. Mann) The current schedule is --  
20 that's been put forth by the Company is  
21 completion of the transition in November of  
22 2013. That's today.

23 Q. And is this something that is going to be  
24 easily recognizable? I mean, is there a

1 particular yardstick that can be measured  
2 where one can declare that they now have  
3 full responsibility, or is it just a matter  
4 of them saying we now have full  
5 responsibility for all IT functions?

6 A. (By Mr. Mann) No. They have some fairly  
7 defined processes set in place and some  
8 agreements with Staff about how those  
9 various events will take place and at what  
10 point each of these services will be turned  
11 over, what triggers they have to meet to do  
12 that. So it's a fairly formula-based  
13 process.

14 Q. And again, you do mention "active monitoring  
15 by Staff" in a couple places. Is this more  
16 of a -- I don't want to put this in a  
17 derogatory term -- is this more of a  
18 checklist type-function, where Staff would  
19 say, Okay, you need to submit something by  
20 this date that's signed by so-and-so saying  
21 you did something? Or is this more of an  
22 analysis-type thing, where the Staff would  
23 be responsible for looking at a situation,  
24 analyzing it and making a determination as

1 to whether it met the requirements?

2 A. (By Mr. Mann) I would have to characterize  
3 it as something of both. Much of the  
4 monitoring process involves periodic  
5 reporting, face-to-face reporting on a  
6 regular basis between the companies and,  
7 again, Staff. They have certain submission  
8 requirements that have to be made at each of  
9 those milestones, which Staff will, in turn,  
10 have to review and analyze and then discuss  
11 with the Company to determine whether or not  
12 they're in agreement on what's been done and  
13 what hasn't been done. Similarly, part of  
14 that reporting process involves changes to  
15 schedule, changes in cost, that in each case  
16 Staff will want to examine carefully to  
17 better understand what it is that's  
18 precipitating those changes. And so it's  
19 not simply a checklist. There are  
20 checklists associated with it, but there's  
21 also some analysis that has to take place as  
22 well.

23 Q. Do you think that the Staff has the  
24 technical expertise to do that type of

1 analysis?

2 A. (By Mr. Mann) Staff can walk on water.

3 Q. That's not the answer I was looking for. I  
4 was looking for the truth.

5 (Collective "Ooh.")

6 Q. 'Cause I mean this is something that we  
7 don't delve into on a regular basis, looking  
8 at the complicated transfer of, you know,  
9 software systems. I don't think we have any  
10 software professionals on Staff, for  
11 example, who have been involved, you know,  
12 actually performing this type of a transfer.

13 A. (By Mr. Mann) There would probably be  
14 requirements for supplementing Staff with  
15 specialized expertise, yes.

16 Q. Okay. Thank you.

17 CMSR. HARRINGTON: That's all I  
18 have.

19 CHAIRMAN IGNATIUS: Commissioner  
20 Scott.

21 INTERROGATORIES BY CMSR. SCOTT:

22 Q. Good afternoon. You mentioned earlier in  
23 your introductions that, as we know, there's  
24 a cap on the capital costs for the IT

1 infrastructure plans, but not on the  
2 operational moving ahead. Obviously, this  
3 transition is very important. But I'm also  
4 a little bit concerned that the upkeep and  
5 maintenance of whatever comes of this is  
6 reasonable also. Can you talk to that a  
7 little bit?

8 A. (By Mr. Mann) What we're really talking  
9 about here is the sustainability --

10 Q. Yes.

11 A. (By Mr. Mann) -- of the solution. One thing  
12 that you have to understand is that, you  
13 know, IT has a very short life cycle. If  
14 you bought a PC two years ago, it's obsolete  
15 now. I think it's very difficult to  
16 determine whether or not -- long term what  
17 those operating costs are going to be. But  
18 I would suggest to you that the approach  
19 that the Company is using is designed to not  
20 only provide itself the flexibility that it  
21 needs to be able to address changes in  
22 technology over time, but also to provide  
23 for itself the technology that it needs at  
24 the time that it needs it, so that it's not

1 investing in something that it may not need  
2 for three to five years. Its approach is  
3 basically to acquire the technology that it  
4 needs now, with the assurance that the  
5 people that are providing it to them have  
6 the capability to ramp up or scale up as  
7 they need it.

8 So there's some cost optimization that  
9 comes as a result of that. The costs  
10 themselves, the operating costs, very  
11 difficult to judge until you're actually  
12 there. And that was one of the reasons why  
13 we put in here that it becomes incumbent  
14 upon Staff during the implementation period  
15 to closely monitor those decisions and to  
16 understand what the cost implications are of  
17 them, so that later on they can make a  
18 determination of whether or not they were  
19 reasonable and just expenditures. But to  
20 say long term what the costs were going to  
21 be associated with it, it would be anybody's  
22 guess.

23 Q. That's fair. Along that same line, you  
24 mentioned the development that the Company

1           doing is "Greenfield." Is that potentially  
2           an advantage, taking a "Greenfield"  
3           approach, rather than taking the legacy  
4           system in?

5       A.    (By Mr. Connolly) Liberty didn't really have  
6           a lot of choices. It couldn't reasonably,  
7           couldn't easily and couldn't efficiently  
8           make a copy of the National Grid systems and  
9           shrink it down to New Hampshire and say I'm  
10          going to run this way. It just doesn't work  
11          that way. That was not going to be a  
12          possible avenue. It could have decided  
13          that, for the period between Day 1 and its  
14          self-sustaining operations, to develop all  
15          of its own new systems. That's been tried  
16          before and done before. Liberty looked at  
17          that and said that's information systems,  
18          programmers and designers and so forth.  
19          That's not a core competency of ours, so  
20          take that one off the table.

21                 Third choice would have been go find a  
22                 vendor that can build all these systems  
23                 custom for you and have that vendor assume  
24                 the liability and responsibility for it.

1 That's been tried before, and that's got --  
2 that works. There's a lot of risk  
3 associated with it.

4 Fourth choice is go and find vendors  
5 who have application packages "off the  
6 shelf" or "in the box," where packages have  
7 proven to work and can be integrated so that  
8 they work together, and use that technology  
9 going forward. That fourth one is  
10 essentially what Liberty has chosen to do.  
11 They went through and checked off the first  
12 three and recognized that risk, not our  
13 skillset and impossible to do, weren't going  
14 to be ways to go about this business. So  
15 the choice they made was proven vendors,  
16 applications that can be integrated in the  
17 Microsoft Great Plains environment. And a  
18 diversification of vendors helps to spread  
19 the risk, so that while one's working on the  
20 Works management program, one can be working  
21 on billing, another one can be working on  
22 labor scheduling and program management.  
23 So, diversification goes to minimum --  
24 taking some of the risk out of the equation,

1 because you've got concurrent development  
2 going on and you've got -- you don't have  
3 all your eggs in one basket.

4 Q. That's helpful. Thank you.

5 And I guess my last question is, the  
6 plans that are in the proposed settlement  
7 agreement -- and again, either one of you  
8 can answer -- how does that compare -- or  
9 how do these compare to what you've seen in  
10 other dealings you've had with other  
11 companies?

12 A. (By Mr. Mann) I would say that they're  
13 comparable to what we've seen elsewhere. In  
14 this particular instance, given the nature  
15 of the transaction, it entails a lot of  
16 complexity changing that you don't normally  
17 see in other mergers or acquisitions that  
18 take place. And so from our standpoint, the  
19 planning is sufficient to what's required to  
20 provide the framework that's necessary to  
21 start with, gives us all the tools we need  
22 to monitor it. And I would have to say  
23 we're comfortable with what we've seen so  
24 far and expect to see improvements in the

1 migration plan as well.

2 MR. SCOTT: Thank you. That's  
3 all I have.

4 CHAIRMAN IGNATIUS: I have a few  
5 other questions, and I'll let you pick and  
6 choose who's best to respond.

7 INTERROGATORIES BY CHAIRMAN IGNATIUS:

8 Q. One of the things that we've seen that's  
9 been an issue in other mergers is situations  
10 where you have multiple systems that have to  
11 knit together, and they end up not talking  
12 to each other as well as was hoped. Are  
13 there ways in which that's going to be  
14 required for this transaction?

