STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 16-383

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

DIRECT TESTIMONY

OF

STEVEN E. MULLEN

AND

HOWARD S. GORMAN

April 29, 2016

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List of Attachments

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I. **<u>INTRODUCTION</u>**

Q. Please state your names and business addresses.

A. My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry, NH 03053.

A. My name is Howard S. Gorman. My business address is 45 Hill Park Avenue, Great Neck, NY 11021.

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

A. (SEM) I am employed by Liberty Utilities Service Corp. ("Liberty") as Manager, Rates and Regulatory. I am responsible for rates and regulatory affairs for Liberty Utilities (Granite State Electric) Corp. ("Granite State" or the "Company") and for Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth").

A. (HSG) I am the President of HSG Group, Inc., a consulting firm specializing in utility rate and regulatory matters.

Q. On whose behalf are you testifying today?

A. We are testifying on behalf of Granite State.

Q. Mr. Mullen, please state your educational background and professional experience.

A. I graduated from Plymouth State College with a Bachelor of Science degree in Accounting in 1989. 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, NH. My duties involved preparation of financial statements and tax returns, as well as participation in year-end engagements. From 1996 through 2014, I was employed by the New Hampshire Public Utilities Commission ("Commission") in various roles. Through 2008, I held positions first as a PUC Examiner, then as a Utility Analyst III and Utility Analyst IV. In those roles, I had a variety of responsibilities that included field audits of regulated utilities' books and records in the electric, telecommunications, water, sewer, and gas industries, rate of return analysis, review of a wide variety of utility filings, and presenting testimony before the Commission. In 2008, I was promoted to Assistant Director of the Electric Division. Working with the Electric Division Director, I was responsible for the day-to-day management of the Electric Division, including decisions on matters of policy. In addition, I evaluated and made recommendations concerning rate, financing, accounting, and other general industry filings. In my roles at the Commission, I represented Commission Staff in meetings with utility officials, outside attorneys, accountants, and consultants relative to the Commission's policies, procedures, Uniform System of Accounts, rate cases, financing, and other industry and regulatory matters. In 2014, I was hired by Liberty as the Manager, Rates and Regulatory. I am responsible for rates and regulatory affairs for EnergyNorth and Granite State Electric.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in numerous proceedings before the Commission.

Q. Mr. Gorman, please state your educational background and professional experience.

A. My educational background and professional experience are outlined in my curriculum vitae, which is included as Attachment SEM/HSG-1. I have testified in proceedings before the Commission and before the Massachusetts Department of Public Utilities, the New Jersey Board of Public Utilities, the New York State Public Service Commission, the Ontario Energy Board, the Pennsylvania Public Utility Commission, and the Rhode Island Public Utilities Commission.

Q. What is the purpose of your testimony today?

A. Our testimony will present the Company's overall revenue requirement for permanent rates and the Company's request for a step increase. Under separate testimony submitted today, we are also presenting the Company's request for a temporary rate increase.

Q. Are you sponsoring any schedules as part of your filing?

A. Yes, we are sponsoring the following schedules in accordance with Puc 1604.07 and 1604.08. The Rate of Return Information required by Puc 1604.08 is provided in Schedule RR-6. The Adjustments to the Test Year required by Puc 1604.09 are provided in Schedule RR-3 with supporting detail in Schedules RR-3-01 through RR-3-15.

The following Schedules comprise Attachment SEM/HSG-2:

- Computation of Revenue Deficiency & Revenue Requirement — Schedule RR-1
- Components of Revenue Deficiency — Schedule RR-1-1
- Operating Income Statement — Schedule RR-2

- Operating Income Statement- Detail — Schedule RR-2-1
- Flow-Through Items — Schedule RR-2-2
- Summary of Adjustments — Schedule RR-3
- Balance Sheets — Schedule RR-4
- Rate Base — Schedule RR-5
- Rate Base Quarterly Balances — Schedule RR-5-1
- Materials and Supplies — Schedule RR-5-2
- Cash Working Capital — Schedule RR-5-3
- Rate Base Adjustments- Capital Additions — Schedule RR-5-4
- Rate Base Adjustments- Plant-Related ADIT — Schedule RR-5-5
- Proposed ADIT on Acquisition Date Assets — Schedule RR-5-6
- Historic and Projected ADIT on Acquisition Date Assets — Schedule RR-5-7
- Weighted Average Cost of Capital — Schedule RR-6
- Historic Capital Structure and Capitalization Ratios — Schedule RR-6-1

