

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

In the matter of:)
DE 16-383)
Liberty Granite State Electric Corp)
2016 Rate Case)

Direct Prefiled Testimony

Of

**James Brennan
Finance Director**

**On behalf of
The New Hampshire Office of the Consumer Advocate**

Dated: **December 16, 2016**

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SECTION I. Introduction

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

A. My name is Jim Brennan. I am the Finance Director at the New Hampshire Office of the Consumer Advocate (OCA). My business address is 21 South Fruit Street, Suite 18, Concord, New Hampshire.

Q. Please describe your education and professional experience.

A. I earned a Bachelor degree from Saint Bonaventure University and an MBA in Finance Syracuse University in 1980. I completed a nine month JP Morgan Chase (formerly Chemical Bank) MBA Management Training Program. I have completed additional courses in business, finance, software development, electric utility regulation, regulatory finance and accounting, and Smart Grid.

In my present position at the OCA I perform economic and financial analysis of utility filings across all industries, draft discovery and testimony, and provide guidance on financial policy and regulatory issues.

My business career began in banking as First Vice President at Chemical Bank, 1980-1989, with responsibilities as analyst, credit department manager, account relationships, and course designer and instructor of Risk Assessment training. I have experience managing business and technology operations. At TD Waterhouse Securities,

1 1995-2001, I ran the third largest brokerage statement operation on
2 Wall Street during a period of 400% growth with responsibilities for
3 budget, operations, Information Technology data processing and New
4 York Stock Exchange Compliance. Waterhouse's statement was
5 awarded #1 ranking by Smart Money during my assignment. I have
6 experience in IT project management and software design. Experience
7 includes: implementation of paperless technology in Waterhouse
8 Security National Investor Clearing Corporation stock clearing
9 operation (2000); managing launch of an eServices web site providing
10 on-line secure access of brokerage statements to 2.5 million
11 Waterhouse clients (2001); designing Microsoft.NET and SQL Server
12 based software systems for Mathematica Policy Research 2003-2006;
13 directing design testing and launch of cloud based Microsoft Customer
14 Relationship Management (CRM) applications for Southern New
15 Hampshire University (2012-2013). I have designed and taught courses
16 in Corporate Finance, Microsoft applications and Microsoft C#
17 programming language.

18 **Q. Have you previously provided testimony before the New Hampshire**
19 **Public Utility Commission?**

20 A. Yes.

21 **Q. In which dockets did you testify?**

1 A. I provided testimony before the Commission in the following dockets:

- 2 • DE 10-055 Unitil, Inc., rate case testimony assessing the company's smart
3 grid investments ;
- 4 • DE 13-177 Public Service Company of New Hampshire (PSNH), testimony
5 regarding Least Cost Integrated Resource Planning;
- 6 • DE 14-120 Public Service Company of New Hampshire (PSNH), testimony on
7 reconciliation of the company's energy service costs;
- 8 • Pennichuck Water Works, Inc., this case dealt with the company's revenue
9 deficiency.
- 10 • DG 15-090 Northern Utilities, Inc., testimony on design of interstate pipeline
11 refund in cost of gas rates;
- 12 • DE 11-250 Public Service Company of New Hampshire (PSNH), testimony
13 (adopted) on investigation of Merrimack Station scrubber project cost
14 recovery;
- 15 • DE 14-238 Public Service Company of New Hampshire (PSNH), testimony
16 on divestiture of PSNH generation assets;
- 17 • DE 15-137 Energy Efficiency Resource Standard, testimony on utilities
18 empowering residential customer through modern electronic data platforms;
- 19 • DE 16-384 Unitil Energy Systems Inc., testimony on company pilot to design a
20 utility energy data sharing platform;

21

22 **Q. Have you provided public comments to the Commission?**

23 A. Yes, I provided public comments on following docket:

- 24 • IR 15-296 Grid Modernization, comment on definition and elements of grid
25 modernization;

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

27 A. The purpose of my testimony is to review the filing and determine how
28 the company is performing in the 2015 test year and the prior three
29 years, and to make a recommendation based on that analysis. My

1 analysis is based on peer benchmark performance comparisons with
2 Liberty.

3 **Q. Why is it beneficial to review Liberty's performance relative to other**
4 **peer utilities?**

5 A. Beyond the traditional cost of service revenue requirement analysis
6 that will be filed by PUC Staff, it is critical at this point in time to step
7 back and assess the Company's success in eliminating the problems
8 that contributed to major performance issues that occurred during the
9 three-year transition period which ended in 2014. It is a significant fact
10 that test year 2015 represents the Company's first full year of
11 independence from National Grid support. My testimony compares
12 Liberty to peers defined by the Company (Unitil) and by the OCA (my
13 three peer group definitions are included in Section IV Peer Analysis
14 Methodology of my testimony). As I will discuss in my testimony,
15 there exist significant differences between Liberty and its peers. I
16 analyze Liberty's Operations and Maintenance (O&M) Costs,
17 Distribution Plant growth, and reliability and I compares Liberty's
18 performance to peer benchmarks using FERC Form 1 data except where
19 specifically stated in my analysis. By design my peer analysis is
20 performed at a less granular level than a traditional account by account
21 cost of service analysis. As a result I believe my analysis succeeds in

1 establishing the “bigger picture” as to how Liberty is performing
2 relative to its peers.

3 **Q. Please provide an overview of your testimony.**

4 Three driving factors have influenced my testimony – Liberty’s
5 difficult transition to its new owner, Liberty’s emergence from
6 National Grid support in 2015, and Liberty’s proposal for a multiyear
7 capital step adjustment. I discuss these driving forces later in my
8 testimony and explain how they influenced my approach. Based on my
9 review of the Liberty’s FERC operating statement and balance sheet
10 (FERC Form 1 statement), I have identified O&M costs, and
11 Distribution Plant Assets as the two areas I will analyze in detail.
12 These two sets of accounts have increased 21% and 51% respectively
13 since the acquisition and are discussed in Section III FERC Account
14 Peer Comparisons.