15 A. (By Mr. Connolly) There are certain parts of  
16 information -- there are information streams  
17 that need to be replicated in one family of  
18 systems to another family of systems to  
19 another. An example would be accounts  
20 receivable, the system that tracks the  
21 current charges for a customer, renders a  
22 bill and creates an account receivable  
23 record. That record needs to be put into  
24 the system that the collections people would

1 use, so that amount of money can be looked  
2 at from time to time to determine whether  
3 it's the right day to call and say where's  
4 my money. That accounts receivable  
5 information also needs to go into the  
6 general ledger system because it's an  
7 accounting entry that you use for that  
8 purpose. So that stream of information  
9 needs to migrate itself through various  
10 systems. And there are many more examples  
11 of that. One of the things that this common  
12 framework for the systems that Liberty has  
13 chosen to use, one of the benefits of that  
14 is that you can programatically work this  
15 integration of the information streams. You  
16 can rely on an account receivable in the  
17 billing system that you're going to get from  
18 Cogsdale to be a record that is usable in  
19 the general ledger system that they use for  
20 WennSoft. That account receivable has a  
21 common language to them, to both those  
22 vendors, and that goes to solve that  
23 particular problem in that case. But each  
24 of the other applications, where they need

1 to find an address record -- for example, in  
2 the SCADA system -- and that address system  
3 needs to be in the work scheduling system  
4 because someone's going to go to that  
5 address, and that's also the address you're  
6 going to use to bill the customer. That  
7 same piece of information about that address  
8 needs to appear in all those different  
9 systems. Liberty's plan looks at  
10 integration of that data as a key part of  
11 their responsibility and a key piece that  
12 needs to be managed.

13 Q. And is that coordination among the  
14 different -- maybe it's not different  
15 systems, but different pieces that all have  
16 to integrate, will that be tested?

17 A. (By Mr. Connolly) Yes.

18 Q. So they're not tested on a stand-alone  
19 basis, but ways in which the kinds of  
20 examples you were giving, where one change  
21 has to show up in multiple different  
22 locations to be complete, will be tested?

23 A. (By Mr. Connolly) We were talking earlier  
24 about the commitment to testing. One of the

1 aspects of testing that's in the Liberty  
2 plan at this point is the integration of  
3 systems, that when one system is ready for  
4 implementation, there is a test done to make  
5 sure it fits, and all of its interfaces and  
6 tentacles fit within the systems that are  
7 already operating. And then there's a set  
8 of regression tests to make sure that it  
9 fits as new systems come in at a later date.  
10 So the commitment to doing that testing is  
11 in the plans and that's an integral part of  
12 it. And the goal of the testers within the  
13 Liberty system, shared by its vendors,  
14 shared by its partners, all goes to  
15 achieving the kinds of testing that prove  
16 that those things work.

17 And Commissioner, if might add, too.  
18 We've concentrated pretty much on the  
19 processes and procedures, but one of the  
20 critical elements in this from the very  
21 beginning, from our standpoint, was  
22 expertise leadership. We can put in place a  
23 framework. We can establish all the  
24 processes and procedures. But unless

1           there's executive leadership behind it that  
2           can drive those processes and procedures, it  
3           doesn't mean a lot. One of the most  
4           significant commitments, I think from our  
5           standpoint, has been the dedication that  
6           National Grid has made to provide one of its  
7           senior -- most senior IT executives to this  
8           transition. We understood from the very  
9           outset that National Grid's involvement and  
10          engagement in this was absolutely critical.  
11          Experience just shows that, unless the donor  
12          is as equally committed to the recipient, it  
13          just doesn't work. They provided a  
14          commitment of the individual who has  
15          considerable experience, been through a  
16          number of mergers within the National Grid  
17          history, knows full well the systems  
18          integration issues and difficulties.  
19          Additionally, Liberty Energy has brought  
20          online a senior IT executive to head up its  
21          side, who also has an extensive portfolio of  
22          experience in systems integration and  
23          transition management. Added to that,  
24          they've also applied Mr. Wood, who will

1 handle the transition issues, which is to  
2 coordinate the bringing online of the IT  
3 systems with the transition of the Work  
4 functions within the organizations to match  
5 the systems and the users together.

6 So we're very comfortable with the  
7 fortification, I guess you could say, that's  
8 been made on that side of it, and we're  
9 confident that with the provisions that Tim  
10 has pointed out, commitments to testing are  
11 going to be sufficient to make sure that  
12 when things do come online, they do work as  
13 expected.

14 Q. Who are the individuals you were referring  
15 to as "senior" people from National Grid and  
16 from Liberty?

17 A. (By Mr. Mann) Madeleine Hanley is  
18 vice-president with National Grid, and  
19 she'll be dedicated to this project on their  
20 behalf. And she's very familiar with all of  
21 the existing systems. One of the things we  
22 pointed out to Staff is what she brings  
23 that's more important than anything else is  
24 her Rolodex, because she knows who to call

1 and how to get things done within the  
2 National Grid organization.

3 Q. That's not exactly a high-tech solution, but  
4 maybe it's the best --

5 A. (By Mr. Mann) It works. That's what counts.

6 David Carlton is the IT executive for  
7 Liberty Energy that has been brought on  
8 since we issued our October report and  
9 provides now the overall leadership for the  
10 IT planning and the migration from their  
11 side. Bob Wood also works for Liberty  
12 Utilities, and he is going to be the project  
13 manager and manage the project management  
14 office, the PMO. And he'll be working --  
15 and the three of them collectively, between  
16 their credentials and their experience, we  
17 feel very comfortable with those  
18 improvements.

19 Q. Once the transition is complete, do we see  
20 any of those three people again?

21 A. (By Mr. Connolly) Mr. Carlton stays, for  
22 sure, because his role is for IT operations  
23 and overall IT for Liberty Utilities. The  
24 National Grid component, that evaporates

1 when the last TSA goes away and the  
2 necessary housekeeping that ensues. And the  
3 transition management function also gets  
4 eliminated because things have transitioned  
5 from Grid into Liberty.

6 Q. Mr. Carlton, as you say, would still be  
7 involved with Liberty Energy, but doesn't  
8 appear to be on the Liberty New Hampshire  
9 org chart; is that right?

10 A. (By Mr. Mann) That would be correct. He is  
11 a Liberty Utilities corporate employee.

12 Q. IT will be under the Director of Finance; is  
13 that right? On the org chart it appears to  
14 be under --

15 A. (By Mr. Mann) I don't have the org chart in  
16 front of me.

17 Q. That would be Exhibit 6.

18 (Ms. Fabrizio hands document to witness.)

19 A. (By Mr. Mann) The organization chart that  
20 we're looking at, just to make sure we're on  
21 the same, is the Liberty Utilities New  
22 Hampshire.

23 Q. Yes.

24 A. (By Mr. Mann) The individuals that are shown

1 under the Director of Finance there, fourth  
2 box down from Information Systems, those are  
3 basically individuals within New Hampshire  
4 who are responsible for dealing with end  
5 user as a liaison, between the end user  
6 departments like customer service,  
7 operations. And they'll be dealing with the  
8 corporate people, who in fact will be --  
9 they'll be working with in terms of making  
10 changes to the systems.

11 A. (By Mr. Connolly) If you were a user and you  
12 forgot your password, you might call one of  
13 these folks to get that reassigned and  
14 re-established, technical matters of that  
15 nature is the type of functions these  
16 individuals do for Liberty Utilities New  
17 Hampshire.

