Liberty Utilities

EXHIBIT
#19
DE 16-383

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

REBUTTAL TESTIMONY

OF

STEVEN E. MULLEN

AND

HOWARD S. GORMAN

February 3, 2017

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TABLE OF CONTENTS

List of Attachments

Attachment SEM/HSG-1-Rebuttal	Selected Revenue Requirement Schedules showing Impact of Rebuttal Adjustments
Attachment SEM/HSG-2-Rebuttal	Cunningham Response to GSEC 1-47
Attachment SEM/HSG-3-Rebuttal	Cunningham Response to GSEC 1-51
Attachment SEM/HSG-4-Rebuttal	Cunningham Response to GSEC 1-49
Attachment SEM/HSG-5-Rebuttal	Chagnon Response to GSEC 1-42
Attachment SEM/HSG-6-Rebuttal	Mullinax Response to GSEC 1-90
Attachment SEM/HSG-7-Rebuttal	Mullinax Response to GSEC 1-96
Attachment SEM/HSG-8-Rebuttal	Mullinax Response to GSEC 1-99
Attachment SEM/HSG-9-Rebuttal	Mullinax Response to GSEC 1-97

I. INTRODUCTION AND QUALIFICATIONS

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. Have you previously submitted testimony in this proceeding?

A. Yes. We submitted joint prefiled testimony as part of the Company's April 29, 2016, filing for an increase in distribution rates. Our professional backgrounds and qualifications are contained in the prior testimony. Terms defined in our prefiled direct testimony have the same meaning in this rebuttal testimony. References to "CU" documents refer to the Company's November 21, 2016, Corrections and Updates filing.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to comment on or rebut the testimony of the following witnesses:

- Staff witness Chagnon in the area of the lead/lag study and cash working capital ("CWC") in the rate base;
- Staff witness Cunningham in the area of pension and OPEB expense; and
- Staff witness Mullinax in the areas of adjustments to rate base, adjustments to operating income, and step adjustment.

Q. Are you submitting any attachments with your testimony?

A. Yes, we are submitting the following attachments:

- Attachment SEM/HSG-1-Rebuttal, presenting updates to the revenue requirements schedules previously submitted. The attachment includes only certain schedules to demonstrate the limited changes that were made and the impact of those changes.
- Attachment SEM/HSG-2-Rebuttal through Attachment SEM/HSG-9-Rebuttal, presenting the responses of Staff to certain discovery requests made by the Company.

Q. Please summarize the results of your testimony.

A. The Company agrees with the following changes proposed by Staff, with the particular schedules where the changes appear in Attachment SEM/HSG-1-Rebuttal noted with each change:

- Change lead/lag days to 33.10 and remove depreciation expense from cash working capital (Schedule RR-5-3 (R), lines 2 and 8);
- Correct audit expense adjustment to remove over-reduction (Schedule RR-3-06 (R), line 15);
- Remove costs incurred to reduce billing backlog (Schedule RR-3-06 (R), line 9); and
- Update income tax expenses in CWC to reflect all adjustments (Schedule RR-5-3 (R), line 4).

The net impact of the above changes is a revenue deficiency (compared to revenue at present rates) of $5,678,644, which is $6,662 less than revenue deficiency reflected in the Technical Statement ("TS") of Steven E. Mullen and Howard S. Gorman dated November 18, 2016. All other changes proposed by Staff should be rejected for the reasons discussed in the Company's rebuttal testimony.

III. REBUTTAL OF STAFF WITNESS CHAGNON

Q. Please summarize the adjustments that Mr. Chagnon proposed.

A. Mr. Chagnon agreed with the Company's lead/lag study, except that he believes the study should be performed without including depreciation expense. He computed the lead/lag without depreciation expense to be 33.10 days. Chagnon Direct, Bates 000005 and Attachment RTC-3.

