Before the

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DE 13-063

In the Matter of:
Granite State Electric Company d/b/a Liberty Utilities

Distribution Service Rate Case — Request for Permanent Rates

Direct Testimony

of

Grant W. Siwinski
Utility Analyst III – Electric Division

November 15, 2013

Contents

LIST OF ATTACHMENTS

I. Introduction and Summary

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

A. My name is Grant W. Siwinski. I am employed by the New Hampshire Public Utilities Commission as a Utility Analyst III in the Electric Division. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. Please summarize your educational background and work experience.

A. I earned a BS in Business Administration from Loyola University Maryland. I also received an MBA from Morgan State University in Baltimore and an MA in Regulatory Economics from New Mexico State University. I attended the NARUC Annual Regulatory Studies Program at Michigan State University in 1986. I have attended and taught portions of the Process of Determining Revenue Requirements at the Center for Public Utilities and have completed and received the designation of Certified Public Manager from the State of Nevada.

From 1976 to 1986, I was employed in increasingly responsible positions with either Detroit Edison, Washington Public Power Supply System or PacifiCorp. My duties at these companies/agency included developing/reporting capital and operational budgets; developing, analyzing, and preparing testimony for the cost of capital and revenue requirement witnesses; and interfacing with Senior Management and Regulatory Commission personnel. In 1986, I joined the Maine Public Utilities Commission as a Senior Financial Analyst in the Finance Department. In that capacity, I participated in electric, gas, and water rate cases preparing and filing revenue requirement testimony. In 1999, I joined the Public Utilities Commission of Nevada as a Policy Advisor to the Commissioners. In 2007, I was promoted to Manager, Safety and Quality Assurance. In that capacity, I was responsible for three separate programs; railroad safety for Nevada, natural gas pipeline safety for Nevada, and ensuring the quality of service, environmental compliance, and financial viability of 30 small water utilities in Nevada. In 2010, I joined the New Hampshire Public Utilities Commission as a Utility Analyst III in the Electric Division. My responsibilities include reviewing and evaluating testimony before the Commission; formulating policy recommendations, arguments and positions in cases; and, submitting expert testimony and recommendations to the Commission.

Q. Have you previously testified before this Commission?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation for a distribution service revenue requirement for Granite State Electric Company d/b/a Liberty Utilities' (Liberty or the Company) March 29, 2013 request for permanent rates that would provide an additional $14,168,940 in annual distribution service revenues, based on a twelve-month period ended December 31, 2012. According to Liberty, the requested increase would result in an annual increase to distribution service revenues of 53.12 percent. In addition, Liberty is also requesting a step increase of $1,250,467 to recover additional capital spending for expenditures beyond March 2013 through the period ending December 31, 2013.

Q. Are others presenting testimony in this proceeding on behalf of Staff?

A. Yes. The following witnesses are also providing testimony on behalf of Staff:

- Al-Azad Iqbal discusses recommendations concerning certain rate design and tariff revisions proposed by Liberty;
- James J. Cunningham, Jr. provides testimony on the issues of depreciation, depreciation related rate base adjustments, and amortization period for deferred debits as well as Liberty's costs in the areas of pensions, post-employment benefits other than pensions (PBOPs), automatic pension mechanism, 401(k) expenses, and medical and dental costs;
- Leszek Stachow presents recommendations on behalf of Staff for the appropriate capital structure, return on equity and overall cost of capital for Liberty; and
- Steven E. Mullen provides comments and recommendations regarding Liberty's electric distribution system plant investments and Liberty's proposals for a Reliability Enhancement Plan and a Vegetation Management Plan. In addition, Mr. Mullen provides some general comments on Liberty's filing and the status of the transition of ownership and operation of Liberty from National Grid, the prior owner.

Q. Did Liberty update its request for a permanent rate increase?

A. Yes. All of the revenue requirement schedules and supporting workpapers were updated and filed as a Corrected and Updated (CU) version of Liberty's permanent rate case on October 16, 2013. The CU incorporated changes and corrections to its original filing resulting from the PUC Audit Staff's findings, parties' questions and from the parties' review of the original filing with the Company. The CU filing was an attempt to avoid litigating areas the parties were in agreement with.

Q. Please summarize Liberty's overall revenue requirement in the CU filing.

A. Liberty's October 16, 2013 CU filing requested permanent rates that would provide an additional $12,978,141 in annual distribution service revenues, based on a twelve-month period ended December 31, 2012. Liberty's requested increase would result in an annual increase to distribution service revenues of 48.88 percent. In addition, Liberty also revised its step increase down to $1,242,022 from $1,250,467 to recover additional capital spending for expenditures beyond March 2013 through the period ending December 31, 2013. The resulting rates from the step increase, according to Liberty's proposal, would go into effect concurrent with the permanent increase on a per kWh basis.