18 Q. So who do you go to in the Liberty New  
19 Hampshire structure for some of these  
20 sophisticated, ongoing IT needs that aren't  
21 the end users, but the system, if things  
22 aren't working well and the coordination  
23 between, let's say the billing system and --

24 A. (By Mr. Mann) The responsibility for

1 maintaining those capabilities rests with  
2 people who are located in Oakville, who  
3 report to Mr. Carlton at Liberty Utilities  
4 at the parent corporate level. Now, if the  
5 problem is manifested at the local level in  
6 New Hampshire, then one of these individuals  
7 would primarily be the responsible person to  
8 convey that information on to the people in  
9 Oakville as to what the nature of the  
10 problem is and what needs to be done.  
11 Resolving issues will rest with Mr. Carlton  
12 and his staff in Oakville.

13 Q. In some merger situations, we've had  
14 complaints from customers who say they keep  
15 explaining what's wrong, let's say in a  
16 billing situation, and the response  
17 continues to be, "Well, I'm sorry. The  
18 system just doesn't recognize that," or "We  
19 thought we fixed it, but it seems not to  
20 have been fixed," as if the system drives  
21 the actions and the individuals don't have  
22 much ability to affect it. Is there reason  
23 to be concerned that that can be happening  
24 in this transaction?

1 A. (By Mr. Mann) I don't think there's any more  
2 reason to be concerned about it than what we  
3 would see in any transaction. There are  
4 always expectations from the user's  
5 standpoint of what things should do.  
6 Personally, I hate dealing with, you know,  
7 voice-activated response systems. Not a lot  
8 I can do about it. I can complain about  
9 them, but it doesn't seem to make much  
10 difference.

11 I think one of the points that the  
12 Company has made is that they are attempting  
13 to be more responsive in the way in which  
14 they design their systems. They've  
15 expressed to us a very strong commitment to  
16 what they call "customer facing systems."  
17 The idea is to make those as user friendly  
18 as possible. I cannot say with assurance  
19 that the way in which the Company will  
20 respond to those complaints or concerns is  
21 going to be any different than any other  
22 company would respond to it. I'm sure  
23 they'll look at them and make a decision  
24 whether or not they can accommodate it or

1 not.

2 One of the limiting factors here is  
3 that in most instances we're dealing with  
4 commercially available software  
5 applications. They don't provide for a lot  
6 of customization. Consequently, it's like  
7 you and I on our home computer if we buy  
8 Microsoft Word. Microsoft Word is what it  
9 is. We don't like some of the ways in which  
10 it works, but we learn how to accommodate  
11 and work around it. And so, you know, they  
12 are going to have some limited options  
13 available to them. But I would assume that  
14 they are listening to your comment right now  
15 and will take that to heart.

16 Q. Well, I'll throw in another one then. In  
17 similar situations, you find that the  
18 customer data that the new company is trying  
19 to absorb and respond to is out of date.  
20 And for whatever reason, things have changed  
21 in the customer rolls and addresses have  
22 changed, accounts have shifted, and without  
23 fairly up-to-date records, things can get  
24 bungled up pretty quickly. Has anyone

1 looked at that possibility or insured that  
2 when a cutover occurs, it will be working  
3 with the most current customer information  
4 there is?

5 A. (By Mr. Connolly) There was -- there was,  
6 there has been and there continues to be  
7 exercises that are going on between Grid and  
8 Liberty in the analysis of data that is  
9 resident in the National Grid data bases and  
10 the data that's needed in the Liberty plan  
11 data bases. The technical term for those  
12 are "function mapping" and "data mapping"  
13 and "information mapping" exercises, where  
14 National Grid says, Here's what I have on my  
15 side and here's what you need on this side;  
16 how do we get it from here to there so that  
17 it's timely represented, it's accurate and  
18 it's complete? Part of the work that the IT  
19 Steering Committee addresses, and is the  
20 National Grid IT commitment, is to make  
21 those things clear and understandable by the  
22 Liberty people and the vendors for Liberty's  
23 application systems, so that those types of  
24 problems that you've described ultimately,

1 most desired, would not happen, but  
2 practically would get minimized, because  
3 there's been focus on what is the data that  
4 I have, what is the data that I need, and  
5 how do I get it this.

6 Q. And when I said earlier today that it seemed  
7 like there were parallel systems running so  
8 that you really were testing the new system  
9 before making a change, is that correct?  
10 I'm sure I've grossly over-simplified it,  
11 but --

12 A. (By Mr. Mann) It's a phase process. The  
13 applications are going to be phased in, in  
14 batches. Once there's adequate testing  
15 done, and they've been able to determine  
16 that they operate at the adequate level that  
17 they're expecting them to operate, there  
18 comes a point at which old systems are  
19 unhooked or reduced as new systems come  
20 online. And so from our viewpoint, it is a  
21 migration. It is not a "flash cut" on this.  
22 And it will only be -- each piece will only  
23 be turned over and declared operational when  
24 there's sufficient demonstration that it's

1 stable and that it's operating in the manner  
2 that it was expected to operate in. That's  
3 why, from our standpoint, people that are  
4 directly responsible for managing this have  
5 been through these kinds of things before.  
6 They understand there's no going back. Once  
7 you put something in and turn it up, you  
8 don't have the recovery. So they are very  
9 aware of what the requirements are here, and  
10 we feel comfortable that they'll fulfill  
11 those. But that's part of the monitoring  
12 process, is to ensure that those things do  
13 in fact happen.

14 Q. Thank you. I think Commissioner Harrington  
15 has another question.

16 INTERROGATORIES BY CMSR. HARRINGTON:

17 Q. You just prompted me with your last  
18 statement there. Who actually has the final  
19 authority of the transfer of the system?  
20 Who accepts the new system? Is that -- I've  
21 seen that Fair -- wrong company. There's  
22 somebody at Liberty, and who is it? Do you  
23 know who it is?

24 A. (By Mr. Connolly) The transition governance

1 process provides a mechanism for a sign-off  
2 at commensurate levels of responsibilities  
3 as it gets to the top, and that's when the  
4 AOK is given.

5 Q. So it is addressed in the agreement then.

6 A. (By Mr. Connolly) It's in the IT plans and  
7 the migration plans.

8 Q. And I'm assuming that until that's done,  
9 then National Grid is committed to providing  
10 support until such time as Liberty signs  
11 that acceptance.

12 A. (By Mr. Connolly) The transition services  
13 continue until that cutoff is made. And as  
14 Dr. Mann said, the process of cutting off is  
15 not a razor cut through. It's a matter of a  
16 processes through --

17 Q. Right, right. Steps.

18 A. (By Mr. Mann) It's not unilateral, either.  
19 They both have to be in agreement that they  
20 they've reached a particular point that's  
21 acceptable to each of them.

22 Q. Okay. Thank you.

23 CHAIRMAN IGNATIUS: Thank you.

24 I think that concludes questions from the

1 Bench.

2 Ms. Fabrizio, any redirect?

3 MS. FABRIZIO: Yes, if you could  
4 give us just couple minutes?

5 CHAIRMAN IGNATIUS: That's fine.

6 REDIRECT EXAMINATION

7 BY MS. FABRIZIO:

8 Q. I'm going to try to take a stab at relating  
9 this question to you, Greg and Tim.

10 Could you discuss basically the  
11 simultaneity or parallel processes that are  
12 going on as Grid is actually sending out  
13 bills to customers and Liberty is testing at  
14 the same time, the billing process kind of  
15 shadowing the Grid process?

16 A. (By Mr. Connolly) The process by which  
17 meters are read and payments are processed  
18 and so forth and bills go out, that doesn't  
19 change coming from the Grid system until the  
20 Liberty system is capable of doing all of  
21 those functions.

22 Q. And will the testing be occurring while Grid  
23 is continuing to perform this function?

24 A. (By Mr. Connolly) Yes. Yes, the testing

1 mechanisms will be sorted out. But what it  
2 will entail is essentially back-office  
3 parallel processing. Customer's bills are  
4 not going to be mailed out from Liberty in  
5 test mode to make sure that the post office  
6 delivers them properly. But there will be  
7 tests done with the transactions and tests  
8 done with the bill production mechanisms to  
9 make sure that a bill representing the same  
10 sorts of charges from meters read over this  
11 period and serviced by these dates would be  
12 the same amounts of money going to the same  
13 customers.