15 After selecting O&M costs and plant growth as my focus, I analyzed
16 these accounts using an alternative approach which I discuss in Section
17 I (Introduction). The approach analyzes Liberty’s O&M costs and
18 Distribution Plant growth (discussed in Section III) by comparing their
19 O&M Costs and Distribution Plant growth to a set of carefully
20 developed peer-groups. All data is based on self-reported FERC Form 1
21 reports. Importantly, performing the peer analysis avoided some of the

1 significant data challenges that exist with Liberty, which I discuss in
2 detail in Section II that discusses Liberty Utilities' financial data. My
3 reasoning for performing peer comparison analysis over a traditional
4 utility analysis is described further in this Introductory sections . In
5 brief, my reasoning stems from the strong belief that after three years
6 of difficult transition, now is a critical time to evaluate Liberty as a
7 self-sufficient electric distribution IOU (investor owned utility) - free
8 of support from National Grid for the first time beginning in 2015. I
9 also look at the potential benefits of Liberty's increased spending and
10 increased Distribution Plant. To do this I compare Liberty's reliability
11 results to those of other utilities in the region. Reliability is discussed
12 in Section V. The results and findings of my peer comparison analysis
13 are presented in Sections VI Section VII findings. I summarize and
14 provide my recommendation is contained in Section VIII.

15 **Q. How is your testimony organized?**

16 I have divided my testimony into eight sections. The contents of those
17 sections are briefly discussed below.

18 Section I. Introduction: I introduce OCAs analytical approach in this
19 docket. This approach is that of benchmark comparisons. My analysis
20 compares Liberty's performance to utilities in peer groups. The scope
21 includes all years since the acquisition. I discuss the driving factors for
22 choosing this alternative approach.

1 Section II. Liberty Financial Data: I discuss data inconsistencies in
2 Liberty’s FERC reports and the rate case filing that hinder traditional
3 analysis. Data inconsistency was an important factor prompting the
4 alternative approach I discuss in the introductory section.

5 Section III. FERC accounts used for Peer Comparison: In this section I
6 discuss which FERC accounts on the operating statement and on the
7 balance sheet will be compared, and discuss why the OCA’s two areas
8 of focus are O&M expense and Distribution Plant growth as shown in
9 Charts 1 and 2 and listed in Attachment JJB-2” “FERC Accounts Used
10 in Peer Benchmark .”

11 Section IV Peer Comparison Methodology I explain the peer
12 benchmarks used to assess O&M costs and Distribution Plant Asset
13 growth. I also discuss why three different peer groups are used
14 (national, regional, and by customer concentration) and how they are
15 designed.

16 Section V Liberty Reliability: Recognizing that there are potential
17 reliability benefits realized by Liberty’s increased spending and capital
18 expansion, this section compares Liberty’s reliability record in 2013 to
19 2016 with the regional peer group which includes electric IOUs
20 (investor owned utilities) in Maine, New Hampshire and Vermont.

1 Section VI Finding #1 O&M Costs: I discuss how Liberty's O&M costs
2 outlined in Section III compare to the peer groups.

3 Section VII Finding #2 Growth Rate of Gross Plant Assets: I discuss
4 how Liberty's growth in utility plant outlined in Section III compares
5 to all US Electric IOUs.

6 Section VIII Summary and Recommendation: I summarize Liberty's
7 high operating costs and high growth rate in distribution plant. I
8 summarize the OCA's concerns with Liberty's multiyear capital
9 expenditure tracking proposal and provide my recommendation.

10 **Q. What driving factors are key to your testimony?**

11 A. There are three driving factors that are key to my testimony.

12 First, it is well documented that the Company had experienced major
13 operational, information technology and customer service problems
14 immediately following its acquisition by Liberty Utilities in July 2012.
15 The seriousness of these events precipitated a PUC investigation of
16 portions of Liberty's operations that concluded with the August 8, 2016
17 Liberty Consulting Group's report titled "Management and Operations
18 Audit of the Customer Service and Accounting Functions of Liberty
19 Utilities" (referred to as "2016 Management Audit" in my testimony).
20 Section III of the 2016 Management Audit reports significant

1 deficiencies in Liberty’s planning and capital budgeting¹. Yet, in this
2 environment of poor management controls, Liberty was expanding its
3 Distribution Plant Assets faster than almost all other electric utilities in
4 the US². There is evidence that some investments were poorly tracked.
5 Consequently, significant cost overruns occurred. The risk of excessive
6 and impudent investments falls on ratepayers these if these
7 investments are added to 2015 test year rate base.

8 Second, this docket represents the Commission’s first opportunity to
9 review Liberty’s success as a standalone electric IOU. Four years
10 following its difficult acquisition and transition, Liberty should no
11 longer be operating or working in a “utility startup” mode.³ Section II
12 Liberty Financial Data includes a description of the scope of functions
13 Liberty developed while National Grid was providing TSA⁴ support.
14 Importantly, test year 2015 is Liberty’s first full year without TSA
15 support.