The following Schedule comprises Attachment SEM/HSG-3:

- Step Increase — Schedule Step

The following Schedule comprises Attachment SEM/HSG-4:

- Rate Case Expense — Schedule RC

Q. Has Granite State filed other material as required by Puc 1604.01?

A. Yes. The material required by Puc 1604.01 is included with this filing in a separate volume.

Q. What rate relief is sought by Granite State?

A. The Company is seeking to recover an annual revenue deficiency of $5,328,583 based on a rate base of $97,496,042. This represents an increase of 15.10% in distribution revenue or 5.25% in total operating revenue. Schedules RR-1 and RR-2 in Attachment SEM/HSG-2 provide a summary of the different components of Granite State's cost of service and revenue requirements.

In addition, as discussed later in the testimony, the Company also is seeking approval for a step increase to recover an annual revenue deficiency of $2,420,717 based on additional capital spending of $14,227,039 for the year ending December 31, 2016.

Q. What are the major factors affecting the Company's need for an increase in base distribution rates?

A. Schedule RR-1-1 shows the components of the revenue deficiency. The primary driver of the need for an increase is the capital investments made by the Company since its last rate case of approximately $50 million. A large portion of the investment was for infrastructure replacement that does not produce additional revenue. Capital investment (offset in part by higher accumulated depreciation) caused the Company's revenue requirement to increase by $7.3 million (lines 1-25) since the last rate case. A discussion of the capital investments made since the Company's last rate case is included in the testimony of Christian Brouillard.

Lower overall distribution expenses achieved by the Company as compared to the cost levels in the prior rate case have offset over $2.0 million of the increase (line 32).

Q. Please summarize the approach you used to determine the revenue requirement and revenue deficiency.

A. The Company's revenue requirement and revenue deficiency are computed as of and for the year ended December 31, 2015 ("Test Year"). The revenue requirement was computed by starting with the Company's income statement for the Test Year, then removing flow-through items (i.e., Purchased Power and Transmission Wheeling revenue and expenses), and then adjusting for known and measurable changes. The resulting Test Year pro forma income statement reflects normalized revenues at current rates, expenses, and net operating income for ratemaking purposes. These calculations are presented on Schedule RR-2-1 and summarized on Schedule RR-2.

The next step was to compute the net operating income required to achieve a return of 8.31% on the Company's Test Year pro forma rate base. This amount was compared to the Test Year pro forma net operating income to determine the net operating income deficiency. The net operating income deficiency was grossed-up for state and federal income taxes to determine the revenue deficiency. These calculations are presented on Schedule RR-1.

II. CONDITIONS AGREED TO BY GRANITE STATE

Q. Please describe Granite State's ADIT liability commitment referenced in Order No. 25,370 in Docket DG 11-040.

A. In Order 25,370, the Commission approved the acquisition of Granite State by Liberty Utilities. The Commission's order includes the following:

> Liberty also commits to holding customers harmless for the elimination of the historical accumulated deferred income tax (ADIT) liabilities resulting from its election under section 338(h) (10) of the Internal Revenue Service Code in accounting for its acquisition of Granite State common stock in this transaction. Further ratepayer protection is achieved by maintaining Proforma accounting for regulatory purposes to continue to provide ratepayers with the ratemaking benefit of Granite State's pre-acquisition ADIT balances until such time as actual ADIT balances related to the historical utility plant assets acquired equals or exceeds the levels that the Proforma ADIT would have been, absent the proposed transaction. The ADIT balances related to capital additions after the closing date are not affected by the section 338(h) (10) election and the treatment of these balances will not change for accounting and ratemaking purposes.
>
> Order No. 25,370 at 31.

Q. Did Granite State take the 338(h) (10) election for tax purposes?

A. Yes, Granite State did take the 338(h) (10) tax election.

Q. Did Granite State hold customers harmless in the rate case immediately following the acquisition, which was Docket DE 13-063?

A. Yes. In that case, Granite State held customers harmless by reducing rate base by $21,137,000, which is what the ADIT balance related to acquisition date assets (i.e., assets subject to the adjustment required by Order No. 25,370) would have been at December 31, 2012, absent the 338(h) tax election.