14 Q. And this will help to ensure a seamless  
15 transition as that particular service  
16 function transfers to Liberty?

17 A. (By Mr. Connolly) Yes.

18 Q. Okay. Great. Thank you.

19 CHAIRMAN IGNATIUS: Thank you.  
20 Gentlemen, you're excused. Thank you very  
21 much.

22 It's 3:15. Why don't we go  
23 off the record.

24 (Whereupon a brief recess was taken at

1                   3:16 p.m. and resumed at 3:37 p.m.)

2                   CHAIRMAN IGNATIUS: Welcome  
3 back, everyone. Is it time for the panel on  
4 the settlement?

5                   MS. FABRIZIO: Yes, Chairman  
6 Ignatius, it is.

7                   CHAIRMAN IGNATIUS: Thank you.  
8 Please proceed, unless we have anything else  
9 to attend to beforehand.

10                  MR. CAMERINO: And actually,  
11 because this a joint panel of Staff and  
12 witnesses from the two companies, we've agreed  
13 to proceed that I'm going to begin with Mr.  
14 Eichler and Mr. Burlingame. We're just going  
15 to get their background and credentials on the  
16 record. They don't have any direct beyond  
17 that. Then, Ms. Fabrizio is going to do the  
18 same with the Staff witnesses, but they do  
19 have some direct. And when that's complete,  
20 they'll be available for questioning. For  
21 example: The companies do have a few  
22 questions for Mr. Frink, I believe, and other  
23 parties obviously may have other questions.  
24 So if that's okay with the Bench, that's our

1 plan.

2 CHAIRMAN IGNATIUS: That's fine.

3 MR. CAMERINO: So if we could  
4 get the witnesses sworn.

5 (WHEREUPON, PETER EICHLER, RICHARD  
6 BURLINGAME, JR., STEPHEN P. FRINK AND  
7 STEVEN E. MULLEN were duly sworn and  
8 cautioned by the Court Reporter.)

9 PETER EICHLER, SWORN

10 RICHARD BURLINGAME, JR., SWORN

11 STEPHEN FRINK, SWORN

12 STEVEN MULLEN, SWORN

13 DIRECT EXAMINATION

14 BY MR. CAMERINO:

15 Q. Mr. Eichler, let me begin with you. Would  
16 you state your name and business address for  
17 the record, please.

18 A. (By Mr. Eichler) Sure. It's Peter Eichler.  
19 That's E-I-C-H-L-E-R. My business address  
20 is 2865 Bristol Circle in Oakville, Ontario.

21 Q. And by whom are you employed and in what  
22 capacity?

23 A. (By Mr. Eichler) I'm employed by Liberty  
24 Utilities Canada Corp. as a director of

1 regulatory strategy.

2 Q. And what are your responsibilities in that  
3 regard?

4 A. (By Mr. Eichler) My responsibilities in that  
5 regard are to oversee the regulatory  
6 strategy of our utility holdings, to ensure  
7 compliance across the board and consistency  
8 on the processes from a regulatory  
9 perspective.

10 Q. And there was prefiled testimony submitted  
11 in this case, dated March 4, 2011, that's  
12 part of Exhibit No. 1 for identification,  
13 which bears your name. And was that  
14 testimony prepared by you or under your  
15 direction?

16 A. (By Mr. Eichler) Yes, it was.

17 Q. And do you have any changes or corrections  
18 other than updates as a matter of the  
19 passage of time?

20 A. (By Mr. Eichler) No, I do not.

21 Q. And so is that testimony true and correct to  
22 the best of your knowledge and belief?

23 A. (By Mr. Eichler) Yes, it is.

24 Q. And you're also familiar with the settlement

1 agreement filed in this case as Exhibit 2?

2 A. (By Mr. Eichler) That's correct.

3 Q. And could you just describe very briefly  
4 your role with regard to that settlement,  
5 your familiarity with it.

6 A. (By Mr. Eichler) Sure. As one of my  
7 responsibilities, I oversaw the management  
8 of this docket from a regulatory  
9 perspective, but also coordinated the  
10 thoughts of my colleagues and our management  
11 team here in New Hampshire, and helped  
12 coordinate and manage a lot of the aspects  
13 of the settlement agreement. So I have a  
14 significant level of familiarity with most  
15 of the terms and conditions.

16 Q. Thank you.

17 I'm going to turn to you, Mr.  
18 Burlingame. Thank you for grabbing that mic  
19 and taking it closer. I know that the two  
20 of you are sharing one.

21 Would you state your name and business  
22 address, please.

23 A. (By Mr. Burlingame) It's Richard Burlingame,  
24 Jr., 40 Sylvan Road, Waltham, Massachusetts.

1 Q. By whom are you employed and in what  
2 capacity?

3 A. (By Mr. Burlingame) I am director of U.S.  
4 Mergers and Acquisitions for National Grid  
5 USA Service Company.

6 Q. And did you have any prefiled testimony in  
7 this proceeding?

8 A. (By Mr. Burlingame) I did not.

9 Q. And what were your responsibilities with  
10 regard to the settlement agreement, and are  
11 you familiar with it?

12 A. (By Mr. Burlingame) I am familiar with it.  
13 I was involved in the negotiation of the  
14 settlement agreement on behalf of National  
15 Grid.

16 Q. Thank you very much.

17 CHAIRMAN IGNATIUS: Ms. Fabrizio.

18 MS. FABRIZIO: Thank you.

19 DIRECT EXAMINATION

20 BY MS. FABRIZIO:

21 Q. Mr. Frink, could you please state your name  
22 and business address for the record.

23 A. (By Mr. Frink) My name is Stephen Frink, and  
24 my address is 21 South Fruit Street,

1 Concord, New Hampshire.

2 Q. And by whom are you employed and in what  
3 capacity?

4 A. (By Mr. Frink) I am employed by the New  
5 Hampshire Public Utilities Commission and am  
6 the Assistant Director of the Gas & Water  
7 Division.

8 Q. And what has been your involvement in this  
9 proceeding?

10 A. (By Mr. Frink) I have filed testimony and  
11 I've been involved in the settlement  
12 discussions and discovery process.

13 Q. Now, you filed testimony on October 7, 2011;  
14 is that correct?

15 A. (By Mr. Frink) That's correct.

16 Q. Was that testimony prepared by you and under  
17 your direction?

18 A. (By Mr. Frink) Yes, it was.

19 MS. FABRIZIO: Chairman  
20 Ignatius, I would like to request that the  
21 October 7, 2011 direct testimony of Steven P.  
22 Frink be filed -- marked for Exhibit 13.

23 CHAIRMAN IGNATIUS: So marked  
24 for identification.

1 (Exhibit 13 marked for identification.)

2 Q. Mr. Frink, do you have any corrections or  
3 changes you would like to make to your  
4 testimony?

5 A. (By Mr. Frink) I do not.

6 Q. Is your testimony true and accurate, to the  
7 best of your knowledge?

8 A. (By Mr. Frink) Yes, it is.

9 Q. Thank you.

10 Now, in your October prefiled  
11 testimony, you expressed concern regarding  
12 the cost to New Hampshire ratepayers of the  
13 proposed transaction. Could you outline  
14 those concerns for the benefit of the  
15 Commissioners?

16 A. (By Mr. Frink) I was concerned with the lack  
17 of experience and the expense of new systems  
18 and the impact that might have on rates, the  
19 operating costs, the transition costs.  
20 There were -- the acquisition premium.  
21 There were a lot of things that looked as  
22 though they could have a negative impact on  
23 rates. So, from a ratepayer's perspective,  
24 that was a -- that was our major concern.