1 “The New Hampshire capital budget packages do not provide detailed business case analysis for the growth, discretionary and regulatory supported projects as specified in the applicable Capital Expenditure Policy (Recommendation 2)” Liberty Consulting 2016 Management Report, Section III Planning and Budgeting Page III-26

2 Section II Finding #2 Growth of Gross Distribution Plant of my testimony discusses Liberty’s growth in distribution plant assets

3 The Company describes its transition years as working as a startup. Reference attachment JJB-7 OCA 4-7

4 Transaction Service Agreement (TSA) facilitated certain parts of Liberty’s system to be run by National Grid for a period of time following the acquisition. TSAs and TSA costs are discussed in Section II of my testimony

1 Third, the Company's data quality, also discussed in Section II, has
2 hindered analysis and lowered the visibility of the Company's
3 operating performance. Liberty's accounting methods and systems, the
4 engine used to organize and present data to the Commission and to
5 FERC, underperform. Chapter V of the 2016 Management Audit
6 summarized accounting issues relevant to data problems which I
7 discuss in Section II. These issues include poor documentation of
8 financial systems,⁵ poor integration and poor data flow documentation
9 between back office systems and the general ledger system.⁶ The 2016
10 Management Audit recommendation includes that Liberty creates
11 accounting manuals and improves accounting procedures.⁷ The
12 deficiencies outlined in the 2016 Management Audit partly explain
13 data inconsistencies in the Company's financial statements in years
14 2012 to 2015.

15 **Q. How did these three driving factors influence your analytical**
16 **approach?**

5 "Gaps exist in documentation of the financial system" (Recommendation 3 and 4);

6 (discussing undocumented data flows between the Cogsdale CIS system and the GP General Ledger system) "these instances occurred for three reasons: a failure to update the chart of account mapping table within, (b) incorrect General Ledger codes in the chart of accounts" Liberty Consulting 2016 Management Report, Section V Accounting Page V21

7 "Complete and keep current a formal accounting manual that includes supporting accounting procedures. (Conclusion 1)" Liberty Consulting 2016 Management Report, Section V Accounting Page V21

1 A. For reasons discussed later in my testimony, the OCA has chosen an
2 alternative approach in this docket to provide additional insights to
3 the Commission about Liberty and the extent to which the Commission
4 should rely on the Company's filing as the Commission exercises its
5 responsibility to fix rates at a just and reasonable level. At the same
6 time, the OCA expects Staff's traditional cost of service revenue
7 requirement analysis will provide an appropriate framework for
8 reviewing the rate increase request in this docket.

9 **Q. Please summarize your alternative approach in greater detail.⁸**

10 A. Liberty's O&M expense increases and their high growth rate in
11 Distribution Plant Assets are major issues. My testimony presents an
12 alternative approach to reviewing O&M expense levels and
13 Distribution Plant Asset growth rates. My analysis compares Liberty's
14 performance to peer group utilities, based on FERC account data.
15 Benchmark metrics are created using peer utilities O&M expense levels
16 and peer utilities growth rates in Distribution Plant Assets. The same
17 metrics are calculated for Liberty, and for Unitil.⁹ Metrics are

8 Refer to Section IV Peer Analysis Methodology of my testimony for complete description of methodology.

9 Unitil peer comparisons are included in my analysis based on feedback from Company. Section IV Peer Analysis Methodology of my testimony discussion of peer group design.

1 constructed to ensure they are normalized,¹⁰ to allow comparison. Any
2 significant difference between Liberty and the peer group metrics
3 provides a good check of whether Liberty is performing demonstrably
4 better or worse than the peer(s). The six bar charts that I review in
5 Sections VI and VII indicate that there are significant differences
6 between Liberty and the peer group(s) with respect to the metrics
7 examined. These significant differences between Liberty and the peer
8 group(s) are easily identifiable in Figures 1 to 6 included in Sections VI
9 and VII findings of my testimony. I repeat the peer benchmark
10 analysis for each year 2010 to 2015.¹¹ Having six years of peer
11 comparison results provides context, trends, data smoothing to a
12 degree, and insight to Liberty's performance from the acquisition
13 through the 2015 test year.

14 **Q. What are your reasons for choosing the peer-benchmark approach?**

15 A. This approach was chosen for three reasons:

10 Normalization in my testimony means presenting data on a per unit basis (by customer) or by percentage change, in order to facilitate comparison between utilities and between years.

11 The six year benchmark process creates six sets of bar charts – one for each year.

1 First, the OCA sought a method that would fairly evaluate Liberty's
2 performance before, during and after the acquisition transition.¹² The
3 peer-benchmark approach uses "Summary Data",¹³ from FERC Form 1
4 filings, which reduces the distorting effects of Liberty's accounting
5 inconsistencies.¹⁴ Analysis at the Summary Data level excludes some of
6 the effects of accounting adjustments by Liberty and other utilities.¹⁵

7 In addition, Summary Data analysis also excludes some (not all) of
8 these distorting effects as reflected in Liberty's assertion that a
9 comparison of its 2015 O&M costs and Administrative Costs to past
10 years is "not meaningful" due to TSA accounting,¹⁶ due to start up
11 challenges, and due to movement of payroll between accounts in 2014-
12 2015 (reference Attachment JJB-7 OCA 4-7).

12 Regarding performance in year 2011, which is prior to the 2012 acquisition, National Grid is the entity (owner) being evaluated, not Liberty.

13 For my analysis Summary Data means Sub-Total or Total amount of the individual O&M expense accounts (FERC 580,581...) or individual distribution plant assets accts (FERC 360,361,361). An example of Summary Data is seen Section III FERC Accounts used for Peer Comparisons. For 2015 \$7,022,450 is summation of the 19 FERC accounts listed in rows above.

14 Section II Liberty Financial Data of my testimony discusses data issues relative to Liberty.

15 recognize accounting changes and adjustments exist across all utilities and accounting policies among utilities also differ.

16 Section II Liberty Financial Data discusses Transaction Service Agreements (TSAs) and National Grid's role in supporting Liberty's operations between 2012 and 2014.

1 Second, according to Liberty, it no longer is operating as a “utility
2 startup.” - Therefore a comparison of performance to other utilities is
3 fair and appropriate at this time. More efficiencies should exist after
4 four years of ownership and massive new capital expenditures. The
5 Company should demonstrate cost declines, or at least cost
6 stabilization, now that the acquired company is fully integrated.