Q. How is the Company holding customers harmless, as required by Order No. 25,370, in the present rate case?

A. The Company is including the calculated ADIT for the plant assets that existed at the time of acquisition as a reduction to rate base. That calculated ADIT amounts to $21,960,571 and serves as a ratemaking adjustment to rate base. This calculation is shown on Schedule RR-5-7, line 24, and the ratemaking adjustment to rate base is reflected on Schedule RR-5-5, line 1.

Q. Does the Company have a proposal for an alternative method of holding customers harmless going forward?

A. Yes. The Company proposes to stipulate to a schedule of ADIT adjustments applicable to rate cases with effective dates through December 31, 2030. The net present value of the proposed ADIT adjustments would be equal to the net present value of the ADIT adjustments computed pursuant to Order 25,370.

Q. How would you compute the net present value of the ADIT adjustments computed pursuant to Order 25,370?

A. An example is shown on Schedule RR-5-6. First, to compute the ADIT adjustments pursuant to Order No. 25,370, the Company determined annual plant additions for the acquisition date assets, then scheduled out annual book and tax depreciation expense through December 31, 2074, when both the tax depreciation allowance and book depreciation expense for these assets will reach zero. The computation was prepared by asset type, reflecting the book and tax depreciation for each asset type, as summarized on Schedule RR-5-7. The difference between the cumulative tax allowance and accumulated book depreciation at any point, times the combined statutory tax rate, is the ADIT on acquisition date assets.

The annual ADIT balances were carried forward to Schedule RR-5-6. Then, we computed the ADIT balances that are estimated to be in effect each year, assuming a rate case every three years.[1] The net present value of that ADIT stream discounted at the Company's weighted average cost of capital of 8.31%, is $189.4 million, which represents the benefits to customers of the ADIT hold-harmless requirement.

Q. How would the proposal work in future years?

A. Under the Company's proposal, the ADIT adjustment required by Order No. 25,370 in future years would be the amounts on Schedule RR-5-6 in the column 'ADIT Proposed'. When new rates go into effect, the revenue requirement will include the ADIT adjustment for the year when the new rates are proposed to go into effect. The net present value of the proposed ADIT adjustments, discounted at the Company's weighted average cost of capital of 8.31%, is $189.4 million. This provides the same benefit to customers as the ADIT adjustments that would be applied annually over the next 55 years.

Q. What is the benefit of using the Company's proposed ADIT schedule instead of the original computation?

A. The ADIT computation is a complex one that stretches far into the future. The Company's proposal will save time and possible disputes in future rate cases; the ADIT adjustment decreases over time. Under the Company's proposal, the proposed ADIT

[1] This assumption was used only for purposes of proposing a schedule of ADIT balances.

balance vanishes to zero sooner, but the benefit to customers is larger each year than under the existing methodology. However, the net present value of the benefits to customers is the same.

Q. Has the Company included any other adjustments related to DG 11-040?

A. Yes. Consistent with commitments with respect to transition costs related to the acquisition, the Company has included adjustments for ratemaking purposes only related to the cost of certain transition-related assets. Those adjustments appear on Schedules RR-3-08 and RR-5-4.

III. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT

A. Rate Base

Q. Please summarize the information contained in your calculation of the Rate Base.

A. Schedule RR-5 shows the calculation of Rate Base. After adjustments, the Pro Forma Rate Base at December 31, 2015, is $97,496,042.

Q. Please describe the information presented on Schedule RR-5-1.

A. Schedule RR-5-1 presents the 13-month average for Materials and Supplies, Prepayments, and Customer Deposits.

Q. Please describe the information presented on Schedule RR-5-2.

A. Schedule RR-5-2 presents the 5-quarter average for Materials and Supplies for years ended December 1, 2013, 2014, and 2015.

Q. Please describe the information presented on Schedule RR-5-3.

A. Schedule RR-5-3 presents the cash working capital calculation. The Company computed its cash working capital using the lead / lag study prepared by witness Joshua Nowak, which determined a lag of 27.50 days. The cash working capital allowance under this methodology is $3,727,139.

The Company included Transmission O&M costs in the computation of Cash Working Capital because the Company does not recover cash working capital required for Transmission costs in any other charge (i.e., commodity or wheeling charge).