1 Q. And does the settlement agreement reached in  
2 this proceeding address those concerns?

3 A. (By Mr. Frink) Yes, it does.

4 Q. What commitments and conditions in  
5 particular address the concerns that you  
6 have raised?

7 A. (By Mr. Frink) Well, in addition to the  
8 terms of the settlement agreement, the  
9 Company is much farther along in their  
10 hiring of people. They've hired experienced  
11 employees with utility and New Hampshire  
12 regulatory experience. And we've also had  
13 the benefit of G3's evaluation of the IT  
14 systems, updated costs, updated IT plans and  
15 IT mitigation plans. So, to that extent,  
16 those are all positives. And then, on top  
17 of that, there are conditions in the  
18 settlement, of which there are quite a  
19 number, and I'll go through the highlights  
20 of those.

21 No. 1, there's no recovery of the  
22 acquisition premium, any transaction costs,  
23 any transition costs by limiting the  
24 recovery -- by eliminating recovery

1 transition costs, that eliminates major  
2 expenses to ratepayers. If those costs  
3 should escalate, then, as we heard, the  
4 Company -- the Liberty witnesses state that  
5 will be a shareholder expense that won't  
6 impact ratepayers.

7 And there's a limit on the IT  
8 capitalization costs, and the OCA witness  
9 stated that it was raised a little above  
10 their expected IT capital expenses of 6.3  
11 million. The settlement calls for a cap of  
12 8.1. And I would just like to point out  
13 that it was conceded as well that as part of  
14 the settlement, there's a stay-out provision  
15 for EnergyNorth ratepayers. And so that  
16 8.1 million, when there is a rate case  
17 following that stay-out, will be something  
18 less. That 8.1 million cap is -- that 8.1  
19 million gets recorded when those capital  
20 investments are made, and depending on how  
21 long it is before they come in for a rate  
22 case, then they'll be depreciated  
23 accordingly. So at the time of the rate  
24 hearing, you would expect something less

1 than 8.1. So the analysis that shows a  
2 comparison of the costs at 8.1 or 6.3,  
3 probably 6.3 is a reasonable comparison.

4 In addition, while I mentioned there's  
5 a stay-out provision for EnergyNorth  
6 customers, there's an escrow mechanism that  
7 is designed to keep National Grid committed  
8 and involved throughout the transition  
9 process. There's a rate case expense limit,  
10 which the -- by way of comparison in the  
11 last National Grid rate case --  
12 EnergyNorth's rate case, National Grid filed  
13 for recovery of 1.5 million in rate case  
14 expenses; ultimately, 1.1 million was  
15 approved for recovery.

16 The rate case expense cap in the first  
17 rate case has a limit of 600,000. So that's  
18 a fairly substantial savings for ratepayers.  
19 Again, when you're comparing rates, that  
20 isn't necessarily reflected in the rates,  
21 but that is a consideration as to why, under  
22 this settlement, with the conditions  
23 imposed, it's my belief that the customers  
24 will not be harmed financially as a result

1 of this transaction.

2 And I have mentioned a couple of times  
3 that a comparison of rate case expenses --  
4 of rates under Liberty, compared to what  
5 they would be under National Grid -- and as  
6 part of the discovery process, we were  
7 provided a handout by Liberty. This was a  
8 handout of a November 9, 2011 technical  
9 session we had, and it incorporates a lot of  
10 the data responses raised through discovery  
11 that actually compares rates as they would  
12 be under National Grid versus Liberty, and  
13 incorporates the rate base, operating costs  
14 and the capital structure. And I would like  
15 to admit that as an exhibit, just as a  
16 comparison, because -- well, I'll wait until  
17 it's distributed, if that's okay.

18 Q. And you're referring to the document  
19 entitled, "Incremental Cost of Service  
20 Analysis"?

21 A. (By Mr. Frink) That's correct.

22 MS. FABRIZIO: I'd like to mark  
23 as Exhibit 16 the document so entitled.

24 CHAIRMAN IGNATIUS: How did we

1 get to 16?

2 MS. FABRIZIO: Steve Mullen's  
3 testimony filled up 14 and 15.

4 CHAIRMAN IGNATIUS: Oh, okay.  
5 I'm sorry. This was prepared by Mr. Frink?

6 MR. FRINK: (By Mr. Frink) This  
7 was prepared by Liberty and was provided as a  
8 handout at a technical session during the  
9 discovery process.

10 MR. EICHLER: I authored the  
11 document.

12 CHAIRMAN IGNATIUS: All right.  
13 Thank you. So we'll mark this for  
14 identification as Exhibit 16.

15 (Exhibit 16 marked for identification.)

16 A. (By Mr. Frink) And what this -- as I  
17 previously stated, this is a comparison of  
18 the National Grid revenue requirement absent  
19 the acquisition and then what the revenue  
20 requirement would be under Liberty Energy,  
21 if Liberty Energy acquires the system. And  
22 as you can see, again, it incorporates rate  
23 base, O & M and the capital structure. And  
24 when you get down to that bottom box that

1 says "Equal - Net Impact," you can see that  
2 overall, under Liberty, there's a  
3 0.1 percent increase in what the revenue  
4 requirement would be under Liberty than if  
5 National Grid were to retain ownership. And  
6 given these are estimated costs, they  
7 include National Grid's expected investment  
8 in new IT systems --

9 (Court Reporter interjects.)

10 A. (By Mr. Frink) The costs for National Grid  
11 reflect an investment in IT systems, an  
12 upgrade in IT systems that they're planning  
13 to make. And you can see that on Line 6  
14 they were planning to invest -- that would  
15 be charged to National Grid and EnergyNorth  
16 and Granite State -- a total investment of  
17 \$10.2 million for an IT upgrade; whereas,  
18 Liberty -- well, here it's 6.4 million that  
19 they had estimated their IT expenses were  
20 going to be. Since that time, those costs  
21 have risen. Those estimated costs now are  
22 closer to 8.1 million, the actual cap. But  
23 as stated earlier, with the stay-out  
24 provision, it won't be 8.1 at the time they

1           come in for rates. But just as a rough  
2           comparison, you can see that essentially  
3           there's no difference in the revenue  
4           requirement going forward under Liberty or  
5           National Grid and -- based on estimates at  
6           this time. And it doesn't reflect the  
7           advantages of a stay-out for EnergyNorth or  
8           the cap on the rate case expenses. So, with  
9           those considerations, it's pretty much a  
10          wash, one versus the other. So that is why  
11          my concern of financial harm has been  
12          alleviated to a great degree by the terms of  
13          the settlement.

14        BY MS. FABRIZIO:

15        Q.    Thank you. Do you have any further comments  
16              on the agreement itself?

17        A.    (By Mr. Frink) I do not.

18        Q.    Thank you. Mr. Mullen, could you please  
19              state your name and business address for the  
20              record.

21        A.    (By Mr. Mullen) My name is Steve E. Mullen.  
22              I'm at 21 South Fruit Street, Concord, New  
23              Hampshire.

24        Q.    By whom are you employed and in what

1 capacity?

2 A. (By Mr. Mullen) I'm employed by the New  
3 Hampshire Public Utilities Commission as the  
4 Assistant Director of the Electrician  
5 Division.

6 Q. And what has been your involvement in this  
7 proceeding?

8 A. (By Mr. Mullen) I've been involved in the  
9 discovery process throughout. I was looking  
10 at the electric side of the transaction, as  
11 well as the financing on the transaction. I  
12 provided testimony a couple of times, and I  
13 was involved in negotiating the settlement.

14 Q. Thank you. And you filed testimony on  
15 October 7th and April 10, 2012; is that  
16 correct -- October 7, 2011 and April 10,  
17 2012?

18 A. (By Mr. Mullen) Yes, that's correct.

19 Q. And was that testimony prepared by you or  
20 under your direction?

21 A. (By Mr. Mullen) Yes.

22 Q. Thank you.

23 MS. FABRIZIO: I'd like to mark  
24 for identification as Exhibits 14 and 15 the

1           October 7, 2011 direct testimony of Steven  
2           Mullen and the April 10 direct testimony of  
3           Steven Mullen -- April 10, 2012.

4                           CHAIRMAN IGNATIUS:   So marked.

5                           (14 marked for identification.)

6                           (15 marked for identification.)