7 Third, Liberty has proposed future revenue increases tied to future
8 growth in Distribution Plant Assets out to 2021. A capital tracking
9 mechanism paves the way for rate increases tied to new plant
10 additions. Comparing Liberty’s track record of increases in O&M costs
11 and Distribution Plant growth rate to that of its peer utilities is a valid
12 undertaking prior to approving continuation of current practices.

13 **SECTION II Liberty Financial Data**

14 **Q. Please discuss data issues in the Company’s filing.**

15 A. The Company’s self-reported FERC Form 1 historical filings from 2012
16 to 2015, and the Company’s revenue requirement schedules contained
17 in the April 29, 2016 original filing in this rate case, are very difficult
18 to analyze. Inconsistencies in how financial data is accounted for,
19 reported and presented, - coupled with recurring accounting impacts
20 stemming from Liberty’s 2012 acquisition, make it difficult to analyze

1 how the Company is truly performing and whether recommendations
2 in the 2016 Management Audit are followed and effective.

3 **Q. Explain your reasoning for concluding the Company's data is**
4 **difficult to analyze.**

5 A. Three factors present analytical hurdles to understanding the
6 Company's performance:

- 7 1. 2015 General Ledger (GL)-Test Year;
- 8 2. Transition Service Agreement Costs (TSA Costs); and
- 9 3. Accounting adjustments.

10 **Q. Why is GL Test Year data (called Historic Year Ended in the filing) a**
11 **hurdle to understanding their operational performance?**

12 A. The 2015 test year uses data from the Company's internal general
13 ledger. The test year is labeled "Historic Test Year Ended Dec. 31,
14 2015" in the schedules. According to the Company, "in some cases, due
15 to the specifics of the FERC report, the presentation differs."¹⁷ To an
16 analyst, this "presentation" difference, which I've referred to as a data
17 inconsistency, requires an added layer of analysis to understand
18 operating expenses proposed for recovery. In addition, the
19 presentation difference in the Historic Test year data and FERC data
20 automatically hinder direct comparison of the Company's Historic

17 reference attachment JJB-5 OCA 1-8.

1 Year Ended data in the filing to the Company's prior year FERC Form 1
2 filing. This results in distortions in trend analysis, which is a crucial
3 analytical step in utility financial analysis

4 **Q. What are Transition Service Agreements (TSAs) and TSA costs?**

5 A. Multiple Transition Service Agreements were in effect following the
6 acquisition between National Grid, the former owner of Granit State
7 Electric Corporation (GSEC), and Liberty, which acquired Energy
8 North Gas (ENG) and GSEC. TSAs were contractual requirements of
9 National Grid to run parts of GSEC operations while the Company was
10 building, testing and deploying its own internal capability to run an
11 electric IOU. To varying degrees, TSAs covered major functional areas
12 including operations, energy procurement, customer service,
13 information technology, finance, planning, administration, regulatory,
14 human resources, and legal. Separate TSAs existed across many of
15 these areas and expired over time as Liberty and GSEC functionally
16 came on line in years between years 2012 and 2014. The last TSAs
17 ended in 2014. TSA costs are fees paid by the Company to National
18 Grid relative to TSA agreements for years 2012 to 2014.

19 **Q. Why are TSA costs in prior years a hurdle to understanding the**
20 **Company's performance in 2015 if they were not being incurred in**
21 **2015?**

1 A. Costs for tasks performed under TSA and after the expiration of TSA
2 (performed by GSEC) are accounted for differently. TSA costs are not
3 mapped consistently to the same account year to year. This creates
4 difficulty analyzing costs over a range of years. In addition, the costs
5 to perform a task under a TSA were set based in part on National
6 Grid's cost structure, that does not exist today. As a result, to some
7 unknown extent, distribution operations related expenses and
8 administrative and general expenses are inconsistently presented for
9 years 2012 to 2015.

10 **Q. Why are accounting adjustments in years 2012 to 2015 a hurdle to**
11 **understanding the Company's performance?**

12 A. Accounting adjustments create data inconsistencies and can lead to a
13 wrong conclusion or misunderstanding as to why an expense level has
14 changed. The Company's books are impacted by acquisition
15 adjustments as well as numerous other changes in how expenses are
16 accounted for internally and on the FERC Form 1. Acquisition
17 adjustments have occurred in years 2012 and 2013 (Reference
18 Attachment JJB-3 OCA 1-6). Acquisition adjustments are not well
19 documented and not accounted for consistently. In the Company's
20 response to OCA 1-16 "Rather, the reconciling items relate to how
21 items were reported in the FERC Form 1 for each of the years. The
22 Company acknowledges that the acquisition adjustment was not

1 reported consistently in prior years. The Company will be reporting
2 the acquisition adjustment consistent with the 2015 FERC Form 1 in
3 future years.” (Reference Attachment JJB-6 OCA 1-16 (b). They are not
4 well documented. In addition, non-acquisition related adjustments and
5 reclassifications have been made to income statement accounts and to
6 balance sheet accounts. Many of these accounting changes are not
7 easily identifiable and add complexity to the analytical process.

8
9 **SECTION III FERC Accounts used for Peer Comparison**

10 **Q. What performance areas are used for comparing Liberty to other**
11 **utilities?**

12 A. My testimony analyses two costs areas where Liberty has experienced
13 dramatic growth - O&M costs and Distribution Plant Assets. The full
14 list of accounts is provided in Attachment JJB-1 “FERC Accounts Used
15 in Liberty vs. Peer Comparison Analysis.”