Q. Please describe the information presented on Schedule RR-5-4.

A. Schedule RR-5-4 adjusts the rate base for two items. First, items completed and placed in service but not yet classified to a plant account at December 31, 2015, are added to the rate base. The adjustment also reflects the annual depreciation expense applicable to these assets and the increase to accumulated depreciation. Then, consistent with commitments made in DG 11-040, the net book value of certain transition-related capital items were removed from rate base for ratemaking purposes only.

Q. Please describe the information presented on Schedule RR-5-5.

A. Schedule RR-5-5 develops the ADIT adjustment as of December 31, 2015. The ADIT applicable to acquisition date assets is proposed to be $21,960,571, as discussed above. That discussion also describes the information on Schedules RR-5-6 and RR-5-7. The ADIT applicable to post-acquisition assets, based on the Company’s books and records, is $11.1 million. The total ADIT is $33.0 million.

B. Net Operating Income

Q. Please summarize the results of Granite State's distribution revenue requirement.

A. Schedule RR-1 presents the computation of the requested distribution revenue increase and distribution revenue requirement. The revenue deficiency is $5,328,853 based on an overall rate of return on rate base of 8.31%. Schedules RR-2 through RR-5 provide the support for the items presented on Schedule RR-1, including Pro Forma Test Year net operating income and rate base.

Following is a list of the adjustments for "known and measurable" changes in revenue and expenses contained in Schedule RR-3:

- Salary & Wage costs to reflect the Company's New Hampshire-based labor complement, including only the portion charged to Granite State O&M expense;
- Payroll tax expense aligned with Salary & Wage expense;
- Pension and Benefits expense aligned with Salary & Wage expense, including amortization of deferred asset incurred on acquisition;
- Property and Casualty Insurance expense;
- Contract labor costs based on current requirements;
- Other known and measurable adjustments-Various adjustments for out-of-period items, known and measurable changes, and corrections.
- Review of Major Storm Fund in base rates (no change recommended);
- Computation of annual depreciation expense reflecting year-end plant balances including Plant in service not yet classified, amortization of the Depreciation

Reserve surplus, and a ratemaking adjustment related to certain transition-related assets;

- Review of cost of services provided by the parent company and its affiliates (no change recommended);
- Property taxes based on actual bills;
- Granite State's lease payment for the Concord Training Center;
- Adjustments to Other revenue;
- Adjustments to normalize distribution revenue; and
- Income tax expense at statutory rates.

The adjustments listed above are summarized on Schedule RR-3, which also shows the specific accounts to which the adjustments are made. Schedules RR-3-01 through RR-3-15 provide more detail on each of the adjustments.

Q. Please describe the information presented on Schedule RR-2.

A. Schedule RR-2 presents the computation of Granite State's Test Year net operating income and return on rate base using historical information in the column "Test Year Ended Dec. 31, 2015". In the column "Flow Through Items", revenue and costs relating to Commodity and Transmission are removed . After removing these items, the results are shown in the column "Distribution Operating Income." The "Known and Measurable Adjustments" are then applied to arrive at the column "Pro Forma Test Year With Known and Measurable". Finally, the "Proposed Increase" in distribution revenues, and the resulting changes in income tax expense, result in "Distribution Operating Income with Proposed Increase."

Q. Please describe the information presented on Schedule RR-2-1.

A. Schedule RR-2-1 presents the FERC account detail to support the calculations on Schedule RR-2, including the columns "Test Year Ended Dec. 31, 2015," "Flow Through Items," "Distribution Operating Income," "Known and Measurable Adjustments," and "Pro Forma Test Year With Known and Measurable".

Q. Please describe the information presented on Schedule RR-2-2.

A. Schedule RR-2-2 presents the detail supporting the "Flow Through Items" on Schedule RR-2-1. These items reflect the offsetting and elimination of purchased power revenue and costs, offsetting and elimination of transmission wheeling revenue and costs, elimination of the difference between purchased power revenue and costs and elimination of non-recurring revenue items, the Step adjustment from the prior rate case (because those assets are now in rate base), and the rate case expense from the prior rate case.

Q. Please describe the information presented on Schedule RR-3.

A. Schedule RR-3 presents a summary of the pro forma adjustments included in the distribution revenue requirement. Each adjustment is discussed below.

Q. Please describe the adjustment for salary and wage expense.

A. Schedule RR-3-01 presents the adjustment to salary and wage expense. This schedule adjusts the historic Test Year payroll amounts that were charged to expense for known and measurable changes. The adjustment reflects the annual cost of the full complement of Granite State employees as of December 31, 2015, as well as planned new hires in 2016.

