



<b>ORIGINAL</b>
N.H.P.U.C. Case No. <u>DE 13-063</u>
Exhibit No. <u>#1</u>
Witness <u>C. Mason S. Mullen</u>
<b>DO NOT REMOVE FROM FILE</b>

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

Docket No. DE 13-063

Granite State Electric Company d/b/a Liberty Utilities  
Distribution Service Rate Case

**JOINT DIRECT TESTIMONY**

**OF**

**CHRISTIANE G. MASON  
DR. MICHAEL R. SCHMIDT**

Regarding Temporary Rates

March 29, 2013

1   **Q.     Please state your names and business addresses.**

2   A.     My name is ChristiAne G. Mason. My business address is 11 Northeastern Boulevard,  
3           Salem, NH 03079.

4  
5           My name is Dr. Michael R. Schmidt. My business address is 3322 SW Rolling Court,  
6           Topeka, Kansas 66610.

7  
8   **Q.     Are you the same ChristiAne G. Mason and Dr. Michael R. Schmidt who submitted**  
9           **other direct testimony in this case?**

10  A.     Yes. Our educational backgrounds and qualifications are set forth in the prefiled direct  
11           testimony that we submitted in support of Granite State Electric Company's ("Granite  
12           State" or the "Company") permanent rate filing.

13  
14  **Q.     What is the purpose of your testimony?**

15  A.     Our testimony explains the level of temporary rates sought by the Company, the reasons  
16           for the request and their impact on customers.

17  
18  **Q.     Are you sponsoring any schedules?**

19  A.     We are sponsoring Attachment CGM/MRS-T, which includes the following schedules:

20

21           Schedule T-1                      Temporary Rates Revenue Requirement

1	Schedule T-1A	Temporary Rates Revenue Deficiency
2	Schedule T-2	Temporary Revenue and Rates by Rate Schedule
3	Schedules T-3 to T-31	Comparison of Current Rates and Temporary Rates, and
4		Bill Impacts for each Rate
5		

6 **Q. What is the Company proposing to the Commission with regard to temporary**  
7 **rates?**

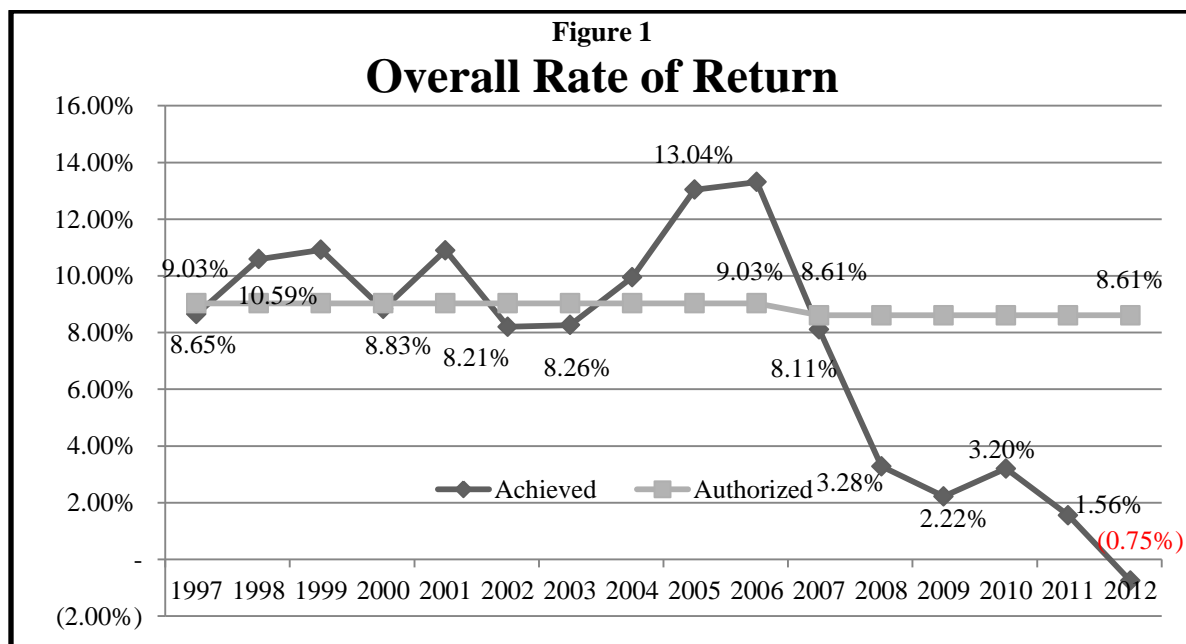
8 A. The Company is requesting temporary rates to be established at a level that would  
9 generate additional annual gross distribution revenues of \$9,215,479, which represents a  
10 37% increase in distribution revenue. The Company is requesting that temporary rates  
11 take effect as of July 1, 2013 on a service-rendered basis, and that they be applied to  
12 customers in accordance with the existing rate design with all customer classes increased  
13 by the same percentage. The Company recognizes that a temporary rate request generally  
14 does not provide a sufficient opportunity for the Commission and parties to review  
15 proposed revenue allocation or rate design changes, and therefore the Company is not  
16 proposing any such changes in the temporary rate phase of this docket.