Q. Do you agree with Mr. Chagnon's computation?

A. The Company accepts Mr. Chagnon's computation of lead/lag days as an acceptable alternative to its computation. The Company notes that when applying Mr. Chagnon's lead/lag, it is appropriate to remove depreciation expense.

IV. REBUTTAL OF STAFF WITNESS CUNNINNGHAM

Q. Please summarize the adjustments that Mr. Cunningham proposed.

A. Mr. Cunningham proposed adjustments to remove overpayment of an invoice in the test year, to remove the capitalized portion of amortization of a deferred pension debit from the revenue requirement, and to include amortization of a deferred pension credit in the revenue requirement.

Q. What is Mr. Cunningham's proposal regarding overpayment of an invoice in the test year?

A. Mr. Cunningham correctly noted that the Company's overpayment of an invoice to MetLife is included in test year benefits expense. He proposed to reduce the revenue requirement by this amount. We note that the amount overpaid was $2,027.50, not the $2,047 amount Mr. Cunningham states in this testimony. Cunningham Direct, Bates 000008. Mr. Cunningham acknowledged this in his response to data request GSEC 1-47.[1]

[1] Attachment SEM/HSG-2-Rebuttal.

Q. Is Mr. Cunningham's proposal regarding overpaid invoices correct?

A. No[2]. The Company computed proformed pension and benefits expenses by determining the cost and expense for each employee. The Company recorded the difference between the proformed amount and the test year amount as an adjustment. Therefore, the amount in the revenue requirement is the directly computed amount of proformed costs; the overpayment that happened in the test year is not included by the Company in the revenue requirement. Attachment SEM/HSG-2 (CU), Schedule RR-3-03 (CU). Mr. Cunningham's proposal should therefore be rejected since it is based on the incorrect premise that the overpayment was included in the Company's proposed revenue requirement. If the Company were to make an adjustment to test year expense, there would be an exactly offsetting impact to the amount of the proforma adjustment, such that the revenue requirement would not change at all.

Q. What is Mr. Cunningham's proposal regarding the capitalized portion of amortization of a deferred pension debit?

A. The Company included in proformed pension expense an amount of $2,056,720, representing amortization of a deferred debit relating to pension costs that arose when Liberty Utilities acquired Granite State. Mr. Cunningham proposed to reduce the revenue requirement by an amount representing the capitalized portion of this item, which he computed to be $689,001. Cunningham Direct, Bates 000008.

[2] This issue arose in the Staff's audit of the Company. In its response to the Audit Report, the Company acknowledged the overpayment and stated that it would "adjust its rate case filing" to remove the over payment. However, as explained in this testimony, no adjustment is necessary.

Q. Is Mr. Cunningham's proposal regarding the deferred pension debit correct?

A. No. As Mr. Cunningham recognized in his testimony, the Company removed from test year expense the amount of $961,547 relating to the capitalized portion of amortization of this debit. Mr. Cunningham wrote, "the capital charge was applied to the Liberty Acquisition Debit amortization in the 2015 test year." Cunningham Direct, Bates 000008-000009, including footnote 11 ("the capitalized portion of additional pension amortization (i.e., Liberty Acquisition Debit amortization) is $961,547"). The capitalized portion (i.e., reduction of expense) is in Account 922; the total Account 922 balance in the test year is a credit balance (i.e., reduction to expense) of $4,942,763. Company response to Staff 9-12. Mr. Cunningham acknowledged this in his response to data request GSEC 1-51[3], based on the Company's response to Staff 9-12: "a portion of this account (i.e., $961,547) pertains to the Capitalized Portion of Additional Pension Amortization." Thus, the test year proformed amount (Attachment SEM/HSG-2 (CU), Schedule RR-2-1 (CU)) is the amount that is included in the revenue requirement to determine rates going forward; i.e. in the rate year. Clearly, the Company has reduced the revenue requirement to reflect the capitalized portion of the deferred pension debit.

