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

Steven E. Mullen
Assistant Director – Electric Division

November 15, 2013

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

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

**Q. Please summarize your educational background and work experience.**

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

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

**Q. Have you previously testified before this Commission?**

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

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

A. The purpose of my testimony is to provide general comments regarding the transition in ownership of Granite State Electric Company (GSEC) from National Grid to Liberty Energy Utilities (New Hampshire) Corp. (Liberty).[1] In addition, I will be providing recommendations with respect to GSEC's Reliaibility Enhancement Program (REP) and Vegetation Management Program (VMP).

**Q. Did you previously file testimony in this proceeding?**

A. Yes. On May 24, 2013, I filed testimony regarding Granite State's request for temporary rates.

**Q. Has the transition of the ownership and operation of Granite State from National**

[1] The transfer of ownership was the subject of DG 11-040 and included the transfer of GSEC's sister company, EnergyNorth Natural Gas. The transfer was effective on July 3, 2012.

**Grid to Liberty gone smoothly in all respects?**

A. No. As can be expected in a transaction such as this, some things have gone more smoothly than others. The transition involves the hand-over of control of the financial, managerial and technical aspects of Granite State and there certainly have been some bumps in the road. At times, there have been delays in getting necessary feedback from upper levels of the management structure. In addition, many aspects of the transition were encompassed in Transition Service Agreements (TSAs) between Liberty and National Grid, with some TSAs being of relatively short durations, while others span multiple years, depending on the particular activities.[2] One of the facets of the transition process that was among the first to transfer to Liberty was financial accounting and reporting which directly impacts the rate case filing. Of particular relevance to this rate case, the test year is calendar year 2012. As noted earlier, the ownership transfer was effective July 3, 2012, right in the middle of the test year.

**Q. Was the selection of a calendar year 2012 test year unexpected from Staff's perspective?**

A. No. Based on GSEC's earnings level leading into the ownership transfer, Staff fully expected a distribution rate case would be filed following the December 31, 2012 expiration of a prior five-year rate settlement. We expected that given the involvement of two different companies during the test year and the financial, managerial and operational transitions that would be taking place during the test year, the rate case would be a challenge, in many respects, for all involved.

[2] I note that one ongoing substantial project involves the conversion and transition of computer systems and data from National Grid to Liberty with various systems being converted on different time schedules. This process is a multi-year process and continues to be monitored by Staff.

**Q. Does Granite State have qualified personnel at various levels of the company?**

A. Yes. Consistent with my testimony in DG 11-040, I believe that GSEC and Liberty have hired competent, qualified employees to handle various responsibilities within the organization. Despite those qualifications, there have been some difficulties in the transition process, particularly with respect to financial matters. I do acknowledge, however, that we have seen improvements over time.

**Q. As part of this case, did Staff complete a financial audit of Granite State's books and records?**

A. Yes. A copy of the report prepared by the Audit Staff is included as Attachment SEM-1 to my testimony. As shown by the length of the report, the audit was quite time-consuming and auditors had numerous issues dealing with such things as the inability to reconcile certain amounts from the general ledger of National Grid to Liberty's general ledger. As detailed in the Audit Report, while certain issues were able to be resolved during the audit process, other issues remained unresolved as of the completion of audit field work. Regarding the details of problems encountered during the audit, I will let the document speak for itself. Suffice it to say that based on my discussions with the Audit Staff, describing the audit as a challenge would be an understatement.

**Q. How do the problems encountered during the audit process relate specifically to the instant rate case?**

A. The problems with certain aspects of the financial records create uncertainty with amounts included in the filing. In addition, during the discovery process for the rate case, amounts included in discovery responses were also subject to change. I do not mean to suggest that all of the numbers in Granite State's rate case filing were suspect. In fact, the low levels of earnings—the primary reason for the rate case filing—reported by Granite State both before and after the ownership transfer were fairly consistent. What is called into question, however, is the accuracy of individual line items included in the test year and/or the proposed adjustments to those line items.