7    Q.   Mr. Mullen, in your October prefiled  
8           testimony, you assessed various financing  
9           aspects of the proposed transaction, as well  
10          as operational budget implications.  Could  
11          you outline your conclusions with respect to  
12          the financing proposals submitted to the  
13          Commission for approval by the Company?

14   A.   (By Mr. Mullen) Certainly.  In my October  
15          testimony, I looked not only at the proposed  
16          plan for financing the stock transfers, but  
17          I also looked at the availability of  
18          short-term debt on an ongoing basis to  
19          provide for operational needs going forward.  
20          As stated in my October testimony, in terms  
21          of the long-term debt financing, I found the  
22          plan to be reasonable in structure, in terms  
23          of providing for a 55-percent equity,  
24          45-percent debt-to-capital structure of both

1 Granite State and EnergyNorth. I also found  
2 the proposed interest rate and maturity to  
3 be reasonable, subject to finding out closer  
4 to the closing of this what the final terms  
5 and conditions would be.

6 In relation to short-term debt, I did  
7 have concerns in my October testimony about  
8 the sufficiency of the debt, in terms of the  
9 amounts that were available for Granite  
10 State and EnergyNorth, in light of the fact  
11 that Liberty has other operating affiliates  
12 that could also draw upon the same proposed  
13 facility. At the time of that testimony,  
14 Liberty was planning to pursue a \$60 million  
15 short-term credit facility. Since that  
16 time, we've received additional information,  
17 and that was updated in my April 10th  
18 testimony this year.

19 CHAIRMAN IGNATIUS: Let's take a  
20 break for a second.

21 (Pause in proceedings.)

22 A. (By Mr. Mullen) In my April 10th testimony,  
23 I updated my observations and conclusions  
24 related to both the long-term debt and the

1 short-term debt. The long-term debt, I was  
2 of the same opinion as I was in October --  
3 that is, the proposed interest rates and the  
4 maturity and the proposed financing  
5 structure and capital structure for Granite  
6 State and EnergyNorth are essentially  
7 unchanged from the plans that were discussed  
8 with us back at the time of filing the  
9 October testimony.

10 In terms of short-term debt, Liberty  
11 has entered into an \$80 million short-term  
12 credit facility. That was in January of  
13 2012. That provides -- right now, there's  
14 \$25 million in there. And upon the closing  
15 of this transaction, an additional  
16 \$55 million would be provided. The  
17 settlement agreement specifically has a  
18 provision that provides certain amounts of  
19 short-term debt that would be available from  
20 that facility. That would be just for the  
21 use of EnergyNorth and Granite State; so,  
22 other Liberty affiliates could not draw upon  
23 that money. So that addressed my concern  
24 about the availability of funds in the event

1           that other Liberty affiliates were drawing  
2           upon the facility.

3           And I also noted in my April 10th  
4           testimony that, at the end of March there  
5           was another amendment to that short-term  
6           facility that would increase the amount  
7           available to a total of \$100 million upon  
8           the closing of an acquisition to acquire  
9           some of the Atmos gas utilities out in the  
10          Midwest. So, again, that, if anything,  
11          could have a positive effect because it  
12          would allow for more short-term debt to  
13          potentially be available for the use of both  
14          Granite State and EnergyNorth.

15        Q.    Thank you. Do you have any other further  
16              financial issues that you had raised in your  
17              earlier testimony?

18        A.    (By Mr. Mullen) There were certain things in  
19              my original testimony, such as cost  
20              allocations. One of the concerns that I had  
21              there was that there'd be no -- Liberty did  
22              not request any particular approval of its  
23              costs allocation methodology now. And that  
24              is something that is going to be reviewed

1 prior to it filing its first rate case for  
2 Granite State Electric. There's a provision  
3 that they would come in, meet with Staff and  
4 OCA to discuss the methodology, because part  
5 of my concern was, with additional  
6 acquisitions in the pipeline, they use a  
7 four-factor-allocation methodology. As the  
8 Company -- as there becomes more companies  
9 and the number of customers and amount of  
10 plants and those sort of things change,  
11 that's going to be a continually -- it's  
12 going to be something that's going to have  
13 to be looked at, because what may be true  
14 now in terms of allocations will probably  
15 change in the future with the changing size  
16 of the Liberty Utilities family.

17 Also, and this was discussed earlier by  
18 Mr. Rubin, there's no -- there will be no  
19 ratemaking impact from the specific section  
20 of 338(h)(10) election attached provision  
21 related to the retirement plans of Granite  
22 State and EnergyNorth.

23 Q. Thank you. And you also raised some  
24 concerns in your earlier testimony regarding

1 operational costs that Liberty would  
2 undertake going forward, including the VMP  
3 and REP programs, for example, and energy  
4 efficiency and integrated resource planning.  
5 Would you care to comment on those concerns?

6 A. (By Mr. Mullen) Sure. In my October  
7 testimony, I provided analysis of Granite  
8 State's current earnings at the time. And  
9 it was shown that -- and I just looked at a  
10 recent one and it has not improved --  
11 Granite State was earning significantly  
12 below its authorized rate of return. And as  
13 was discussed earlier, there is an existing  
14 five-year rate plan that was from an earlier  
15 docket, and that's DG 06-107. That  
16 five-year rate plan ends at the end of 2012.  
17 After that time, Granite State is free to  
18 come in and request a rate increase for its  
19 distribution rates. No matter if National  
20 Grid or Liberty were to be the owner at that  
21 time, based on the earnings, I fully expect  
22 that we would have a rate case.

23 As part of that earlier settlement, we  
24 also implemented a VMP, which is a

1 Vegetation Management Program, and an REP, a  
2 Reliability Enhancement Program. That is,  
3 again, a five-year program currently in  
4 place, and that will continue to be in place  
5 through the end of the year. The provisions  
6 of that REP and VMP will continue to apply  
7 to Liberty upon closing of this transaction.  
8 In the upcoming rate case, that will be a  
9 time for -- we will look at all the existing  
10 programs, including the REP and VMP, and see  
11 if those need to be revised, further  
12 evaluated, either some programs added to  
13 them or programs deleted from them. That  
14 will provide a perfect opportunity to fully  
15 reassess them and say going forward, you  
16 know, whether certain reliability projects  
17 that were included in the original program  
18 have already been taken care of and maybe we  
19 should revise the program somehow.

20 Anyhow, in any instance, what I'm  
21 saying is that, in terms of the ongoing  
22 operations, the upcoming rate case is going  
23 to provide a good opportunity to fully  
24 evaluate the entire operations.

1 Q. Are there any other concerns that you'd like  
2 to mention?

3 A. (By Mr. Mullen) You did mention the  
4 energy-efficiency programs, and I neglected  
5 that. Again, Granite State has had a good  
6 record of providing its programs in a manner  
7 that provides the level of savings that are  
8 expected and staying within its budgets, and  
9 we fully expect that to continue with the  
10 continued National Grid involvement -- the  
11 prior National Grid employees being involved  
12 and providing those programs going forward.

13 An additional provision I'd like to  
14 mention, and this is more of a housekeeping  
15 matter, deals with a docket that is  
16 currently open that involves Granite State  
17 Electric's Least Cost Integrated Resource  
18 Plan, which is part of DE 10-142. That  
19 docket was opened. And while that  
20 proceeding was open, this stock-transfer  
21 transaction was filed. And considering that  
22 that's a going-forward planning docket, it  
23 made sense to hold off on that to see where  
24 this docket was going to go. And as part of

1 the settlement, the parties have agreed that  
2 upon -- if the Commission were to approve  
3 this and issue an order, within six months  
4 of that Liberty would file its own least  
5 cost planning document, and the current  
6 docket would have been closed upon the  
7 Commission's order.

8 Q. Thank you. You've mentioned a number of  
9 conditions that have been integrated into  
10 the settlement agreement filed in this  
11 proceeding. Does that settlement agreement  
12 alleviate the concerns that you have raised  
13 in your testimony?