Q. Was Mr. Cunningham issued any discovery on this issue?

A. Yes. In his responses to both questions on this topic, Mr. Cunningham mentioned the "rate year" and his view that there should be a separate calculation of the expense and capital portions of the amortization of the deferred pension debit. The term "rate year" represents the first year in which rates are in effect using the adjusted test year amounts.

[3] Attachment SEM/HSG-3-Rebuttal.

There is no separate calculation of "rate year" amounts. Mr. Cunningham's proposal would result in a double removal of the capitalized portion; once from the proformed test year amount and a second time from the "rate year," and therefore should be rejected.

Q. What is Mr. Cunningham's proposal regarding the amortization of a deferred pension credit?

A. In the test year, the Company credited to pension expense the amortization of a deferred credit relating to pension costs that arose when New England Electric System ("NEES") sold Granite State. Mr. Cunningham alleged that amortization of the credit will continue through January 2018[4] and he proposed to continue to include this credit, net of an estimated capitalized portion, in the revenue requirement. Cunningham Direct, Bates 000009-000010.

Q. Is Mr. Cunningham's proposal regarding the deferred pension credit correct?

A. No. Pursuant to the Commission's approval of the settlement agreement in Docket No. DE 13-063, the Company has already credited to customers the full amount of the deferred pension credit. The balance of the NEES deferred pension credit at the time of Liberty's acquisition of Granite State in July 2012 was $1,368,829 and amortization through December 2012 was $235,744, leaving a balance of $1,133,085 at the end of 2012. As Mr. Cunningham acknowledged in his response to data request GSEC 1-49,[5] the annual amortization that he recommended to be included in the DE 13-063 settlement

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[4] In his response to data request GSEC 1-50, Mr. Cunningham actually proposed revising the final amortization date to May 2021.

[5] Attachment SEM/HSG-4-Rebuttal.

was $355,353, reflecting the amount in the Company's original filing in that proceeding as adjusted by Mr. Cunningham to convert from a fiscal year to a calendar year. Customers received the benefit of that annual credit amortization each year since the distribution rates were adjusted effective April 1, 2014. Therefore, the deferred credit was completely amortized before the end of the 2016 test year and no credit remains on the Company's books.

Q. Mr. Mullen, did you participate in DE 13-063?

A. Yes. At that time I was a member of Commission Staff and was the Assistant Director of the Electric Division. I was the lead witness for Staff in that rate case.

Q. Was the $355,353 of annual credit amortization included in the revenue requirement that was part of the settlement agreement in that proceeding?

A. Unequivocally, yes. That is the annual amount that was included for the purpose of setting rates going forward. Since then, Granite State has not had a distribution rate case until this current proceeding. The amount returned to customers through rates each year and the amount amortized on the books of the Company since that time have remained at that same annual level, resulting in the credit being fully amortized before the end of the test year, and similarly, fully returned to customers during 2016. As stated above, until such time that rates are adjusted at the end of this proceeding, customers will continue to receive the same rate benefit.

Mr. Cunningham's proposal to continue to reduce the revenue requirement, even though the full credit has already benefitted customers, is redundant and should be rejected.

V. REBUTTAL OF STAFF WITNESS MULLINAX

Q. Please summarize the adjustments that Ms. Mullinax proposed.

A. Ms. Mullinax proposed the following adjustments:

- Adjustments to the rate base for CWC (partially from Chagnon testimony), prepayments, materials and supplies, and plant in service (from Dudley testimony); and
- Adjustments to expenses for several audit issues, labor costs, the long-term incentive plan, severance, pension and benefits (from Cunningham testimony), the Company's new Concord training center (from Iqbal testimony), costs to reduce the billing backlog, cost of changes due to employee misconduct, payroll taxes, and interest synchronization.