16 **Q. Why did you select these areas for performing your peer**
17 **comparisons?**

18 A. Liberty’s O&M costs and Distribution Plant Assets have increased in
19 dramatically in a period of low customer growth. For the years 2011 to
20 2015, Liberty’s FERC Form 1 report reflects:

21 6% growth in Customers

22 21% growth in O&M Costs (Summary Data level)

1 51% growth in Net Plant (book value)

2 43% growth in Net Plant per Customer

3 The scope of these changes when compared to relatively flat/low
4 growth rate in customer base prompted OCAs analysis.

5 **Q. Please illustrate increases in Distribution O&M using FERC data.**

6 A. Chart 1 below depicts the trend in total Distribution O&M for years
7 2011-2015. It also presents account by account levels and Summary
8 Data totals at bottom. I have included FY 2014 in Chart 1 to illustrate a
9 data inconsistency example due to accounting adjustments, which I
10 discussed in Section II. The significant changes and erratic trend
11 shown for certain accounts undermines confidence in the numbers. It is
12 difficult to determine if an expense increase or decrease is due
13 changing business factors, or changing accounting treatment, or a
14 combination of both. According to the Company changes in treatment
15 of certain labor expenses has affected the following accounts:

16 -580 Operations Supervision,

17 -583 Overhead Lines

18 -597 Maintenance of Meters

19 -598 Maintenance of Miscellaneous Distribution Plant

1 Accounting reclassification of expenses between these accounts makes
 2 it difficult to assess the underlying business fundamentals. Note that
 3 the use of Summary Data in my peer-benchmark analysis helps reduce
 4 the distortion and movement between individual accounts.

5
 6 CHART 1: 21 % Increase in Total Distribution O&M from 2011 to 2015

acct	Expense	2011 FERC	2015 FERC	\$ Change	% Change
580	Operations Supervision	\$ 61,887	\$ 1,652,625	\$ 1,590,738	2570%
581	Load Dispatching	\$ 78,072	\$ 626,072	\$ 548,000	702%
582	Station	\$ 375,599	\$ 123,875	\$ (251,724)	-67%
583	OH Lines	\$ 377,568	\$ 478,090	\$ 100,522	27%
584	UG Lines	\$ 113,160	\$ 83,922	\$ (29,238)	-26%
585	Street Lighting	\$ 27,523	\$ 31,768	\$ 4,245	15%
586	Meters	\$ 273,727	\$ 128,354	\$ (145,373)	-53%
587	Customer Installs	\$ 167,730	\$ 781	\$ (166,949)	-100%
588	Miscellaneous	\$ 1,055,751	\$ 691,179	\$ (364,572)	-35%
589	Rents	\$ 3,957	\$ -	\$ (3,957)	-100%
	Total Ops	\$ 2,534,974	\$ 3,816,666	\$ 1,281,692	51%
590	Maint Supervision	\$ 884	\$ 43,868	\$ 42,984	4862%
591	Structures	\$ 9,542	\$ 2,509	\$ (7,033)	-74%
592	Stations	\$ 205,221	\$ 243,763	\$ 38,542	19%
593	OH Lines	\$ 2,893,337	\$ 1,922,369	\$ (970,968)	-34%
594	UG lines	\$ 6,152	\$ 2,277	\$ (3,875)	-63%
595	Transformers	\$ 71,755	\$ 21,186	\$ (50,569)	-70%
596	Street Lighting	\$ 80,179	\$ 65,209	\$ (14,970)	-19%
597	Meters	\$ 14,016	\$ 360,315	\$ 346,299	2471%
598	Miscellaneous	\$ 13	\$ 544,288	\$ 544,275	4186731%
	Total Maintenace	\$ 3,281,099	\$ 3,205,784	\$ (75,315)	-2%
	Total Distribution O&M	\$ 5,816,073	\$ 7,022,450	\$ 1,206,377	21%

1 Chart 1 shows Liberty’s O&M increasing 21% between 2011 and 2015.
 2 As will be discussed later in Section VI findings, Liberty’s growth in
 3 Gross Distribution Plant is very high compared to the peer utilities.

4 **Q. Please discuss Liberty’s net plant levels which will be compared to**
 5 **peers.¹⁸**

6 A. Chart 2 depicts the high growth in net plant. Between years 2012 and
 7 2015 Liberty’s Net Plant increased 51%. This equates to a 43% increase
 8 in net plant per customer.

9 CHART 2: 51% Growth Rate Net Plant between 2012 to 2015:

	2012 FERC	2013 FERC	2014 FERC	2015 FERC	% growth
Customers (Liberty)	41,272	41,957	41,957	43,705	6%
Net Plant (Liberty)	\$ 88,243,923	\$ 96,685,028	\$ 124,604,494	\$ 133,503,323	51%
Net Plant/ per Customer	\$ 2,138	\$ 2,304	\$ 2,970	\$ 3,055	43%

10

11 As will be discussed later in Section VII findings, Liberty’s growth rate
 12 in new plant will be analyzed in the peer comparison analysis
 13 described in Section IV Peer Analysis Methodology below.

14

15 **SECTION IV. Peer Analysis Methodology**

16 **Q. Has the Company performed a similar comparison of its operations**
 17 **to its peers?**

18 A. The Company has not conducted a peer benchmark analysis (Reference
 19 Attachment JJB-8 OCA 1-20 (c) and (d)).

20 **Q. What steps were taken to develop your comparative peer analysis?**

18 Peer comparisons of Distribution Plant Asset growth are performed on a gross basis, due to available information.

1 A. I've followed four guidelines as the best possible given time and
2 available data:

- 3 1. Compare Liberty to other utilities (peer benchmark analysis);
- 4 2. Follow a fair "apples to apples" approach (using summary account
5 levels from FERC Form 1 filings);
- 6 3. Incorporate a five-year scope (to reflect ownership before and after
7 Liberty Utilities); and
- 8 4. Show normalized comparison results annually within the five year
9 period.

10 The impact of changes in Liberty costs and utility plant will be
11 reflected in how Liberty compares to peers for the two cost areas
12 analyzed.