Q. Did Liberty request temporary rates in this proceeding?

A. Yes. In its March 29, 2013 filing, Liberty requested a $9,215,479 temporary increase in distribution service revenues. In Order No. 25,531 (June 27, 2013), the Commission approved a settlement agreement whereby Liberty was allowed to increase its distribution service revenues by $6.5 million on a temporary basis, effective July 1, 2013, subject to the final decision on permanent rates.

Q. Were any other types of rate mechanisms proposed by Liberty?

A. Yes. Specifically, Liberty proposed to establish a Property Tax Recovery Mechanism, a Pension Recovery Mechanism, Pre-Staging Cost Recovery Approval and the elimination of its GreenUp Program. Staff's comments and recommendations regarding those proposals will be provided later in my testimony.

Q. Do you have any preliminary comments?

A. Yes. I would like to thank the Commission's Audit Staff for their thorough work in reviewing Liberty's test year information. Many of their findings have been reflected in schedules updated and filed by Liberty in the October 16, 2013 CU filing and in the schedules that are attached to my testimony.

Q. What is Staff's recommended increase to Liberty's distribution service revenues?

A. As shown on Attachment GWS-1, Schedule 1, line 13, Staff recommends a permanent increase to distribution service revenues of $8,254,359. This represents an increase of 31.01% as compared to the proformed test year operating revenues of $26,614,980 and an incremental increase of $1,754,359 above the level of revenues approved in the temporary rates portion of this proceeding. This revenue requirement is calculated on a total rate base of $68,034,002, as computed on Attachment GWS-1, Schedule 2, and provides for an overall rate of return of 7.92%, as detailed on Attachment GWS-1, Schedule 1B and described in the testimony of Mr. Stachow. In addition, I have made adjustments to Liberty's Step Increase, which I explain later in my testimony, shown on my Attachment GWS-1, Schedule 4, which supports an annual revenue increase of $1,288,682 and an annual rate increase of $0.00139/kWh.

Q. How have you organized your testimony and schedules?

A. In my testimony, I only address Company adjustments, in ascending order, that I have a disagreement with. If there is no disagreement, it means I have accepted the Company's adjustment as filed in the October (CU) filing. My schedules (Attachment GWS-2, Schedules 04, 05, 08, 10, 13, 14, 15, 16, and 20) follow the same numbers as the adjustments in my testimony. In addition to my schedules, I have attached a revenue requirement model (Attachment GWS-1) that calculated Staff's proposed increase to Liberty's distribution service revenues.

II. Adjustments to Liberty's Revenue Requirement Calculation

Q. Please explain each of your adjustments and your recommendations.

A. Adjustment 04 – Property and Liability Insurance

Q. What did Liberty propose in Adjustment RR-3-04 (CU)?

A. This adjustment decreased Liberty's rate year[1] property and liability insurance expense by $15,838. It was a proformed adjustment to property and liability expense to reflect known and measurable changes in premiums and to remove the capitalized portions of the premiums from the revenue requirement. Liberty also included a 1.9 percent projected increase in the insurance premiums of $47,955.

Q. Please describe any adjustments you made to RR-3-04 (CU) Property and Liability Insurance.

A. I agree with the Company's known and measurable proformed adjustment to the rate year, but I disagree with the 1.9 percent projected inflation increase, which I have subsequently removed causing a $6,677 adjustment to the test year as shown on my Attachment GWS-2, Schedule 04. I removed the projected inflation because I believe the Company should not be allowed to substitute an estimated adjustment for the Commission's traditional known and measurable adjustment standard when there is no way of knowing if the 1.9 percent inflation rate will actually apply in the future.

Q. Does this adjustment impact other adjustments in Liberty's filing?

A. Yes. It affected the Step Increase adjustment in Attachment CGM/MRS-5 (CU) on line 24, the Property Tax, Insurance percentage, and I have incorporated this adjustment into my Attachment GWS-1, Schedule 4.

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[1] A rate year is a test year comprised of assets, liabilities, equity, revenues and expenses adjusted for known, measurable and normalizing changes that form a representative test period to set just and reasonable rates.

B. Adjustment 05 - Leased Vehicles

Q. What did Liberty propose in Adjustment RR-3-05 (CU)?

A. In this adjustment, the Company included a cost of $252,288 for leased vehicles. It also included a $1,714,500 cost to purchase new vehicles for replacing the leased vehicles in its Attachment CGM/MRS-5 (CU), the Step Increase. However; to be consistent, the Company reduced the Step Increase by the $252,288 included in the revenue requirement calculation; an adjustment I agree with. But in Staff 3-24, the Company revised its leased vehicle expense down to $106,896, but it did not revise either Schedule RR-3-05 (CU) or Attachment CGM/MRS-5 (CU).