Proposed Adjustments to Rate Base

Q. What adjustments did Ms. Mullinax propose to CWC?

A. Ms. Mullinax proposed to use the lead/lag days proposed by Staff witness Chagnon to remove depreciation expense from the costs to which the lead/lag is applied, to remove transmission expense from the costs to which the lead/lag is applied, to remove Storm costs from the costs to which the lead/lag is applied, and to reflect adjustments to expenses and income taxes in the CWC.

Q. What were Ms. Mullinax's proposals regarding lead/lag days and depreciation expense included in CWC?

A. Ms. Mullinax proposed to use witness Chagnon's computation of lead/lag days and to remove depreciation expense from the CWC computation. Mullinax Direct, Bates 000013.

Q. Does the Company accept Ms. Mullinax's proposals regarding lead/lag days and depreciation expense included in CWC?

A. Yes. As discussed above with respect to Mr. Chagnon's testimony, the Company accepts these two related proposals for the purpose of this proceeding.

Q. Ms. Mullinax said the Company's computation of CWC is an "error" because it applied the lead/lag days to depreciation expense, among other expenses. Is Ms. Mullinax correct?

A. No. The Company and Staff use methodologies that are slightly different, but both are acceptable.[6] Staff excluded depreciation expense when computing lead/lag days and appropriately removed that expense from the costs to which the lead/lag days are applied. The Company includes depreciation expense with a lag of zero days when computing lead/lag days. As a result, the Company computes lead/lag to be 26.82 days. Attachment SEM/HSG-2 (CU), Schedule RR-5-3 (CU). However, the Company does not remove depreciation expense from costs. The two methods yield results that are close to each other. Staff's proposal applied a greater lag to a lower cost, while the Company's proposal applies a smaller lag to a higher cost.

Q. What is Ms. Mullinax's proposal regarding transmission expense in the CWC?

A. Ms. Mullinax proposed to remove transmission expenses from the computation of CWC because "this is a Distribution rate case." Mullinax Direct, Bates 000015.

[6] Mr. Chagnon confirmed this fact in his response to data request GSEC 1-42 in which he stated that the stand-alone impact to cash working capital of including depreciation expense at zero lead/lag days is zero dollars. Attachment SEM/HSG-5-Rebuttal.

Q. Is Ms. Mullinax' proposal regarding transmission expense in the CWC appropriate?

A. No. Ms. Mullinax's proposal ignores the current status of Granite State's retail transmission component and the current method of recovery of CWC associated with transmission expenses. The Company does not recover the CWC associated with transmission expense through its transmission rates because there is no working capital component in its transmission cost adjustment mechanism. Consistent with the Company's prior distribution rate proceeding, Docket No. DE 13-063, transmission expenses were kept in the calculation of CWC because the transmission component of rates does not include a working capital component. At the time of that rate proceeding, there was no requirement in the Commission's rules for a lead/lag study for the purposes of determining CWC. Thus, the total number of lead/lag days applied to transmission and distribution expenses was the same. The same approach was applied in this case, with the exception that there is now a requirement for a lead/lag study in the Company's distribution rate case. In preparing this rebuttal testimony the Company reviewed the leads and lags associated with transmission revenues and expenses and determined that the net lead/lag is very nearly the same (actually slightly higher) for transmission versus distribution. Therefore, as there is currently no other recovery of the cash working capital associated with transmission expenses, the lead/lag days computed (either by the Company or by Mr. Chagnon) should be applied to expenses including transmission expenses. Transmission expenses would only be removed from the CWC computation in this docket if a working capital component were to be added to its annual transmission rate filing.

Q. What is Ms. Mullinax's proposal regarding storm costs in the CWC?

A. Ms. Mullinax proposed to remove storm costs from the computation of CWC. She agreed with the Company that because the actual storm costs vary from year to year, an average amount is in the revenue requirement. She alleged, "the Company did not address the issue that it will pay for these storm repair costs with funds it has already received through the ratepayers' annual funding of the storm costs." Ms. Mullinax concluded that the amount in the revenue requirement is an accrual and "Staff believes that it is not appropriate to include non-cash accrual in cash working capital." Mullinax Direct, Bates 000014.