17

18 **Q. Why is the Company requesting a temporary rate increase?**

19 A. The Company is seeking a temporary rate increase because it is earning significantly less  
20 than its allowed rate of return. The Company had a return on rate base of negative 0.75  
21 percent in 2012 and without a temporary rate increase it will be unable to earn a

reasonable return until a permanent rate order becomes effective next year. Temporary rates will be in effect until the Commission's final order in this case and therefore should provide the Company with the opportunity to earn at least a portion of the return ultimately found by the Commission to be just and reasonable. The Company's financial results are shown in Figure 1.



The Company is earning approximately 936 basis points below its last authorized rate of return granted by the Commission in Order No. 24,777 (July 12, 2007). This under-earning is the direct result of a material increase in rate base since the Company's last rate case and operating expenses that have increased significantly.

For example:

- 1           • Granite State has made extensive capital improvements since the Company's last  
2           base rate case and net plant in service has grown approximately \$33.7 million  
3           since 1997.
- 4           • Property taxes have risen by 91% since 2006.
- 5           • The average price (hourly rate) applicable to Granite State's unionized employees  
6           represents a 46% increase since 1997.
- 7           • Along with the rest of the country, Granite State has and continues to experience  
8           increases in the cost of providing pension and health care benefits to its  
9           employees.

10  
11       In addition, the number of customers served grew from 1997 to 2006 but has remained  
12       relatively flat over the past 5 years and growth in volumes (kWh delivered) has been  
13       minimal.

14  
15   **Q.    If temporary rates are not set at a level to yield a reasonable return on the cost of**  
16       **the property used by the Company to service customers, less accrued depreciation,**  
17       **will the Company be harmed?**

18   A.    Yes. Because the Company is continuing to invest significant amounts of capital in non-  
19       revenue producing projects and its overall sales (deliveries) are relatively flat, the failure  
20       to authorize temporary rates will harm the Company financially and, therefore, is not in  
21       the interests of either the Company's customers or its shareholders. No utility can survive

1       earning a negative return on rate base. Temporary rates are a way of mitigating, to some  
2       degree, the problems associated with regulatory lag, while providing the Commission and  
3       parties to the proceeding sufficient opportunity to consider the details of the Company's  
4       permanent rate request. Implementation of temporary rates at the level requested by the  
5       Company will also create a more gradual, smoother transition to the permanent rates  
6       ultimately approved by the Commission in this case.

7  
8       **Q.     How was the temporary increase of \$9,215,479 calculated?**

9       A.     As shown on Attachment CGM/MRS-T, Schedule T-1, Temporary Rates Revenue  
10       Requirement, the proposed increase is \$9,215,479.

11  
12       The proposed permanent rate increase of \$14,168,940 is based on a rate base of  
13       \$66,775,043, a proposed overall rate of return of 8.32% and adjusted test year  
14       distribution net operating (loss) of (\$2,825,260) (as shown on Schedule RR-1 in the  
15       materials filed with the Company's permanent rate request). The temporary increase  
16       request is 65.04% of the permanent request, as shown on Attachment CGM/MRS-T,  
17       Schedule T-1 A. Had the temporary increase been in effect for the 12 months ended June  
18       30, 2012, the return on rate base based on the Company's books and records for that  
19       period would have been 8.32%, as shown on Attachment CGM/MRS-T, Schedule T-1.

20  
21       The temporary increase requested is also below the amount that would have been

1 required to produce the 8.61% return on rate base authorized in the Company's last base  
2 rate case, as shown on Attachment CGM/MRS-T, Schedule T-1A.

3  
4 **Q. If the Commission approves the Company's temporary rate request, how will the**  
5 **Company's overall rate of return compare to the return actually earned in the year**  
6 **2012?**

7 A. The temporary rates being proposed by the Company in this case would result in a return  
8 on rate base of 3.93%, based on the historical Test Year results and the adjustments made  
9 by the Company in this filing. The return by the Commission in its Order No. 24,777 was  
10 8.61%. The actual return in 2012 was negative 0.75%.

11  
12 **Q. What percentage increase in customer bills does the Company's temporary rate**  
13 **request represent?**

14 A. The increase is approximately 11.7% on average over the current bills on a total basis  
15 (including Energy Services). For a residential customer taking service under Rate D and  
16 using 500 kWh per month, the increase is \$7.56 per month, equal to a total bill increase  
17 of 10.8%

1   **Q.    Are the proposed temporary rates sufficient to yield not more than a reasonable**  
2       **return on the cost of the property used and useful for the public service less accrued**  
3       **depreciation, as shown by the reports of the Company filed with the Commission?**

4    A.    Yes. With temporary rates in effect the Company will earn no more than a reasonable  
5       return on its investment calculated based on the books and records on file with the  
6       Commission. As demonstrated in Attachment CGM/MRS-1, page 1 the Company's  
7       requested level of temporary rates yields a rate of return below the rate of return granted  
8       in the Company's last rate case.

9  
10   **Q.    Are customers protected from being overcharged by temporary rates if the final**  
11       **rate case decision is less than the level of temporary rates?**

12   A.    Yes, customers are protected because of the reconciling nature of temporary rates once  
13       permanent rates are established by the Commission.

14  
15   **Q.    Does this conclude your testimony?**

16   A.    Yes.