I revised both schedules and during a technical session the Company agreed with my adjustments regarding the decrease in leased vehicles expense of $145,392 on Attachment GWS-2, Schedule 05 and a corresponding adjustment to the Step Increase (substituting $106,896 for the $252,288) on Attachment GWS-1, Schedule 4.

C. Adjustment 06 - General Inflation

Q. What did Liberty propose in Adjustment RR-3-06 (CU)?

A. The Company applied a general inflation rate of 1.9 percent[2] to unspecified test year O&M expenses, thereby increasing test year costs by $55,235. The general inflation rate is the same as the projected increase used in schedule RR-3-04 (CU). In its testimony, the Company stated that the proposed inflation rate was for items not specifically adjusted for on other schedules in computing its revenue requirement.

Q. Please describe your adjustment and your reasons for making it.

[2] The inflation adjustment was based on the report *U.S. Macroeconomic Outlook Alternative Scenarios April 2012*, prepared by Moody's Analytics.

A. I removed Liberty's general inflation cost of $55,235 from the revenue requirement calculation for several reasons. First, Liberty has not provided detailed support for the 1.9 percent inflation rate it applied to the unspecified O&M costs proposed. And, I would mention that inflation in the U.S. was only up 0.2 percent in September 2013, reflecting a 1.2 percent annual inflation rate[3]; a rate which is 37 percent lower than Liberty's proposed rate. These numbers help support Staff's position that estimated increases in costs are not an accurate indication of future prices and, therefore, should not be allowed to substitute for the Commission's traditional known and measurable adjustment standard. Second, I would say that the 1.9 percent inflation rate is applied to unspecified O&M expenses and, thus, there is no defined group of accounts to which the proposed rate would apply. For instance, a particular expense account for which a known and measurable adjustment was proposed in the current proceeding may not have a known and measurable adjustment in a future proceeding and could end up being one of the leftover expenses lumped in with other unspecified expenses. Likewise, an expense account that is included in the unspecified grouping in one proceeding may, in fact, have a proposed known and measurable adjustment in a subsequent proceeding and, therefore, no longer be in the unspecified category. So, the types of expenses included in unspecified O&M may change from one proceeding to the next. And finally, Liberty is a new company with a limited track/cost record, which is currently being complicated by labor costs and services from National Grid and, as such, Liberty may need time to establish a clean record of Liberty-only costs. Then once this is accomplished, Liberty can file a new rate case with a cleaner cost history. Mr. Mullen has further comments on

[3] The Bureau of Labor Statistics' Monthly Report on the Consumer Price Index.

this subject in his testimony. For these reasons, I removed the general inflation cost of $55,235 from my revenue requirement calculation.

D. Adjustment 08 – Non-Recurring Costs in Test Year, Post-Acquisition (TSA)

Q. What did Liberty propose in Adjustment RR-3-08 (CU)?

A. In this adjustment, Liberty proposed to remove non-recurring costs in the post-acquisition (TSA) portion of the test year in the amount of $761,183. It removed any post-acquisition labor costs of the services that are no longer provided by National Grid. Similarly, Liberty removed from the revenue requirement the National Grid costs included in the test year that will not be recurring in the future and were replaced with the cost of Liberty Energy NH's employees providing those services. The exception was TSA costs related to certain customer services, as the systems necessary to provide those services will not be complete until 2014.

Q. Please describe the adjustment you made to this adjustment.

A. I agree with Liberty on this adjustment except that the capitalized costs on line 2 of Schedule RR-3-08 should be negative and not positive, and the December accrual on line 19 should be an actual cost and not an accrual as the schedule reports. Therefore, I have corrected these two errors on Attachment GWS-2, Schedule 08 and the Company concurs. The two corrections reduce Liberty's revenue requirement by $11,310.

E. Adjustment 09 – Post-Closing Entries

Q. What adjustment was made to Schedule RR-3-09?

A. I have adjusted the test year down by $390,000. This adjustment is described in Mr. Mullen's testimony.

F. Adjustment 10 - Major Storm Reserve Fund

Q. What is the purpose of Liberty's Storm Fund?

The Company stated that the Storm Fund was part of the Commission's Order approving the Merger Settlement Agreement in DG 06-107.[4] This Fund allows for recovery of costs associated with qualifying major storms experienced by the Company. Liberty stated that expenses related to major storm preparation and restoration efforts are charged against the Storm Fund when paid. According to Liberty, its customers benefit from the operation of the Storm Fund because it stabilizes the recovery of costs that are unpredictable, subject to extreme fluctuations and beyond the control of the Company. Since the Storm Fund was established with an annual base rate amount of $120,000, the Company has experienced seven qualifying Storms in June 2008, December 2008, February 2010, March 2011, August 2011, October 2011, and October 2012. Some of the storms have resulted in very high costs, putting the Fund in a substantial negative position. As a result, the Company stated, it requested and received temporary increases to the Storm Recovery Adjustment Factor ("SRAF") to allow for faster recovery of its costs for these extreme storms. The Company's SRAF tariff is its authorization to fund the Storm Fund beyond the level provided for in base rates or to refund accumulated excess contributions to the Storm Fund on an as needed basis. A carrying charge on the balance is currently 3.25 percent, which is the same rate currently paid on customer deposits, and compensates customers or the Company for the net cash position of the fund.