Q. Is Ms. Mullinax's proposal regarding storm costs in the CWC correct?

A. No. The amount of storm costs included in the revenue requirement represents the average annual amount that the Company will spend. Ms. Mullinax is incorrect in her response to data request GSEC 1-90 that "the costs incurred for storm costs are reimbursed through the ratepayer provided Storm Fund and are not funded through the Company's internal cash resources."[7] There is no separate charge for the Storm Fund. Storm costs are no different from any other cost item included in the revenue requirement, except for the variability from year to year. The Storm Fund only measures the annual difference between the amount included in rates and the actual costs. The Company includes a carrying cost credit for the benefit of customers on the balance in the

[7] Attachment SEM/HSG-6-Rebuttal.

Storm Fund, which addresses the fact that the annual storm costs vary greatly from year to year. Ms. Mullinax' proposal is incorrect and should be rejected.

Q. What are Ms. Mullinax's proposals to reflect adjustments to expenses and income taxes in the CWC?

A. Ms. Mullinax proposed to adjust the CWC computation to reflect all final expense adjustments and to reflect the final income tax expense. Mullinax Direct, Bates 000013, lines 3-10 and Bates 000015, lines 6-7.

Q. Does the Company accept Ms. Mullinax's proposals to reflect adjustments to expenses and income taxes in the CWC?

A. Yes. It should be noted that the amount of income taxes included in the CWC is determined through an iterative calculation, which must be updated when all other adjustments are final. This adjustment is consistent with the approach taken by the Company in its original and updated filings.

Q. What is Ms. Mullinax's proposal regarding prepayments in rate base?

A. Ms. Mullinax proposed to remove from rate base the Prepayments amount, which is the five-quarter average balance. She apparently believes the Company is "prepaying these items, as opposed to leaving the funds in cash until the expense is due to be paid," and therefore charging customers the cost of capital while forgoing only interest earned on Treasury bills or similar assets, which is much lower. Mullinax Direct, Bates 000015.

Q. Is Ms. Mullinax's proposal regarding prepayments in rate base correct?

A. No. The balance in Prepayments does not reflect an arbitrage by the Company, which Ms. Mullinax seems to imply. The Company pays its bills when due, not before. Items are recorded as prepayments when the period that is benefitted occurs after the payment is made (e.g., property tax payments). The CWC component of rate base measures the period starting when bills are received and ending when they are paid. Underlying this is the assumption that the benefits were received at the time the bills were received. Including prepayments in rate base measures only the additional period, when necessary, starting when bills are paid and ending when the benefits are received. Ms. Mullinax's proposal is incorrect and should be rejected.

Q. What is Ms. Mullinax's proposal regarding materials and supplies in rate base?

A. Ms. Mullinax proposed to remove from rate base a portion of materials and supplies, representing a purchase of cable made in 2014 but not used on a construction project until 2016. She maintained that the balance in Materials and Supplies was unusually high and that including the cable in rate base is the same as including CWIP, which is prohibited under state law. Ms. Mullinax also alleged, "the Company may have failed to use reasonable care in keeping its M&S costs low." Mullinax Direct, Bates 000020.

Q. Is Ms. Mullinax's proposal regarding Materials and Supplies in rate base correct?

A. No. The Company maintains inventories, including the cable discussed here, in order to meet its operating requirements without delay. If the Company were to order repair materials each time there is an outage, customers could be without service for extended periods. Similarly, the Company stages materials so that projects can be completed without delay. If a large project were on hold awaiting a delivery of cable, the additional AFUDC (which is recorded by the Company in accordance with Commission regulations) would likely far exceed the carrying cost of having cable on hand. Ms. Mullinax's proposed adjustment is at odds with how the Company operates and at odds with the interests of customers and the obligation to provide reliable service due to the potential additional time needed to acquire the necessary materials and supplies for capital projects. Therefore, the proposal should be rejected.