13 Because the source of peer benchmark analysis data is the FERC Form
14 1, and because PUC Audit has verified the Company's general ledger
15 reconciles to FERC, the data used for the peer benchmark analysis is
16 consistent with 2015 test year data. However, as discussed the peer
17 analysis covers a five year period.

18 **Q. Describe the methodology you used to generate a peer comparative**
19 **analysis.**

1 A. The five-step approach to generating peer benchmark data is
2 summarized below:

3 1. Use FERC Form 1 data for all US Electric IOUs for years 2011 to
4 2015.

5 2. Create utility peer groups

6 3. Select the benchmark metrics that will be compared

7 4. Compare Liberty's performance to its peer utilities

8 5. Identify OCA areas of concerns based on areas of significant
9 differences between Liberty and peer group performance metrics
10 over the period.

11 **Q. What is the source of data used in the peer comparison analysis?**

12 A. In this testimony, publicly-available performance data for 137 electric
13 distribution IOUs in the US is used to benchmark Liberty Utilities'
14 performance against its peers. Data for this report is sourced directly
15 from information submitted by 137 US IOUs on FERC Form 1 and EIA¹⁹
16 Form 861 from 2010 to 2015.

17 **Q. How is operating data normalized to facilitate comparisons between**
18 **Liberty and the peer groups?**

19 The Form EIA-861 and Form EIA-861S (Short Form) data files include information such as peak load, generation, electric purchases, sales, revenues, customer counts and demand-side management programs, green pricing and net metering programs, and distributed generation capacity

1 A. To facilitate direct comparison of Liberty and its peers, O&M costs are
2 normalized into costs per customer reported to EAI and FERC Form 1.
3 Annual percentage change is used to compare growth rates of Gross
4 Distribution Plant Assets.

5 **Q. What benchmark metrics are used to compare Liberty's performance**
6 **to the peer groups?**

7 A. The peer benchmark metrics in my analysis are:

8 1. Distribution O&M Expense normalized by customer;

9 2. Growth rate of Distribution Gross Plant Assets over time; and

10 3. Reliability.

11 **Q. For what years are the benchmark peer comparisons made?**

12 A. Peer comparisons are made across years 2011 to 2015.

13 **Q. What were your considerations in selecting this time period?**

14 A. Year 2011 reflect performance of GSEC under National Grid ownership.

15 Year 2012 represent a mix of National Grid ownership performance.

16 Years 2012 to 2015 reflect performance under Liberty Utilities

17 ownership.

18 **Q. How were peer groups designed?**

19 A. Peer groups are determined based on customer concentration and

20 geographic proximity to the Liberty service territory.

1 **Q. Was the Company asked to provide a list of peer utilities?**

2 A. Yes. The company indicated that “in New Hampshire the utility
3 closest to a peer would be Unitil.” No other utilities were suggested for
4 peer group design in the response. Reference Attachment JJB-8 OCA 1-
5 20 (b).

6 **Q. Did the Company suggest metrics for selecting peers?**

7 A. Yes. The Company suggested “size of the utility, lines of business (e.g.
8 electric, gas, transmission, generation), operating jurisdiction, and
9 regulatory and legislative similarities and differences.” Reference
10 Attachment JJB-8 OCA 1-20 (b).

11 **Q. What other factors are considered in your the peer group design?**

12 A. I’ve included Unitil in my peer analysis. I used customer density as a
13 metric for a “size” peer group. Customer density is an important
14 characteristic when comparing utility operating expenses as there is a
15 fixed component to these costs. Regarding lines of business, my
16 analysis is focused exclusively on distribution expenses and
17 distribution assets.

18 **Q. What factors did you take into account selecting IOUs for the
19 reliability peer group?**

20 A. Weather and vegetation growth rates are important characteristics for
21 evaluating reliability. A regional peer group for Maine, New

1 Hampshire and Vermont was used for reliability comparisons. The
2 "IOUs in ME, NH, and VT" peer group generally includes²⁰

3 Emera Maine

4 Green Mountain Power

5 Liberty Utilities

6 Public Service Company of New Hampshire (Eversource)

7 Central Maine Power

8 Unitil

9 **Q. List the peer groups used in your peer benchmark?**

10 A. There are three peer groups in my analysis:

11 1. All US Electric IOUs;

12 2. US IOUs with Customer density between 30 to 40 customers per mile

13 - (Liberty's customer density is 34.1); and

14 3. Electric IOUs in Maine, New Hampshire and Vermont.

15 **Q. How is Unitil included in the peer benchmark analysis based on the**
16 **Company's response to OCA 1-20 (b)²¹?**

17 A. I've performed peer comparison for Unitil and included them in all
18 peer comparison results and charts.

20 Unitil data was not reported in all years.

21 See Attachment JJB-8 OCA 1-20

1

2

SECTION V Liberty Reliability

3 **Q. Have you reviewed the potential benefits of Liberty's higher O&M**
4 **costs and higher Distribution Plant?**