Q. What did Liberty propose in its Storm Fund Adjustment RR-3-10 (CU)?

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[4] DG 06-107 was the proceeding concerning the Approval of the Indirect Acquisition of EnergyNorth Natural Gas by way of the Merger of KeySpan with an Indirect Subsidiary of National Grid

A. Liberty made an adjustment to the test year of $609,141 to reflect its proposed increase in its annual storm funding as reflected on Schedule RR-3-10 (CU). In this adjustment, the Company proposed to recover an annual amount of $2.8 million to be collected via the Storm Fund. This addition is comprised of $1.6 million in base rates and $1.2 million via the SRAF factor. The amount in base rates was originally designed to recover the average annual cost of storm recovery calculated over the previous five years. The amount included in the SRAF was designed to recover a deficit balance in the Storm Fund, $6.7 million in March 2013, by the end of 2019. This deficit arose because the costs associated with three recent major storms far exceeded the Storm Fund's ability to offset the effects of those storms, given the currently inadequate combination of base rates and SRAF factor. Finally, the six-year projected recovery period, according to Liberty, is an unreasonably long period to be compensated at the 3.25 percent customer deposit rate for such a significant financial outlay. Thus, as a result of these things, Liberty proposed several modifications to its Storm Fund: 1) to recover the costs associated with pre-staging personnel and equipment for qualifying major storms and to recover $300,000 expended on pre-staging costs for a February 2013 winter storm called Nemo; 2) to accrue carrying charges associated with the Storm Fund balance at the Company's weighted average cost of capital; and, 3) to discontinue collecting the SRAF amount once the Storm Fund deficit balance reaches zero; although the Company would leave the SRAF mechanism in place in the event that there is a future need to collect a deficit.

Q. What is your assessment of Liberty's request to recover the costs associated with pre-staging personnel and equipment for qualifying major storms in Adjustment RR-3-10 (CU)?

A. Regarding Liberty's request to recover the costs associated with pre-staging personnel and equipment for qualifying major storms, I make the following assessments. The Commission has already addressed and approved this issue in Order No. 25,214, dated April 26, 2011 and Order No. 25,465, dated February 26, 2013 for Unitil Energy Systems (Unitil) and Public Service Company of New Hampshire (PSNH), respectively. In those orders, the Commission allowed costs to be booked irrespective of whether the predicted storm event eventually qualified as a Major Storm based on the numbers of electrical system troubles and customer outages as long as the event met certain pre-defined criteria. The Commission has reasoned that costs of preparing and planning for predicted weather systems that are found to meet the criteria listed below and be prudent and reasonable, should be recovered as part of good utility management. But Liberty should only be allowed to seek recovery of pre-staging costs if the Energy Event Index ("EII") from the Company's professional weather forecaster (Telvent) reaches an EII level of 2[5] or greater with a "high" (greater than 60 percent) level of confidence. Such consistency at the EII 2 level will aid not only in the decision-making process but also in assessing the actions of Liberty, both on an individual basis and a comparative basis with other New Hampshire electric utilities, in the wake of future major storm events that may occur.

[5] An EII level 2 event is defined as sustained winds or wind gusts of 50 to 55 mph, ice accretion greater than 3/8 inch, and wet snow accumulation greater than 18 inches.

Q. You state Liberty's EII 2 level will allow for consistent comparisons among the utilities, but PSNH and Unitil were approved for recovery at an EEI 3 level. Please explain how an EII 2 level will allow for consistent comparisons.

A. An EEI 3 level based upon Schneider Electric's scoring methodology (used by PSNH and Unitil) is equivalent to an EII 2 level as calculated by Telvent Weather Services[6] (used by Liberty).

Q. What is your recommendation for recovery of Pre-Staging Costs?

A. I concur with Liberty's request to recover $300,000 expended on pre-staging costs for winter storm Nemo in February 2013, subject to an audit that the costs of preparing and planning for the storm is found to meet the pre-staging criteria and found to be prudent and reasonable.

Q. What are your recommendations for accruing carrying charges at the Company's weighted average cost of capital and to increase base rate storm recovery costs to $1.6 million?