The adjustment was computed by determining the annual salary and wage cost of each employee included in the December 31, 2015, labor complement, including 2016 regular salary and wages, overtime, incentive, and premiums. Many employees provide services for both Granite State and its sister utility, EnergyNorth; therefore, the portion of time dedicated to Granite State was determined for each employee. In addition, the portion of Granite State time for each employee was split between Granite State operating expense and other. "Other" includes capital projects and amounts billed to affiliates. The 2016 annual salary and wage cost for each employee was multiplied by the Granite State portion, and the result was multiplied by the Granite State operating expense portion, to determine the annual salary and wage cost charged to Granite State operating expense. This result of this computation is that $7,097,118 of salary and wages are charged to Granite State operating expense in the Test Year on a pro forma basis. This amount was compared to the $6,960,952 of salary and wages charged to operations in the Historical Test Year, and a known and measurable adjustment of $136,166 was made (line 32).

This methodology is the same as used in Granite State's most recent rate case, Docket DE 13-063, and EnergyNorth's most recent rate case, Docket DG 14-180.

Q. Please describe the adjustment for payroll tax expense.

A. Schedule RR-3-02 presents the adjustment to payroll tax expense. This adjustment aligns payroll tax expense with total salary and wages expense (Schedule RR-3-01), and was computed in the same way.

Q. Please describe the adjustment for pension and benefits expense.

A. Schedule RR-3-03 presents the adjustment to pension and benefits expense. This adjustment aligns pension and benefits with total salary and wage expense (Schedule RR-3-01), and was computed in the same way. Pension costs and Other Post-Employment Benefits ("OPEB") costs reflect the latest actuarial reports and assumptions. Health care costs reflect the costs of the currently effective programs, based on information provided by the Company's outside insurance brokers.

In addition, pension and benefits expense includes amortization of certain deferred debits. Total pension and benefits expense reflected in the revenue requirement comprises:

• Pension (a)	$447,000
• OPEB (a)	$207,000
• 401K (a)	$257,000
• Health care benefits expense (a)	1,017,000
• Workers compensation insurance (a)	75,000
• New hires in 2016, all of the cost categories above	108,000
• Costs for inactive employees	72,000

- Amortization of the Pension/OPEB valuation allowance arising from Liberty acquisition 2,014,000
- Total $4,197,000

(a) Represents the portion of total cost for active employees at 12/31/2015 that is allocated to Granite State operating expense.

The treatment of the valuation allowance arising from the acquisition of Granite State by Liberty Energy NH is consistent with the treatment of similar items in prior acquisitions and was stipulated in the Settlement Agreement for Docket DE 13-063, which was approved by the Commission in Order No. 25,638. Absent the acquisition of Granite State by Liberty Energy NH, the future pension cost due to valuation as of July 2, 2012, would have been included in pension expense in the actuarial reports. Upon the acquisition, a valuation allowance was established that must be amortized in order to reflect that cost in rates. If this amount were not in the revenue requirement, Granite State would have pension costs that are not reflected in the actuarial reports and therefore would not be recovered in rates.

Q. Please describe the adjustment for property and liability insurance.

A. Schedule RR-3-04 presents the adjustment to property and liability insurance expense. Property and liability insurance expense reflects the cost of insurance that provides protection from casualty and other losses and from other damages that the Company may incur in the conduct of its business, less the portion of such costs that is capitalized. The adjustment reflects known and measurable changes in insurance premiums, allocation of these premiums among Granite State and its affiliates, and capitalization of appropriate portions.

Q. Please discuss the adjustment for contract labor.

A. Schedule RR-3-05 presents the adjustment for contract labor. Contract labor costs are expected to decline from $421,421 in 2015 to $25,200 in 2016.

Q. Please describe the adjustment for Other Known and Measurable changes.

A. Schedule RR-3-06 presents the adjustment for the following items:

- <u>Miscellaneous Distribution Expenses</u> – The Company is proposing to increase the costs of vegetation management in base rates from $1,360,000 to $1,500,000 annually, due to changing from a five-year tree-trimming cycle to a four-year tree-trimming cycle.
- <u>Maintenance of Overhead Lines, Maintenance of Underground Lines</u> – These adjustments remove costs and adjustments credited to expense in 2015 that were related to prior years.
- <u>Customer Records and Collection Expense</u> – This adjustment removes non-recurring data access charges from National Grid.
- <u>A&G Costs</u> – These adjustments remove costs for relocation of an employee, and remove out-of-period costs recorded in 2015.