14 A. (By Mr. Mullen) Yes. And I put in my  
15 April 10th testimony a bulleted list of the  
16 various provisions that have addressed the  
17 concerns raised by Staff and other parties  
18 as an earlier part of the proceeding.

19 MS. FABRIZIO: And that is at  
20 Page 8 of his April 10th, 2012 testimony.

21 BY MS. FABRIZIO:

22 Q. Do you have any further comments you'd like  
23 to share with the Commission on the  
24 agreements, Mr. Mullen?

1 A. (By Mr. Mullen) No, I do not.

2 MS. FABRIZIO: Thank you. That  
3 concludes my questions.

4 CHAIRMAN IGNATIUS: Mr.  
5 Camerino, you had some questions of the two  
6 Staff witnesses. And is it essentially direct  
7 of them before we move on?

8 MR. CAMERINO: It's just to Mr.  
9 Frink. And my thought was, in terms of just  
10 order of presentation, that it probably would  
11 be appropriate for the companies to ask those  
12 questions first, to allow other parties to  
13 respond to them. So if I may?

14 CHAIRMAN IGNATIUS: That's fine.

15 MR. CAMERINO: Thank you.

16 DIRECT EXAMINATION

17 BY MR. CAMERINO:

18 Q. Mr. Frink, these questions are all for you.

19 You indicate in the biographical  
20 information that you attached to your  
21 testimony that you joined the Commission in  
22 1990; is that correct?

23 A. (By Mr. Frink) That's correct.

24 Q. And approximately what time, what date,

1 year, did you begin working with New  
2 Hampshire's two natural gas utilities?

3 A. (By Mr. Frink) Well, I started as one of the  
4 Staff auditors, which meant we audited all  
5 the utilities on a regular basis. So, right  
6 from the very beginning I was doing audits  
7 on EnergyNorth.

8 Q. Okay. And so you've had involvement  
9 regulating EnergyNorth for approximately 22  
10 years then?

11 A. (By Mr. Frink) Approximately.

12 Q. And is it fair to say that that involvement  
13 has been quite extensive for most of that  
14 period of time?

15 A. (By Mr. Frink) It certainly is.

16 Q. And is it fair to say that you have a high  
17 level of familiarity with the personnel of  
18 the former EnergyNorth, as well as the  
19 people involved with the Company since it  
20 was acquired by KeySpan and, later, National  
21 Grid?

22 A. (By Mr. Frink) I do. And three of them are  
23 even on Staff. So...

24 Q. And you also have a high level of

1 familiarity with people who have worked for  
2 the other natural gas utility in New  
3 Hampshire, Northern Utilities, as well?

4 A. (By Mr. Frink) Yes, I do.

5 Q. Okay. One thing I'd like to ask you is,  
6 there was an organizational chart of the New  
7 Hampshire organization for Liberty Energy  
8 that was provided before, Exhibit No. 6.  
9 And I can give you a copy. But there are  
10 just a few people on there I want to ask you  
11 about very quickly. Mr. Dafonte, Mr. Saad,  
12 Mr. MacDonald, who's listed there as the  
13 head of gas operations, are those people  
14 that are known to you through that  
15 experience?

16 A. (By Mr. Frink) Yes, they are.

17 Q. And would you say that -- is it your view  
18 that they are highly qualified to fill these  
19 roles?

20 A. (By Mr. Frink) I never really worked with  
21 Mr. Saad. I am familiar with him through  
22 this process. I am much more familiar with  
23 Chico Dafonte and also Richard MacDonald.  
24 They are certainly very qualified at their

1 jobs and their positions that they hold  
2 here.

3 Q. So you are familiar with the period of time  
4 prior to KeySpan's acquisition of  
5 EnergyNorth, when EnergyNorth operated as a  
6 stand-alone company; is that correct?

7 A. (By Mr. Frink) That's correct.

8 Q. Do you recall how many employees, let's call  
9 them management-level employees, those  
10 positions, went away when EnergyNorth was  
11 acquired by KeySpan?

12 A. (By Mr. Frink) Yes, I do. In my testimony  
13 in that proceeding, 09-193, there was 62  
14 positions that were eliminated.

15 Q. That number is actually quite similar to the  
16 number of positions that Liberty Energy  
17 proposes to bring back to New Hampshire in  
18 this transaction; is that correct?

19 A. (By Mr. Frink) Yes. Liberty had cited 60  
20 positions being added.

21 Q. How would you describe the quality of  
22 service that EnergyNorth Natural Gas  
23 delivered when it was a stand-alone company?

24 A. (By Mr. Frink) It wasn't a perfect utility.

1 We haven't found one of those yet. But it  
2 was a -- it seemed to be a very well-run  
3 company. They worked very well with Staff.  
4 They seemed to have New Hampshire's best  
5 interests at heart. It was a little  
6 different time, and the price of gas was  
7 maybe a little higher than the price of oil,  
8 so they were very cost-conscious. And  
9 overall, it was a -- I feel it was a  
10 well-run utility.

11 Q. Their rates were reasonable?

12 A. (By Mr. Frink) Their rates were reasonable,  
13 yes.

14 Q. So in your view, they were able to operate  
15 efficiently, even though they were on a  
16 stand-alone basis?

17 A. (By Mr. Frink) Yes, they did.

18 Q. How were their regulatory relations and  
19 their compliance with Commission rules?

20 A. (By Mr. Frink) Overall, the regulatory  
21 relationship was very good. I won't say  
22 there weren't some personalities on both  
23 sides maybe had some conflicts. But  
24 overall, it was very good.

1 Q. So the fact that they were a stand-alone  
2 company without a larger organization didn't  
3 get in the way of their ability to comply  
4 with the Commission's regulations and  
5 requirements.

6 A. (By Mr. Frink) Certainly not.

7 Q. Okay. Thank you.

8 CHAIRMAN IGNATIUS: All right.  
9 Mr. Linder, do you have questions?

10 MR. LINDER: Yes, but I don't  
11 know if the questions should be addressed to  
12 this current panel or to the next panel. The  
13 questions are simply directing one or more  
14 panelists to three or four pages in the  
15 settlement agreement that pertain to the  
16 low-income provisions and energy-efficiency  
17 provisions. And I was hoping that one of the  
18 panelists on one of the panels would generally  
19 make the Commission aware of what those  
20 provisions are. So if there's a member of  
21 this panel that could respond to that, I would  
22 direct that question to that panelist. If, on  
23 the other hand, the other panel would be more  
24 appropriate, then I would defer to the second

1 panel.

2 CHAIRMAN IGNATIUS: And it may  
3 be split between the two.

4 Ms. Fabrizio, what's your  
5 advice on that?

6 MS. FABRIZIO: I recommend the  
7 question be deferred until Thursday's panel  
8 because the members of that panel will be able  
9 to address it directly.

10 CHAIRMAN IGNATIUS: So it sounds  
11 like Thursday's panel will better respond to  
12 your concerns on low-income programs and  
13 low-income issues, even as they relate to  
14 energy-efficiency programs. Is that correct?

15 MS. FABRIZIO: Yes.

16 MR. LINDER: Then I will defer.  
17 Thank you.

18 CHAIRMAN IGNATIUS: Mr.  
19 Sullivan, any questions?

20 MR. SULLIVAN: Local 12012 has  
21 no questions of these gentlemen. Thank you.

22 CHAIRMAN IGNATIUS: Thank you.  
23 Ms. Hollenberg.

24 MS. HOLLENBERG: Yeah. Yes, I

1 do actually have a question. One moment,  
2 please.

3 CROSS-EXAMINATION

4 BY MS. HOLLENBERG:

5 Q. Good afternoon. Mr. Mullen, you talked  
6 briefly about the tax election provision.  
7 Could you direct me to that part of the  
8 settlement agreement, what paragraph that  
9 is?