A. Regarding Liberty's request that carrying charges on the Storm Fund deficit balance be accrued at the Company's weighted average cost of capital, this request has already been addressed in Docket No. 13-196, Liberty Utilities Storm Recovery Adjustment Factor, dated October 21, 2013. This filing was the result of a settlement agreement in DE 13-063 which, in addition to an agreement on a temporary rate increase, provided for a separate process for consideration of an increase in the Company's SRAF factor, to be effective on November 1, 2013. In Docket No. 13-196, Liberty was granted a $1.0

[6] Staff understands that Telvent was acquired by Schneider Electric and Staff recommends the treatment of the three utilities be consistent. As described above, Staff believes the scoring methodologies are consistent but Liberty should confirm that they are.

million increase in its SRAF factor to over $3.0 million a year, and as a result, the fund balance should be recovered in less than two years (by October 31, 2015) if annual Storm costs do not exceed the $1.5 million annual increase in base rates for storm recovery costs. Therefore, based on a recovery period of less than two years, Liberty's concerns about an unreasonably long period to be compensated at the customer deposit rate for a significant financial outlay are no longer valid. For this reason, I do not agree with Liberty's request to accrue carrying charges at the Company's weighted average cost of capital and recommend that the Commission deny this request.

Finally, Liberty's request to increase its base rate storm recovery costs to $1.6 million from $120,000 is, in my opinion, a reasonable request given that Liberty has incurred major storm damage[7] for: 1) a $1.4 million ice storm in 2008, 2) a $1.7 million wind storm in 2010, 3) a $1.7 million snow storm in March 2011, 4) $1.0 million for Hurricane Irene in August 2011, 5) $1.6 million for the Halloween Snow Storm in October 2011, and 6) $1.6 million for Super Storm Sandy in 2012. However, the average annual cost of the storms through 2012 (listed above), along with the fact that so far in 2013 there have been no major storms, is approximately $1.5 million. Therefore, I recommend that the Commission only approve an increase in Liberty's base rates to $1.5 million. Finally, I recommend that the Commission order Liberty to submit the storm cost information for Hurricane Irene and the Halloween Snow Storm to the PUC Audit Staff as soon as possible.

Q. Please describe the adjustments you made to Schedule RR-3-10 (CU).

[7] All the major storms have been audited by the PUC Audit Staff except for Hurricane Irene and the Halloween Snow Storm.

A. I removed Liberty's $1,200,000 proposed increase in the SRAF Factor and the $2,190,859 storm costs from the test year because theses revenues and expenses are not in base rates but are part of the SRAF mechanism and fund balance. Then I adjusted my proposed $1.5 million by the $120,000 currently in base rates. As shown on GWS-2, Schedule 10, these changes to Liberty's proposal result in an increase of $770,859 to the test year.

G. Adjustment 13 - Algonquin/Liberty Support Costs

Q. Please describe the purpose and development of the Support Costs charged to Liberty.

A. Liberty stated that costs related to services provided by parent companies, Algonquin Power & Utilities Corp. (Algonquin) and Liberty Utilities Canada Corp. (LUC), were either directly charged or allocated to the Company, based on Algonquin's Direct Charge and Cost Allocation Manual (Manual) and filed with this rate case as Attachment CGM/MRS-3. The costs were developed by using six months of actual charges, adjusted for one-time and non-recurring charges to Liberty. These costs were then annualized based on expected annual activity adjusted for an average non-recurring cost percentage based on the six months of experience. Costs from Algonquin included corporate management and executive labor, which are allocated to each operating subsidiary, i.e., LUC and Algonquin Power Company. These costs also included corporate treasury, audit services, tax services, third party professional services, and services related to shareholder administration such as Board of Directors and Escrow payments. Related administration charges, such as rent and depreciation and office space, were also charged to Liberty from Algonquin.

According to testimony, LUC provided strategic oversight, procedures, compliance, and standards to Liberty in the areas of Finance, Regulatory Affairs, Human Resources, Customer Service, Information Technology, and associated administrative functions. As such, LUC allocated labor costs and other administrative charges incurred in order to provide these services to Liberty.

Q. What did Liberty include in its Support Cost Adjustment RR-3-13 (CU)?

A. Liberty included $1,247,225 for total Support Costs from Algonquin and LUC in its rate year and made an adjustment to the test year of $616,709, which was presented on Schedule RR-3-13 (CU). This adjustment included an adjustment for inflation[8] even through it is not specifically referenced on Schedule RR-3-13.

Q. Have you reviewed Algonquin's Manual?

A. Yes. I have reviewed Algonquin's Manual and Schedule RR-3-13 (CU) and have the following observations. Algonquin allocated 11.8 percent of its costs to Liberty, or $522,636. Within these costs was a $50,518 charge for audit fees, which Algonquin claimed were necessary for the regulated utilities to have access to the capital markets, and to, as it claimed in its Manual, "Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company's records, thus reducing overall rate case costs[9]." In addition to Algonquin's costs, LUC allocated $702,695 to Liberty or 11.8 percent of its costs, which included $14,553 for audits.