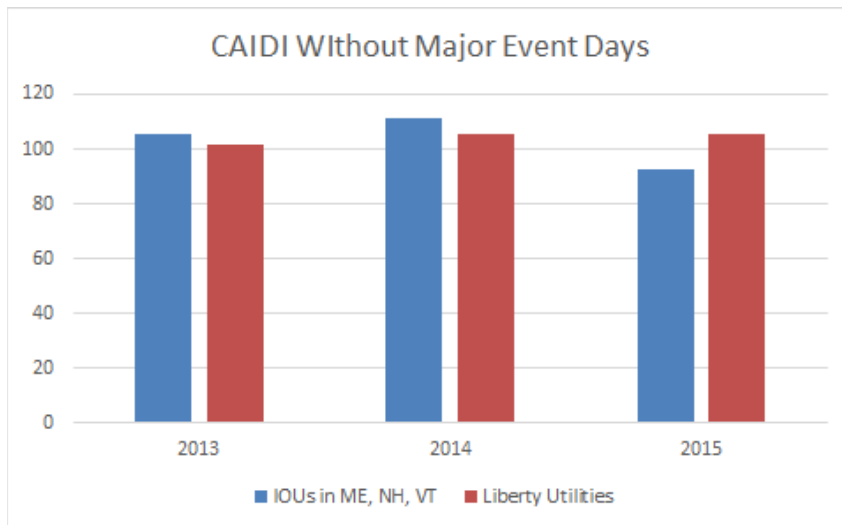
5 A. Yes, I have compared Liberty to peer utilities in the Maine, New
6 Hampshire and Vermont region. The results suggest Liberty compares
7 well with its peers. However the OCA is concerned the excessive
8 growth in operating costs and capital infrastructure may not be
9 justified by Liberty's reliability based on data presented in this
10 reliability section.

11 **Q. What is Liberty's reliability performance trend since acquisition?**

12 A. The reliability graph presented below shows Liberty generally
13 compares favorably to peer utilities based on CAIDI²² Without Major
14 Events. SAIDI²³ data shows recent improvement in Liberty's reliability.
15 However, the Company has not made its case that the 2015 improved
16 levels justify its very high growth rate in O&M Costs and Distribution
17 Plan Assets which are evaluated in Sections VI and VII of my
18 testimony.

22 Customer Average Interruption Duration Index (CAIDI) is a reliability index used by electric power utilities.

23 System Average Interruption Duration (SAIDI)



1

2

As discussed in Section IV Peer Analysis Methodology, the "IOUs in ME, NH, and VT" based on available data and generally includes

3

4

- Emera Maine
- Green Mountain Power
- Liberty Utilities
- PS New Hampshire
- Central Maine Power
- Unitil

5

6

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11

The company's reliability compares favorably to the peer group.

12

Additional years of data will help determine if the Liberty's reliability

13

performance adequately justifies the company's expenses, including its

14

large expansion in distribution plant.

15

SECTION VI Finding #1 - O&M Costs

16

Q. What are your peer comparison findings regarding metric 1 - O&M Costs years 2011 to 2015?

17

18

A. In this section I present results comparing Liberty's O&M costs to the

19

three peers. The results are displayed in three bar graphs.

1 Figure 1: Liberty's Distribution O&M Costs vs. All US IOUs

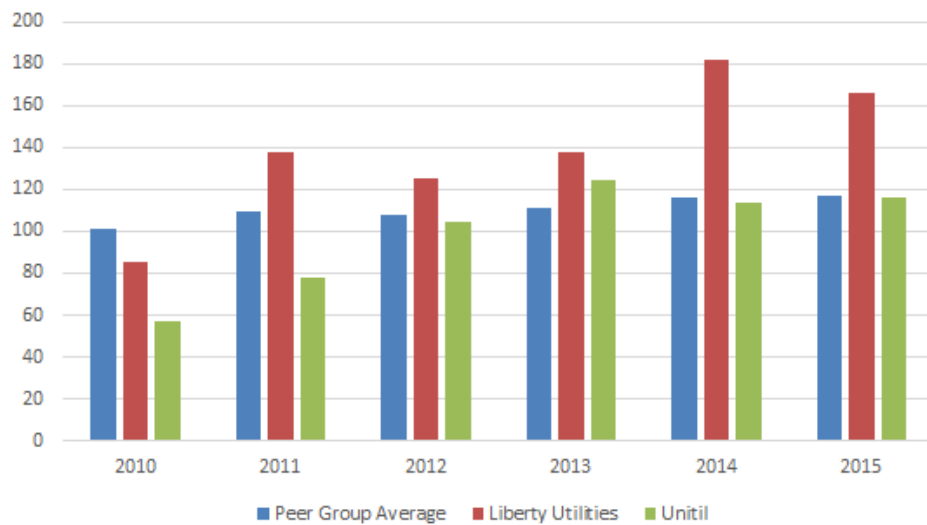
2 Figure 2: Liberty's Distribution O&M Costs vs. IOUs with similar
3 customer density

4 Figure 3: Liberty's Distribution O&M Costs vs. IOUs in ME, NH, VT

5 **Q. How does Liberty's O&M compare to the All US IOU peer group?**

6 A. Figure 1 shows the comparison of benchmark metric 1, O&M cost, the
7 peer group, normalized on a per customer basis. Liberty's O&M cost
8 was lower than peer group 1 in 2011 prior to the acquisition. Liberty's
9 O&M cost is consistently higher than the peer group in all years since
10 the 2012 acquisition.
11