10 A. (By Mr. Mullen) Just give me a second.

11 Q. Sure. Section 338(h)(10) election.

12 A. (By Mr. Mullen) Yes. It's on Page 16 of the  
13 settlement agreement.

14 Q. And is it Paragraph D.1.c?

15 A. (By Mr. Mullen) Yes, it is.

16 Q. Okay. Thank you. And you agree that --

17 CHAIRMAN IGNATIUS: Before we go  
18 on, just because we'll hear it from  
19 Commissioner Harrington, we do have multiple  
20 numbers. Are you -- let's just stick with  
21 one. Is it the Bates Stamp in the corner that  
22 we should work with? Is it the one in the  
23 center we should work with? What do people --

24 MR. EICHLER: Sixteen is the one

1 in the center.

2 CHAIRMAN IGNATIUS: All right.  
3 How about, just for the sake, because we're  
4 going to be using other numbers, if we can  
5 just use the right-hand corner Bates-stamped  
6 number for everything. Thank you.

7 A. (By Mr. Mullen) Then I correct my answer to  
8 Page 19.

9 CHAIRMAN IGNATIUS: Thank you.

10 Q. Thank you. And this paragraph states,  
11 "Granite State commits there will be no rate  
12 impacts from any Internal Revenue Code  
13 Section 338(h)(10) election made in  
14 connection with the acquisition of Granite  
15 State by Liberty New Hampshire, assignee of  
16 Liberty Energy." Do you agree with that?

17 A. (By Mr. Mullen) Yes.

18 Q. Okay. Thank you. Are you familiar, or did  
19 you participate in the merger involving  
20 Unutil and Northern in 2008?

21 A. (By Mr. Mullen) I did participate in that  
22 proceeding.

23 Q. And I would just like to show you Mr.  
24 Rubin's testimony which has been marked as

1 Exhibit 10. And on Page 19, which is the  
2 only page number on that page, starting with  
3 Line 3, I'm just going to ask you to read  
4 Line 3 to Line 19, please.

5 A. (By Mr. Mullen) Would you like me to read  
6 the introductory question to that answer?

7 Q. Sure. Thank you. And actually, I'm  
8 actually going to ask you to follow along  
9 because I'll have the same questions for you  
10 as well. Thank you.

11 A. (By Mr. Mullen) Starting on Line 1 of  
12 Page 19, the question reads: "Has the  
13 Commission dealt with the effects of the  
14 Section 338(h)(10) election in any other  
15 cases?"

16 And the answer: "Yes, I am advised by  
17 counsel that in 2008, the Commission  
18 approved a settlement involving the  
19 acquisition of Northern Utilities, Inc. by  
20 Unitil Corp. One of the settlement  
21 provisions approved by the Commission states  
22 as follows:

23 Accumulated deferred income tax: In  
24 regard to Unitil's Section 338(h)(10)

1 election in accounting for the acquisition  
2 of the common stock of Northern, until  
3 commits to hold Northern's customers  
4 harmless for the elimination of the  
5 historical accumulated deferred income tax,  
6 (ADIT) liabilities resulting from such  
7 election by maintaining pro forma accounting  
8 for regulatory purposes to continue to  
9 provide ratepayers with the ratemaking  
10 benefit of Northern's ADIT balances existing  
11 prior to the proposed transaction, until  
12 such time as Northern's actual ADIT, related  
13 to the historical utility plant assets  
14 acquired, equals or exceeds the levels that  
15 Northern's pro forma ADIT would have been  
16 absent the proposed transaction. The ADIT  
17 balances related to capital additions after  
18 the closing date are not affected by the  
19 Section 338(h)(10) election, and the  
20 treatment of these balances will not change  
21 for accounting and ratemaking purposes."

22 Q. Thank you for reading that.

23 With respect to the paragraph -- or the  
24 provision in the pending settlement

1 agreement in this docket, Paragraph D.1.c.  
2 on Page 19, is it Staff's understanding that  
3 the intention of that paragraph is the same  
4 as the intention was in the Unutil/Northern  
5 case?

6 A. (By Mr. Mullen) Yes.

7 Q. And would Staff object to the Commission  
8 including in its order this type of language  
9 to clarify how the election will be handled  
10 in the coming rate cases?

11 A. (By Mr. Mullen) No.

12 Q. Thank you.

13 And Mr. Eichler, can you answer the  
14 same questions as well? Is the intention of  
15 the -- of Liberty reflected or the same as  
16 that language that you just heard Mr. Mullen  
17 read into the record?

18 A. (By Mr. Eichler) Yes, it is.

19 Q. And would Liberty have any objection to the  
20 Commission including language similar or the  
21 same to this language that was in the  
22 Northern/Unutil case in the order, to the  
23 extent that they approve the settlement in  
24 this case?

1 A. (By Mr. Eichler) We don't object to that.

2 MS. HOLLENBERG: Thank you very  
3 much. I don't have other questions. Thank  
4 you.

5 CHAIRMAN IGNATIUS: All right.  
6 I think we're going to wrap it up for the day.  
7 We've got a number of questions from the  
8 Bench. And we've got other commitments that  
9 are going to be starting up quickly, so I  
10 think it's probably best to stop now. We'll  
11 reconvene Thursday at 9:00 here with the  
12 continuation of this panel.

13 And one question I did have,  
14 Mr. Sullivan, is Mr. Spottiswood planning on  
15 testifying? We have his prefiled testimony.

16 MR. SULLIVAN: Yes, he is.

17 CHAIRMAN IGNATIUS: All right.  
18 If you would want to be able to take the stand  
19 right now, Mr. Spottiswood, and assuming it  
20 won't be long, and not have to come back on  
21 Thursday, we could accommodate that if that's  
22 okay with the parties.

23 MR. SULLIVAN: Well, we planned  
24 on being here, anyway. And I've had

1 discussions with the parties about where they  
2 would like us to be, so we'll defer to that.

3 CHAIRMAN IGNATIUS: We're happy  
4 to have you on Thursday, Mr. Spottiswood.  
5 That's fine. We'll hold off then.

6 All right. Is there anything  
7 else before we adjourn for the day? Mr.  
8 Camerino.

9 MR. CAMERINO: Clarification and  
10 potentially a correction. Just for  
11 Commissioner Harrington's benefit, there were  
12 some questions to Mr. Robertson about the  
13 "push-down accounting" for the debt. And in  
14 that discussion, Mr. Robertson was identifying  
15 who the borrower and the lenders were. And I  
16 just want to note that the technical  
17 statements that were submitted that are  
18 Exhibit 4 describe those loans. And I just  
19 want to direct the Commission's attention to  
20 that, because as counsel heard those answers,  
21 there may have been some confusion where the  
22 name Liberty Utilities was thrown in and which  
23 was the proper lender. So I'm not sure  
24 whether we heard that right or wrong, but

1 those statements have the information.

2 CMSR. HARRINGTON: Thank you.

3 MR. CAMERINO: Just in case that  
4 creates a follow-up question.

5 CHAIRMAN IGNATIUS: So, to the  
6 extent, there's a conflict between what's in  
7 the technical statement and what Mr. Robertson  
8 testified to, you're saying the technical  
9 statements should be relied on?

10 MR. CAMERINO: That's correct.

11 CHAIRMAN IGNATIUS: Thank you.  
12 All right. If there's nothing further, we'll  
13 stand adjourned for the afternoon and see you  
14 Thursday morning.

15 (Whereupon the AFTERNOON SESSION was  
16 adjourned at 4:25 p.m..)

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C E R T I F I C A T E

I, Susan J. Robidas, a Licensed  
Shorthand Court Reporter and Notary Public  
of the State of New Hampshire, do hereby  
certify that the foregoing is a true and  
accurate transcript of my stenographic  
notes of these proceedings taken at the  
place and on the date hereinbefore set  
forth, to the best of my skill and  
ability under the conditions present at  
the time.

I further certify that I am neither  
attorney or counsel for, nor related to or  
employed by any of the parties to the  
action; and further, that I am not a  
relative or employee of any attorney or  
counsel employed in this case, nor am I  
financially interested in this action.

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Susan J. Robidas, LCR/RPR  
Licensed Shorthand Court Reporter  
Registered Professional Reporter  
N.H. LCR No. 44 (RSA 310-A:173)