Q. What is Ms. Mullinax's proposal regarding plant in service?

A. Ms. Mullinax adopted Staff witness Dudley's proposed adjustments to plant in service. Mullinax Direct, Bates 000021.

Q. Do any Company witnesses address the adjustments proposed by Mr. Dudley?

A. Yes. The joint rebuttal testimony of Company witnesses Mr. Brouillard, Ms. Sanderson, and Mr. Tremblay addresses Mr. Dudley's proposed adjustments to plant in service. For the reasons set forth in that testimony, the proposed adjustment should be rejected.

<u>Proposed Adjustments to Expenses</u>

Q. What adjustments did Ms. Mullinax propose to operating expenses?

A. Ms. Mullinax proposed adjustments to expenses for several items arising from the audit, payroll expense, long-term incentive plan, severance and employee misconduct, pension and benefits (from Cunningham testimony), the Company's new Concord training center (from Iqbal testimony), payroll taxes, and interest synchronization.

Q. What adjustments did Ms. Mullinax propose for items arising from the audit?

A. Ms. Mullinax proposed the following adjustments for items arising from the audit (Mullinax Direct, Bates 000022-000024):

- Remove the cost of employee appreciation luncheons;
- Add back to expense to correct an adjustment by the Company;
- Remove an intercompany charge; and
- Reduce expense due to overpayment of an invoice in the test year.

Q. Please discuss Ms. Mullinax's proposals for items arising from the audit.

A. We discuss each item below and indicate whether the adjustment is correct:

- Cost of employee appreciation luncheons. As stated in the Company's response to the audit, this is a low-cost way of maintaining employee morale. It is a typical business expense and the amount of $2,136 is modest. Ms. Mullinax acknowledged in her response to data request GSEC 1-96,[8] that Staff is not aware of any Commission order, rule, or state law that precludes the recovery of the cost of employee appreciation luncheons. Rather, in her rebuttal she simply stated that Audit Staff reiterated its position that the cost be moved below the line. There is no basis provided for such a position, nor is there any claim that the cost was imprudently incurred. The proposed adjustment would be equivalent to micromanaging the business and should be rejected.
- Adjustment by the Company for employee travel and expense. The Company agrees with Ms. Mullinax that its Corrections and Updates filing removed $925 from expense when only $425 should have been removed.
- Intercompany charge. This adjustment was for $457 and is the sum of two items. One charge for $129 was Granite State's allocated portion of a contractor charge of IT-related quality assurance services. The other charge was for $328 and as

[8] Attachment SEM/HSG-7-Rebuttal.

explained in the Company's response to the audit that is provided in Ms. Mullinax's Attachment DHM-8 at Bates 000083 - 000084, the costs were from SAVVIS Communications Corp., a subsidiary of CenturyLink, who "sells managed hosting and colocation services with more than 50 data centers." There is nothing about the nature of these costs that suggests they should not be included in the revenue requirement, so the adjustment proposed by Ms. Mullinax should be rejected.

- Overpayment of an invoice in the test year. This item is discussed above in connection with the testimony of Mr. Cunningham. As indicated there, the proposed adjustment is incorrect and should be rejected.

Q. What adjustments did Ms. Mullinax propose relating to Payroll expense?

A. Ms. Mullinax proposed to remove the increase in Payroll expense between the Company's original filing and its TS dated November 18, 2016. Ms. Mullinax referred to this as "New Hires," although it includes other changes related to labor costs. Ms. Mullinax stated that the increase in the number of New Hires and the cost is "unexplained," because she claimed that the Company did not discuss the increase during discovery or in the TS. Mullinax Direct, Bates 000026-000028.