Q. Please describe the adjustments you made to Schedule RR-3-13 (CU).

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[8] See Joint Testimony of Stephen R. Hall and Howard Gorman at 20, lines 12-13.

[9] Algonquin Power & Utilities Corp. Direct Charge and Cost Allocations Manual, page 18 and Staff 5-8, page 3 of 4.

Before I describe my adjustments, I want to bring to the Commission's attention a statement in the PUC Audit Staff's audit of Liberty's test year. It stated, "The financial information provided to the Audit Staff during the course of the audit was unreliable[10]." Although the Company disagreed with PUC Audit Staff's characterization of the financial information, PUC Audit Staff did not recant its statement.

In determining the Support Costs that should be included in Liberty's adjusted test year, I put considerable weight on PUC Audit Staff's statement. In addition, I also relied on Staff 5-5, which corrected a calculation error in Schedule RR-3-13 (CU), thereby reducing LUC costs by 3 percent to $702,695 from $724,589, and I removed an amount for inflation of $22,847 because the Company should not be allowed to substitute an estimated adjustment for the Commission's traditional known and measurable adjustment standard when there is no way of knowing if the inflation rate will actually apply in the future.

Q. How did you adjust Liberty's Schedule RR-3-13 (CU)?

A. According to Algonquin's Manual, audits are necessary for the regulated utilities to have continued access to capital markets and unit holders (shareholders). I agree with the premise that having access to the capital markets is important and a just and reasonable cost; however, because the Commission's Audit Staff could not rely on the financial information it obtained during a rate case audit and because Algonquin specifically stressed in its Manual the value of an audit to a rate case, I have cut Algonquin's

[10] On page 92 of Granite State Electric Company d/b/a Liberty Utilities DE 13-063 – Test Year 12/31/2012 Final Audit Report.

$50,518[11] audit costs to Liberty in half to $25,259. Regarding the $14,553[12] for audits from LUC, which are for management of business specific audits and corporate audits[13], I have removed the entire amount. These adjustments to audit costs are meant to send a clear message to LUC and Algonquin that financial reports are very important to the Commission and its Staff for the regulation of New Hampshire utilities and therefore, must be reliable. Thus, I have removed $84,553 from the test year for audits plus inflation as shown on Attachment GWS-2, Schedules 13 & 13A.

H. Adjustment 14 – Property Taxes

Q. What did Liberty propose for property tax expenses in its Adjustment RR-3-14 (CU)?

A. Liberty testified that property taxes are generally billed by municipalities in two installments. The first billed installment for 2012 is generally estimated based on 2011 property taxes, and the second billed installment will reflect the final accounting for 2012. Typically, the second billing installments are received by the Company in October and November, with payments due in November and December. The State bills its property tax once a year in the fall, while requiring estimated payments on a quarterly basis. The Company estimated the increase in its 2012 property tax expense by using an average increase in property taxes based on the period 2010 to 2012.

Q. What did Liberty propose in RR-3-14 (CU)?

A. Liberty proposed to increase its property taxes to $3,184,358 in 2013 for a $405,612 increase in test year expenses as shown on Schedule RR-3-14 (CU) page 2 of 2.

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[11] Staff 5-8, page 3 of 4.
[12] Staff 5-7, page 2 of 13.
[13] Staff 5-7, page 7 of 13.

Q. Do you agree with Liberty's adjustment to its 2012 property tax expenses?

A. No. I do not agree with the proposed increase in the 2012 property taxes based on a three-year average for the same reason I did not agree with the proposed increases in Adjustments 04, 06 and 13. The Company should not be allowed to substitute an estimated adjustment for the Commission's traditional known and measurable adjustment standard when there is no way of knowing if the inflation rate will actually apply in the future.

Q. What adjustments did you make to Liberty's property tax expense on Schedule RR-3-14 (CU)?

A. I used the PUC Audit Staff's 2012 property tax expense of $3,105,076 as my property tax expense for 2013 because it is the best representation of what could happen in 2013. Following from that adjustment, my adjustment to the test year expense is $326,330, which results in a $79,282 decrease to Liberty revenue requirement calculation as compared to the adjustment proposed by Liberty. See Attachment GWS-2, Schedule 14.

I. Adjustment 15 – Other Revenue

Q. What did Liberty propose in Adjustment RR-3-15 (CU)?

A. Other revenues comprise forfeited discounts, miscellaneous service revenue, rent from electric property, CTC revenue, border sales, revenue from Fairpoint for vegetation management and other revenue, as shown on the Schedule. Each item included in other revenue was reviewed and the required adjustments are also shown in Schedule RR-3-15 (CU). Forfeited discounts, or late payment charges, were increased by 15 percent to reflect the estimated total bill increase requested by the Company.