**Q. Why, then, is Staff proposing an increase to GSEC's revenue requirements in this proceeding?**

A. Consistent with my testimony in the temporary rates portion of this proceeding, it is clear that GSEC's earnings are well below what would be considered to be a reasonable level. An electric distribution utility with insufficient earnings that is also responsible for providing safe and reliable service is in nobody's best interest. The provision of electricity to homes and businesses is a vital service. Providing a utility with the financial ability to properly deliver that service and operate and maintain all aspects of providing that service is in the public interest.

**Q. With that in mind, how can Staff be assured that its recommendations in this case will provide just and reasonable results?**

A. The key for Staff was to be conservative in its recommendations. In addition, as will be evident from my testimony as well as the testimony of other Staff witnesses, Staff firmly believes that it is important that GSEC either plan to, or be required to, file a new rate case in the next two or three years. Given the ongoing transition process and continuing TSAs in place with National Grid, the hybrid test year involving costs from two different ownership and management organizations, the problems encountered as part of the audit process, and Liberty's continuing evolution as an owner and operator of electric and gas distribution utilities, it is vital that GSEC's revenues, expenses and operation be reexamined when we have what I call a “clean” test year. Consistent with that view, consideration of the various new tracking mechanisms and factors proposed by GSEC in this proceeding is not a worthwhile pursuit as Staff believes a “clean” test year is important for setting a foundation for future operations. There are additional reasons that Staff does not support the proposed tracking mechanisms and factors, and those reasons are stated in the testimonies of Mr. Siwinski and Mr. Cunningham. Also, as discussed in the testimony of Mr. Iqbal, in preparation for a rate case in the next two or three years, GSEC should review and analyze the costs associated with some of the charges in its tariff as well as undertake an examination of its existing rate design.

**Q. In his testimony, Mr. Del Vecchio made the statement that GSEC had not received any recovery of the approximate $94 million of capital investments made by GSEC since its last rate case in 1995. His statement was echoed in the joint testimony of Daniel Saad and Kurt Demmer. Would you care to comment on that statement?**

A. By making that statement, GSEC’s witnesses lose sight of the fact that while indeed it has been an extended period of time since GSEC’s last distribution rate case, GSEC for a while was earning in excess of its allowed ROE.[3] In any event, unless a utility has negative earnings, it is recovering a portion of the cost of its plant assets through annual depreciation expense. In addition, any positive earnings include a return on the plant investment, albeit at different levels than the authorized ROE. So, portrayal of “lack of any recovery” of plant investment as one of the reasons for filing the rate case is not an accurate portrayal.

**Q. Mr. Saad and Mr. Demmer describe certain proposed changes to GSEC’s existing**

[3] See Exhibit 1, March 29, 2013 Joint Testimony of ChristiAne G. Mason and Dr. Michael R. Schmidt regarding Temporary Rates, page 3 of 7, Figure 1.

**REP and VMP plans. Are you familiar with those plans?**

A. Yes. Those plans have been in existence since the approval of a settlement agreement in DG 06-107, a proceeding involving the merger of National Grid and KeySpan Corporation. The REP and VMP plans were originally scheduled to expire on March 31, 2013, but were extended through the end of calendar year 2013 in DE 13-039, a proceeding wherein GSEC requested a continuation of the REP/VMP program through a so-called "stub year." That case was filed on January 31, 2013 and Commission approval was received on April 3, 2013, so that case and the current rate case (which was filed on March 29, 2013) overlapped.

**Q. What changes were proposed in the current rate case filing?**

A. The proposed changes are:

- An increase to the base level of operation and maintenance (O&M) expense for the REP/VMP program from $1,360,000 to $1,750,000;
- The introduction of new capital programs to the REP;
- An increase to the annual REP capital investment target from $500,000 to $1,250,000; and
- Changes to the way reliability metrics are reported.

**Q. Were any of these changes proposed in DE 13-039?**

A. While that case involved spending level proposals for O&M and capital spending, there were no proposals at that time to change either the base level of O&M spending or the targeted level of capital spending. There was also no proposal to change reliability metric reporting. As for the REP capital programs, I note that the projects proposed in DE 13-039 are of similar types as those included in the rate case proposal. I discuss the capital programs in further detail later in my testimony.