Q. Please discuss the information regarding the Major Storm Reserve Fund.

A. Schedule RR-3-07 presents information regarding the Major Storm Reserve Fund ("Storm Fund"). As provided in the Settlement Agreement for Docket DE 13-063, which was approved by the Commission in Order No. 25,638, the Company includes $1,500,000 in base rates annually to cover the costs arising from major storms. The Company submits a reconciliation of the Storm Fund to the Commission annually. At December 31, 2015, the balance in the Storm Fund was $1,406,329. The information on lines 18-30 shows that the average annual major storm cost incurred by the Company is nearly $1.4 million, and the annual amount exceeded $1.5 million in four of the past eight years. Therefore, the Company is proposing no change to the annual Storm Fund accrual included in base rates.

Q. Please discuss the adjustment for depreciation expense.

A. Schedule RR-3-08 presents the adjustment for depreciation expense. Pro forma depreciation expense for the Test Year is computed based on the plant balances as of December 31, 2015, and the depreciation rates stated in the Settlement Agreement for Docket DE 13-063, which was approved by the Commission in Order No. 25,638. The amount so computed, the historic Test Year amount, and the difference are shown on line 33. The following additional items are reflected in pro forma depreciation expense:

<u>Amortization of reserve surplus</u> - Depreciation expense is reduced by amortization of the accumulated depreciation reserve surplus as determined in Docket DE 13-063, in the annual amount of $706,686 (line 35, from Schedule RR-3-09). This amortization ends April 2019.

<u>In Service not classified</u> - Plant in service at December 31, 2015 but not classified is included in rate base (Schedule RR-5-4). Depreciation expense on this plant is included on Schedule RR-3-08, line 37 at the average depreciation rate of 3.21%.

Ratemaking Adjustment - Amortization expense related to certain transition-related assets is removed on Schedule RR-3-08, line 38.

The resulting net depreciation expense for ratemaking purposes is compared to the Historic Test Year amount, and an adjustment is made for the difference (line 39).

Q. Please describe the information on Schedule RR-3-09.

A. Schedule RR-3-09 computes the amortization of the accumulated depreciation reserve surplus as determined in Docket DE 13-063, as discussed above.

Q. Please discuss the adjustment for Algonquin/ Liberty Support Services Costs.

A. Schedule RR-3-10 information regarding Algonquin/ Liberty Support Services Costs. Factors that affect the cost charged to Granite State are the services provided, the costs incurred by Algonquin/ Liberty to provide the services, and the entities to which the services are provided (i.e., the denominator in the allocation). The services provided are expected to be the same as in the Historic Test Year. Due to the January 2016 closing by Liberty Utilities of its acquisition of Park Water Company, the allocation percentages applied to costs incurred by Algonquin/ Liberty that are charged to Granite State have decreased because the number of entities to which the services are provided has increased. At this time, however, the Company only has budgeted information for calendar year 2016 and does not have sufficient information to support a known and measurable change; therefore, no adjustment has been made. Factors that can impact the amounts charged to Granite State include the actual costs incurred as well as whether the costs are allocated or directly charged, depending on the nature of the cost. The Company will update this item as new information becomes available.

Q. Please discuss the adjustment for property taxes.

A. Schedule RR-3-11 presents the adjustment for property taxes. The Company receives two tax bills a year from most jurisdictions, with the second bill representing fifty percent of the amount due for the period July 1, 2015-July 1, 2016. The revenue requirement includes property tax equal to two times the second bill for each municipality.

Q. Please describe the adjustment for Concord Training Center.

A. Schedule RR-3-12 recognizes Granite State's cost associated with a lease for the Training Center located in Concord, New Hampshire. The Training Center is owned by EnergyNorth. Granite State is charged its proportionate share of the ownership and operation costs of the facility pursuant to a lease agreement that is effective as of May 1, 2016. Granite State's proportionate share of the costs was determined based on a combination of the number of employees receiving training along with the number of days of use of the facility. The cost shown on Schedule RR-3-12 represents a full year of lease expense as it is known and measurable.

Q. Please describe the adjustment for Other revenue.

A. Schedule RR-3-13 adjusts historic Test Year Other (non-distribution) revenue. The adjustment comprises elimination of non-recurring revenue primarily arising from journal entries during a system conversion, and elimination of incentive revenue for energy efficiency programs, which should not be included in distribution revenue.