Q. Please describe the adjustment you made to Schedule RR-3-15 (CU).

A. I adjusted the forfeited discounts on this schedule to reflect the incremental costs associated with Staff's proposed increase in the revenue requirement. My adjustment to the test year is a negative $6,508 as shown on Attachment GWS-2, Schedule 15.

J. Adjustment 16 – Rate Case Expense

Q. What is Liberty proposing regarding recovery of rate case expense and the depreciation study expense in Schedule RR-3-16 (CU)?

A. Liberty stated it was allowed to recover up to $300,000 in rate case expenses, plus $90,000 for the cost associated with a depreciation study, consistent with Order No. 25,370. The Company also corrected its adjustment consistent with the PUC Staff Audit report, which re-classified $11,876 of rate case expenses to a deferred account. Therefore, it proposed to recover the total $378,124 of adjusted costs associated with this rate case over one year, through a rate case surcharge. If approved, the charge would be temporary and set to recover costs over a one-year period. The revenue collected would be fully reconciled with the costs incurred. At the end of the recovery period, the Company will file with the Commission a reconciliation of the surcharge, including a recommendation for treatment of any under- or over-recovered balances remaining at the end of the recovery period. Because its rate case expense was well below what other utilities often incur, the Company believed it was appropriate to have a one-year recovery period.

Q. What do you recommend?

A. I concur with Liberty that it should be allowed to recover up to $300,000 in rate case expenses, plus $90,000 for the cost associated with a depreciation study through a rate case surcharge over one year. However, Liberty adjusted base rates for $390,000 plus a reclassification of $11,876 for rate case expenses to a deferred account on its RR-3-16 (CU) Schedule. Therefore, I removed $378,124 from base rates, and recommend that the Commission approve Liberty's request for a one year surcharge to collect $390,000 in rate case and depreciation study expenses.

K. Adjustment 20 – Bad Debt Expense

Q. What did Liberty propose in Adjustment RR-3-20 (CU)?

A. Liberty's $91,245 adjustment for Bad Debt expense is presented on Schedule RR-3-20 (CU). Liberty claimed the adjustment was developed from the ratio of Liberty's actual charge-offs to revenue over a five-year period. The ratio is then applied to test year revenues to incrementally increase the Bad Debt expense to current rates in the test year. The ratio of Bad Debt expense to revenue is also applied on Schedule RR-1-1 to gross-up the proposed incremental increase in distribution service revenues to collect revenues for the unrecovered incremental write-offs.

Q. Please describe the adjustment you made to RR-3-20 (CU).

A. Before making any adjustments to the bad debt expense ratio, I corrected Liberty's Schedule RR-3-20 (CU) for bad debt expense on line 2 for 2012. Bad debt expense was $326,926[14] for the year not $418,277 as the schedule reports. After making this correction as shown on Attachment GWS-2, Schedule 20, I note that Liberty's C*harge-Offs as % of Revenue* (line 9) were quite variable over the period 2008 through 2012 (0.52%, 0.64%, 0.46%, 0.54%, 0.42%, respectively). This variability could be due to any number of things, as for instance, a slow economic recovery, unemployment, or high energy costs in the area. Nevertheless; on the issue of the 0.54 percent ratio, the

[14] See page 61 of Granite State Electric Company d/b/a Liberty Utilities DE 13-063 – Test Year 12/31/2012 Final Audit Report..

Company offers no rationale for using it to determine its test year expense other than to say it was developed using actual charge-offs to revenue over a five-year period, which is incorrect as I indicated above. In addition, for three years from 2008 to 2010, overall expense went down each year, even without my correction. In 2011, expenses went up before going down again in 2012 (with my correction). Given this variability, it is impossible to justify increasing bad debt expense, beyond the $326,926 in the test year, based on a ratio which is just as likely to go down as it is to go up. Therefore, I removed Liberty's test year bad debt adjustment of $91,245 and the 0.54 percent bad debt adjustment in Liberty's gross-up factor.

III. Step Increase Attachment CGM/MRS-5 (CU)

Q. What is Liberty proposing in its Step Increase?

A. The Company requested the approval of a Step Increase to reflect additions to rate base through December 31, 2013. Liberty structured the Step Increase to recover an annual revenue deficiency of $1,242,022 based on capital additions of approximately $9.2 million for the period ending December 31, 2013. The resulting rates from the Step Increase ($0.00134/kWh) would go into effect concurrent with the permanent increase on a per kWh basis. The projects and associated estimated costs are shown in Attachment CGM/MRS-5 (CU).