Q. Did the Company discuss the increase in payroll during discovery or the TS?

A. Yes, the Company discussed the increase in both discovery and in the TS. In its response to Staff 10-1, the Company stated it would be hiring additional employees and the cost would be reflected in the Corrections and Updates filing. In its response to Staff 10-3, the Company discussed certain transfers. In the TS, item 12, Update Labor Costs, the Company also discussed the changes.

Q. What is the amount of the adjustment that Ms. Mullinax proposed?

A. Ms. Mullinax proposed to reduce the revenue requirement by $458,719. This is the difference between the original filing and the TS for the amounts shown on Schedule RR-3-01, line 22.

Q. Did the Company's Payroll expense increase by $458,719 between the original filing and the TS?

A. No. The overall increase in Payroll expense was $194,049, which is the difference between the original filing and the TS for the amounts on Schedule RR-3-01, line 30.

Q. Please discuss the reasons for the $194,049 increase in payroll expense between the original filing and the TS.

A. The overall increase reflects new hires identified after the Company's original filing. This is the net effect of the changes listed below. All amounts reflect the portions of salaries charged to Granite State less amounts capitalized. References are to Schedule RR-3-01 contained in the CU filing.

- Changes to the Labor Complement at 12/31/15 (line 17) due to elimination of positions and terminations: $(264,000)
- New Hires for 2016 (line 22), reflecting replacements as well as hires for new positions: $458,000

Q. Is Ms. Mullinax's proposed adjustment for payroll expense correct?

A. No. First, the bulk of the increase on line 22 reflects replacements for terminations that are reflected in the decrease on line 17. The net increase in payroll expense (line 30) was

$194,000, reflecting new hires identified since the original filing. The Company has provided information on these New Hires, and the Company's TS filing reflects its best estimate, at the time of the filing, of the run-rate payroll expense it will incur each year. Ms. Mullinax's proposed adjustment selectively ignores information, provides an incorrect picture of the Company's ongoing payroll expense, and should be rejected.

Q. What adjustments did Ms. Mullinax propose relating to the Long Term Incentive Plan ("LTIP")?

A. Ms. Mullinax proposed to remove 85% of the cost of the LTIP. She claimed that this portion, which reflects efficiency goals including business profits, net earnings before taxes, and return on assets, "are for the benefit of shareholders." Mullinax Direct, Bates 000032-000033.

Q. Is Ms. Mullinax's proposal relating to LTIP correct?

A. No. The LTIP is part of the Company's total compensation package and is necessary and appropriate for attracting and retaining good employees. The purpose of the goals to which Ms. Mullinax objects is to meet, with existing resources, the rate of return authorized by the Commission. Providing employees an incentive to do so without additional rate relief benefits customers because it provides an incentive to reduce costs. Ms. Mullinax's proposed adjustment is counterproductive and would harm customers in the end, and should be rejected.

Q. What adjustments did Ms. Mullinax propose relating to severance and employee misconduct?

A. Ms. Mullinax proposed to remove the cost of severance paid as a result of releasing employees due to job performance or a decision to make leadership changes, because the expenses are non-recurring. She also proposed to remove the costs related to hiring and terminating certain employees who were terminated for employee misconduct. Mullinax Direct, Bates 000033-000035.

Q. Are Ms. Mullinax's proposals relating to severance and employee misconduct correct?

A. No. Changes in personnel are a normal part of business, and severance payments are sometimes needed to make the process more efficient, less time-consuming, and often less costly for management. Although the payments to specific employees are non-recurring, changes in personnel and the need for severance payments are a typical business cost. In addition, the Company should not be penalized for costs involved in hiring of employees who ultimately are terminated. The implication that the Company must never encounter a situation in the normal course of business where an employment situation must be addressed is unreasonable and unrealistic. The Company is fulfilling its responsibility by terminating employees when necessary and should not be required to absorb the costs of making a necessary change. In her response to data request GSEC 1-99,[9] Ms. Mullinax acknowledged that making these changes are in the interest of customers. Disallowing the recovery of the costs of taking such actions would be