**Q. Please explain the proposed change to the base level of O&M expenses.**

A. The current REP/VMP program includes an annual base level of O&M expenses of $1,360,000. That base level is what is assumed to be recovered through base distribution rates. As part of the annual filings for the REP/VMP, GSEC reviews with Staff its spending plans for an upcoming year, and can propose a spending level in excess of the base level. Following the end of a program year, the actual O&M spending is reviewed, and any spending above the base level can be approved for recovery from customers, and any spending below the base level is returned to customers. In this case, GSEC has proposed raising the annual base level from $1,360,000 to $1,750,000. According to Mr. Saad and Mr. Demmer, *"[t]his level of funding is consistent with the Program's funding in recent years, and will allow for an additional allowance to shorten trim cycles on feeders or portions of feeders that have experienced aggressive tree growth due to environmental factors or tree species factors."*[4]

**Q. Please provide your comments on this proposed change.**

A. While the Electric Division is supportive of increased vegetation management and shortened trim cycles, I have a couple of issues with GSEC's proposal. First, the existing REP/VMP has been in place for approximately six years[5], and the annual spending was provided in a discovery response.[6] In reviewing the average actual O&M spending over those years, it is important to note that for the first year, funding was provided at an increased level to accomplish a larger amount of tree trimming and get "more bang for

[4] Saad/Demmer Testimony at page 15 of 20, lines 9 – 12.
[5] The REP/VMP originally operated on an April-March fiscal year, but pursuant to DE 13-039 was converted to a calendar year.
[6] See Attachment SEM-2, GSEC's response to OCA 2-9.

the buck."  Looking at the remaining five years, the average level of actual O&M spending was $1,372,057, only slightly above the current base level.  With that, I question the statement that the proposed base level of $1,750,000 as being consistent with recent years' funding.  Second, as stated earlier, the base level of O&M is an amount assumed to be recovered in base rates.  By requesting a $390,000 increase in the base level, one would expect that the Company would have included a $390,000 increase to O&M expenses in the determination of the revenue requirement.  However, the Company's original filing included no such adjustment, and in the October 16, 2013 filing of corrections and updates to its revenue requirements calculation, an increase of $213,000 was proposed.[7]

**Q. How was that adjustment amount determined?**

A. The adjustment was calculated by comparing the test year actual expenses of $1,537,000 and the proposed base level O&M spending of $1,750,000.  The problem is, however, the actual test year expenses include both the current base level of $1,360,000 and incremental spending above that amount which was already dealt with from a rate perspective in DE 13-150, the annual REP/VMP reconciliation docket.

**Q. What is your recommendation regarding the proposed increase in the base level of REP/VMP O&M expenses?**

A. I recommend that the base level of O&M expenses remain unchanged at $1,360,000.  I view this level as being more in line with past actual annual spending.  Consistent with past practice, the proposed level of annual O&M spending will be reviewed and reconciled on an annual basis, so if additional spending is warranted, the recovery of such

[7] October 16, 2013 filing of corrections and updates (CU), Schedule RR-3-09, lines 16 – 18.

spending can be addressed. I note also that there is an ongoing proceeding, DRM 13-090, involving proposed revisions to Chapter 300 of the Commission's administrative rules for electric service. One of the issues subject to revision involves tree trimming standards and frequency. Any potential adjustment to tree trimming expenses resulting from rule changes could be addressed as part of the REP/VMP planning and approval process.

**Q. In order to implement your recommendation, how should the Company's filing be adjusted?**

A. To properly reflect a base level of REP/VMP O&M expenses of $1,360,000, the O&M expenses in the Company's filing need to be reduced by $390,000, calculated as follows:

| | |
|---|---|
| Increment above base level that should not be included in test year | $177,000 |
| ($1,537,000 - $1,360,000) | |
| Adjustment proposed by GSEC on Schedule RR-3-09 (CU) | $213,000 |
| Total amount to be removed from revenue requirement | $390,000 |

This adjustment is included in Mr. Siwinski's testimony and schedules and identified as Adjustment 09.

**Q. Please describe the capital programs proposed for the REP and the proposed spending levels for each program.**

A. GSEC has proposed the following REP capital programs and annual spending levels:

| | Estimated Capital Cost |
|---|---|
| Single Phase Reclosers | $ 200,000 |
| Single Phase Trip Savers | $ 150,000 |
| Underperforming Area Mitigation | $ 200,000 |
| Bare Conductor Replacement | $ 650,000 |
| SCADA Enhancements | $ 50,000 |
| Total Spending Target | $ 1,250,000 |

As noted above, the proposed annual capital spending target is an increase above the current $500,000 annual capital spending target.