Q. What do you recommend?

A. I recommend accepting the Step Increase after a correction to the leased vehicle costs (line 26) mentioned in Adjustment 05, which the Company has accepted, and after a correction to the property tax, insurance percentage (line 24) mentioned in Adjustment 04, which the Company has not accepted. In addition, I have made corrections to the depreciation rates based on the testimony of James J. Cunningham and to the cost of capital based on the testimony of Leszek Stachow. These corrections are included in my Attachment GWS-1, Schedule 4, which supports an annual revenue increase of $1,288,682 and an annual rate increase of $0.00139/kWh.

Typically, when the Commission has approved step increases in the past, the actual costs of the project(s) are reviewed by Staff once the projects are completed and prior to the step increase being implemented. I recommend that the same procedure be followed in this instance.

IV. Other Recovery Mechanisms

Q. Has Liberty requested other mechanisms that need the Commission's approval?

A. Yes. Liberty has requested a Property Tax Recovery Mechanism to reconcile property tax expenses to actual expenses and a Pension Recovery Mechanism to reconcile pension and other post-employment benefits to actual expenses incurred. Mr. Cunningham addresses the Pension Recovery Mechanism in his testimony and I address the Property Tax Recovery Mechanism.

Q. What did Liberty request in its Property Tax Mechanism?

A. Liberty requested a property tax mechanism that reconciles each year's annual property tax increases with the amount included in base rates by recovering the difference between the two through a separate annual rate adjustment mechanism. Liberty testified that municipal property taxes have been rising rapidly and that both taxes and property valuations have been subject to strong upward pressure from municipalities. Liberty also claimed that using a fixed rate allowance for property taxes based on the test year expense escalated by a three-year average percentage, which it used as an inflation adjustment on its property Schedule RR-3-14, significantly raises the risk of under-recovery due to circumstances beyond its control.

Q. Is the Company requesting a permanent change in the ratemaking treatment of property tax expenses?

A. Yes.

Q. What do you recommend?

A. I recommend the Commission deny Liberty's request for a Property Tax Recovery Mechanism that reconciles base rate property taxes to actual property taxes. Although Liberty's request deals specifically with property taxes, approval of this mechanism would involve a potential and significant change to the way the Commission looks at the development of base rates. If it were determined that Liberty's property taxes should now be treated separately from its base rates, it would disregard one of the Commission's fundamental regulatory principals; the use of an adjusted test year comprised of assets, liabilities, equity, revenues and expenses that form a representative test period to set just and reasonable rates. Liberty's request, as it relates to this annual mechanism and its future operation, does not include a look at all the components of a representative test year and, accordingly, is a request for single issue ratemaking and should be denied.

Q. Do you have any concluding comments?

A. Yes. The issue of annual mechanisms has been addressed by Mr. Mullen in several rate cases[15] during the past several years. In these cases, Mr. Mullen argued that changes in a line item expense, which often change frequently, should not be isolated for examination

[15] DE 04-231Unitil Energy Systems, Inc. Petition for Accounting Order, and DE 05-178, Unitil Energy Systems, Inc. Petition for Rate Increase.

alone but should be looked at as part of the entire financial equation, except in cases of tax law or accounting rule changes. In his argument, Mr. Mullen pointed out that while some line item expenses increased compared to test year levels, other line item expenses went down. These arguments are still valid.

Q. Has Liberty requested anything more?

A. Yes. Liberty has requested the elimination of its GreenUp Service Program. Even though the program meets the requirements of RSA 374-F:3, V(f), and provides a renewable option for Energy (Default) Service customers, Liberty stated that the level of customer participation does not warrant continuation of the program. To date, approximately $37,000 has been spent to market the program to the Company's customers, yet at the end of the first year, there were only 86 customers enrolled in the program. By the end of 2012, that number had only risen to 110 customers.

V. Liberty's GreenUp Program

Q. How does Liberty propose to end the GreenUp program?

A. The Company proposed to end the program at the end of a calendar quarter. This would allow the GreenUp suppliers to easily provide renewable energy credits from the applicable NEPOOL-GIS trading period. In addition, the Company would send letters to each GreenUp customer notifying them about the end of the program. The letters would also include a list of competitive energy suppliers on the Commission's website that offer green or renewable options in the event that customers wish to directly make such purchases.

Q. What do you recommend?

A. Staff has reviewed Liberty's request and agrees the program should be closed. The Commission also recently approved (Order 25,511, DE 12-358) an option to close PSNH's renewable program. Therefore, Staff recommends that the Commission approve closing the GreenUp Program at the end of a calendar quarter after Liberty sends letters to each GreenUp customer notifying them about the end of the program and giving them a list of competitive energy suppliers.

Q. Does this conclude your testimony?

A. Yes.