[9] Attachment SEM/HSG-8-Rebuttal.

counterproductive and could result in higher costs to the Company. The costs incurred by the Company are not unusual in nature or amount, and by paying severance, the Company can mitigate risks and reduce time spent on these matters. Ms. Mullinax's proposed adjustment would substitute her judgment for management's judgment as to the most efficient and effective way to accomplish these changes. Moreover, she is making that determination without any of the background information available to management on the particular employment situations. The proposed adjustment is not appropriate and should be rejected.

Q. What adjustments did Ms. Mullinax propose relating to pension and benefits?

A. Ms. Mullinax reiterated (in order to support her schedule of adjustments) the pension and benefits adjustments proposed by Mr. Cunningham. Mullinax Direct, Bates 000034.

Q. Does any Company witness address the pension and benefits adjustments proposed by Mr. Cunningham?

A. Yes. As stated above in our testimony, all of the Staff's proposed pension and benefits adjustments are inappropriate and should be disregarded.

Q. What adjustments did Ms. Mullinax propose relating to the Concord Training Center?

A. Ms. Mullinax reiterated (in order to support her schedule of adjustments) the adjustments proposed by Mr. Iqbal. Mullinax Direct, Bates 000034.

Q. Does any Company witness address the Concord Training Center adjustments proposed by Mr. Iqbal?

A. Yes. Company witnesses Smith and Mullen address Mr. Iqbal's proposed adjustments in their rebuttal testimony. For the reasons set forth in that testimony, the proposed adjustment should be rejected.

Q. What adjustments did Ms. Mullinax propose relating to costs the Company incurred to reduce the billing backlog?

A. Ms. Mullinax proposed to remove $34,465 of costs incurred to reduce the billing backlog, because the costs are not recurring. Mullinax Direct, Bates 000034.

Q. Does the Company accept this adjustment?

A. Yes.

Q. What adjustment did Ms. Mullinax propose relating to payroll taxes?

A. Ms. Mullinax proposed to adjust payroll taxes to reflect any final adjustments to payroll expense. Mullinax Direct, Bates 000036.

Q. Is Ms. Mullinax's proposal relating to payroll taxes correct?

A. Yes. The Company agrees that payroll taxes should be adjusted to reflect any final adjustments to payroll expense. This adjustment is consistent with the approach taken by the Company in its original and updated filings.

Q. What adjustment did Ms. Mullinax propose relating to Interest Synchronization?

A. Ms. Mullinax proposed to adjust Interest Synchronization to reflect any final adjustments to rate base and to cost of capital. Mullinax Direct, Bates 000036.

Q. Is Ms. Mullinax's proposal relating to Interest Synchronization correct?

A. Yes. The Company agrees that Interest Synchronization should be adjusted to reflect any final adjustments to rate base and to cost of capital. This adjustment is consistent with the approach taken by the Company in its original and updated filings.

Q. Did Ms. Mullinax make any other comments in her testimony that you would like to address?

A. Yes. Using the Staff's report of its audit of the Company at Bates 000025 of her testimony, Ms. Mullinax commented on a $16.7 million payroll total that appeared on Schedule RR-3-01 in the Company's April 29, 2016, filing and made the mistaken claim that the amount could not be verified. The fact of the matter is that neither the Audit Staff, nor Ms. Mullinax asked any questions during the course of the audit or discovery specifically seeking to tie out the $16.7 million.[10] The Company indicated in several discovery responses that payroll-related costs and adjustments were determined on an employee-by-employee basis. If the Company had been asked to provide that information, it would have.

[10] See the "Company Response" portion of Ms. Mullinax's Attachment DHM-8, page 9 of 13, Bates 000087 as well as Attachment SEM/HSG-9-Rebuttal, Ms. Mullinax's response to data request GSEC 1-97.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.