Q. Please describe the adjustment to normalize distribution revenue.

A. Schedule RR-3-14 adjusts historic Test Year distribution revenue to the amount computed based on rates currently in effect and Test Year billing units.

Q. Please describe the adjustment for Income Tax Expense – Historic Test Year.

A. Schedule RR-3-15 presents the computation of Income Tax Expense – Historic Test Year. This adjustment computes Income Tax expense for the Historic Test Year based on current statutory rates, including synchronized interest expense based on the capital structure and cost of debt proposed by the Company in this proceeding.

C. Weighted Average Cost of Capital

Q. What rate of return on rate base have you used for ratemaking purposes?

A. As shown on Schedule RR-6, Granite State's weighted average cost of capital is 8.31% percent, reflecting a debt/equity split of 45%/55%; debt cost of 5.88%; and required return on equity of 10.30%. This information is presented in the testimony of Robert Hevert.

IV. STEP INCREASE

Q. Is the Company proposing a step increase as part of this filing?

A. Yes. The Company is requesting that the Commission approve a step increase to reflect additions to rate base through December 31, 2016. The step increase is structured to recover an annual revenue deficiency of $2,420,717 based on capital additions of $14,227,039 for calendar 2016. The resulting rates from the step increase would go into effect concurrent with the permanent increase. The projects and associated estimated costs are shown in Attachment SEM/HSG-3.

Q. Please explain why the Company is seeking a step increase.

A. As explained in Mr. Brouillard's testimony, the Company will be making significant capital investments during the pendency of this case. The Company is seeking a step increase for capital investments that will be completed and in service by December 31, 2016, prior to the implementation of permanent rates, because without this increase the Company would not have a reasonable opportunity to earn its allowed return immediately upon the conclusion of the case.

Q. Please explain the step increase revenue requirement calculation.

A. Attachment SEM/HSG-3 contains the revenue requirement for the Step Increase. Line 2 shows the capital additions of $14,227,039, broken out by asset type (FERC classification). Lines 7 and 9 show tax depreciation deduction and book depreciation expense, respectively, in year 1. Line 12 is the difference between the tax and book, and line 13 is the deferred tax amount after year 1. Lines 15-19 compute the rate base reflecting capital cost, accumulated depreciation, and ADIT. Lines 21-25 compute the revenue requirement including pre-tax return on rate base, depreciation expense, and property tax and insurance costs related to plant in service. The total revenue requirement of $2,420,717 is on line 25.

The Company proposes the step increase amount of $2,420,717 be recovered in the same manner and commencing simultaneously with the implementation of permanent rates.

V. RATE CASE EXPENSES

Q. How do you propose to recover the expenses associated with this rate case?

A. Consistent with Commission practice, Granite State is proposing to recover rate case expenses, which it estimates to be $495,000. The Company proposes to recover the total cost associated with this rate case over one year.

Q. Please describe the nature of the rate case expenses.

A. The costs to be incurred for the rate case are incremental, external costs. The costs are primarily for services such as outside consulting services to assist with the preparation and presentation of this rate case, including the development of studies on various matters required to establish appropriate rates for the Company's customers. The Company obtained competitive bids for these services consistent with the Puc 1900 rules. Also included will be copying expense, the cost of legal notices, and the cost of the court reporter. A list of these outside services and their estimated costs are shown in Attachment SEM/HSG-4, Schedule RC.

Q. How are rate case expenses accounted for?

A. The Company defers for future recovery all costs associated with the case as they are incurred during the course of the proceeding.

VI. EFFECTIVE DATE

Q. How and when is the Company proposing that these rates be implemented?

A. Consistent with the Commission's rules on the implementation of rate changes, the Company is proposing that rate changes be made effective for usage on and after July 1,

2016. While this is the same proposed effective date as for temporary rates, we recognize that the tariff pages supporting the proposed permanent rates will most likely be suspended.

VII. UPDATED SCHEDULES

Q. Does the Company intend to update its schedules during the course of this proceeding?

A. Yes. The schedules will be updated at the end of the discovery period to reflect any new or updated information that becomes available, and to include any changes that are identified the discovery process.

VIII. CONCLUSION

Q. Does this conclude your testimony today?

A. Yes, it does.

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