**Q. Are the above projects all new projects for purposes of the REP?**

A. Yes. As stated by Messrs. Saad and Demmer, the prior capital projects included in the REP included such things as feeder hardening and cut-out replacements, and those projects have essentially run their course from a reliability perspective. Referring back to DE 13-039, however, all of the above types of projects, with the exception of SCADA enhancements, were included in the April 1 – December 31, 2013 "stub year" REP proposal.

**Q. Did you file a recommendation in DE 13-039?**

A. Yes. On March 13, 2103, I filed a recommendation to approve GSEC's request to continue the REP/VMP plan through December 31, 2103. As part of that recommendation, I stated, *"The activities to be performed during the period April 1, 2013 through December 31, 2013 are consistent with the terms of the REP/VMP Plan and activities performed in past years."* I concluded that recommendation by stating, *"Given the positive impact on Liberty's distribution system reliability, Staff views the request for extension of the REP/VMP Plan as a reasonable bridge to further detailed review of the programs in Liberty's distribution case rather than simply letting the REP/VMP Plan terminate."*

**Q. Was further review conducted on the proposed programs?**

A. Yes. As a result of that review, I am not persuaded that two of the proposed "programs"—underperforming area mitigation and SCADA enhancements—rise to the level of deserving preferential rate treatment through the REP program. In other words, I view those activities as ones that are appropriate to be undertaken in the ordinary course of business in providing safe and reliable service. Therefore, I recommend that those two activities be removed from the REP capital program, leaving an annual capital spending target of $1,000,000.

**Q. What has GSEC proposed with respect to reliability metric (SAIDI – System Average Interruption Duration Index and SAIFI – System Average Interruption Frequency index) reporting?**

A. While proposing to retain the existing reliability target metrics (SAIFI = 1.8 interruptions and SAIDI = 126 minutes), GSEC has proposed the following changes to its reporting:

- Reporting on a rolling five-year average basis for each metric to minimize the impact of uncontrollable factors;
- Excluding the effect on performance by supply assets owned by others given the potential impact of transmission on the Company's reliability performance; and
- Excluding planned and notified outages from its calculation of SAIDI.

**Q. Do you support the proposed changes to reliability metric reporting?**

A. Yes, especially since it is my understanding the GSEC to report the metrics both with and without the planned exclusions. By reporting the reliability metrics in many ways, including the current inclusion and exclusion of major storm events, it helps to better examine and understand the underlying causes of reliability interruptions and targeting those problems.

**Q. You mentioned earlier that pursuant to DE 13-039 the REP/VMP program was extended through December 31, 2103. Considering your testimony is being filed on November 15, 2013, what do you recommend should happen to the REP/VMP in the**

**interim period following December 31 and until the Commission renders a decision in this proceeding?**

A. Similar to my recommendation in DE 13-039, I do not think it makes sense to let the REP/VMP program terminate and then restart it at a later date. Therefore, I recommend that the REP/VMP be allowed to continue at current funding levels and for the current types of activities until such time that the Commission rules on the merits of this case.

**Q. Looking beyond a Commission decision, what do you recommend for a longer-term duration of the REP/VMP program?**

A. Consistent with my earlier recommendation that GSEC plan to, or be required to, file a new rate case in the next two or three years, I recommend only that the REP/VMP be extended and that such extension continue through the duration of that next rate case. During such a case, as well as during the annual REP/VMP reviews, further assessment of the programs and associated costs would be performed.

**Q. Do you have any concluding comments?**

A. Yes. Staff realizes that the transition of ownership and operation of an electric distribution utility is not a simple process. Such a transfer involves circumstances both expected and unexpected. As I've described, there have been some rough patches on the financial end which have made this rate case quite challenging in many respects. Those rough patches have resulted from a variety of factors and, as time goes on, should continue to smooth out. Staff believes it is advisable to get a fresh look at GSEC's financial status and operations once the dust settles some more and many of the transitional issues no longer exist.

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

A. Yes, it does.