Figure 1 Metric: Distribution O&M Spending per Customer
Peer Group: All US IOUs



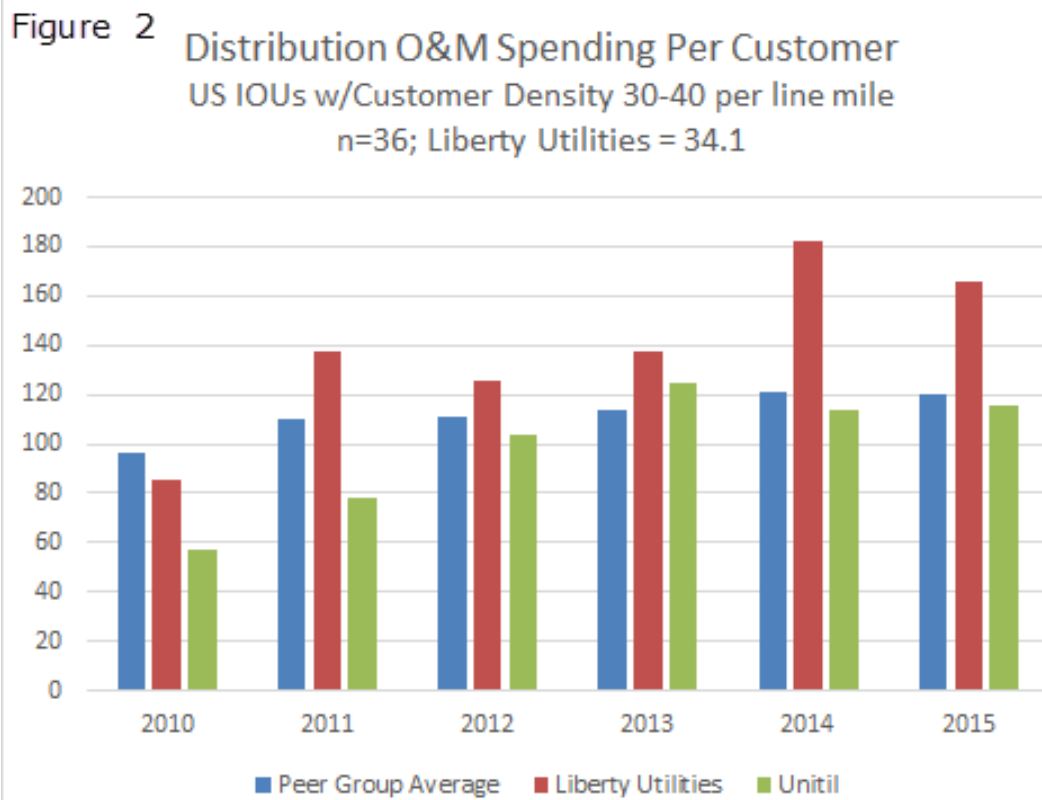
12

13

1 Q. How does Liberty’s O&M compare to IOU with similar customer density?

2 A. Figure 2 shows the comparison of Liberty’s O&M cost with peer group
 3 #2 - US IOUs with density between 30 and 40 customers per mile
 4 (Liberty is 34.1). Liberty’s O&M cost was lower than the peer group in
 5 2010 prior to the acquisition. Liberty’s O&M cost was higher than the
 6 peer group in all years since the 2012 acquisition.

7
 8

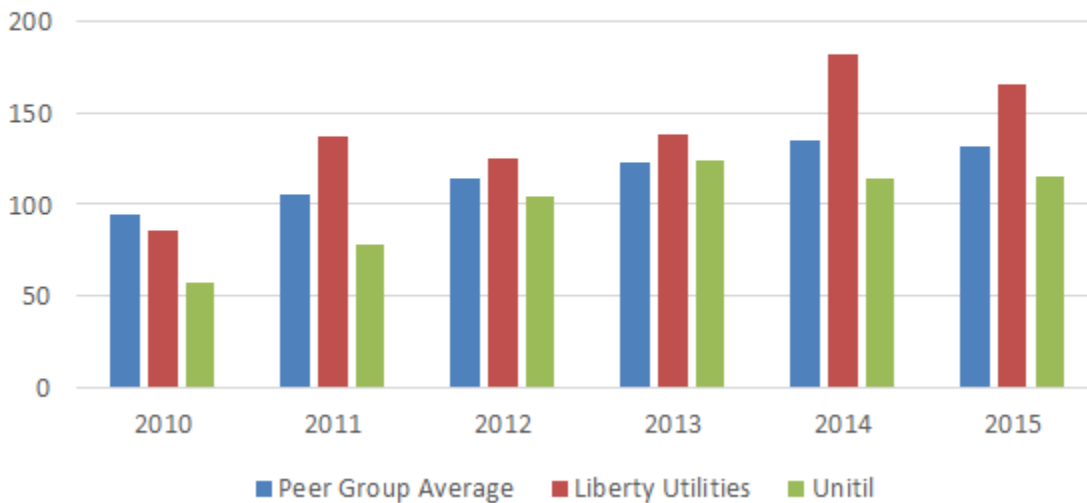


9
 10

11 Q. How does Liberty’s O&M cost compare to IOUs in ME, NH and VT?

1 A. Figure 3 illustrates comparison of Liberty to IOUs in Maine, New
2 Hampshire and Vermont Comparison: Liberty's O&M was lower than
3 the peer group in 2010. Liberty's O&M is higher than the peer group in
4 2011 and all years following the 2012 acquisition. Unitil is lower than
5 Liberty in all years.
6

Figure 3
Distribution O&M Spending per Customer
Peer Group: IOUs in ME, NH, and VT



7
8 **SECTION VII Finding #2 - Growth Rate of Gross Distribution Plant**

9 Q. Please compare Liberty's growth in net plant to Unitil for years 2011
10 to 2015?

11 A. Chart 3 "Liberty vs. Unitil Net Plant from 2011 to 2015" shows Liberty
12 growth in net plant at 51% which is more than double Unitil's net plant
13 growth of 18% for the same period.

1 Chart 3: Liberty vs. Unitil Growth in Net Plant from 2012 to 2015.

	2012 Liberty FEF	2013 FERC	2014 Liberty FEF	2015 Liberty FEF	na
Customers (Liberty)	41,272	41,957	41,957	43,705	6%
Net Plant (Liberty)	\$ 88,243,923	\$ 96,685,028	\$ 124,604,494	\$ 133,503,323	51%
Net Plant (UNITIL)	\$ 162,231,645	\$ 169,632,173	\$ 178,697,773	\$ 191,210,247	18%

2
 3 **Q. What are your peer comparison findings regarding metric 2 -**
 4 **Liberty’s Percent Growth Gross Distribution Plant?**

5 A. In this this section I present results comparing Liberty’s growth in
 6 Gross Distribution Plant to the peer groups, using bar charts.

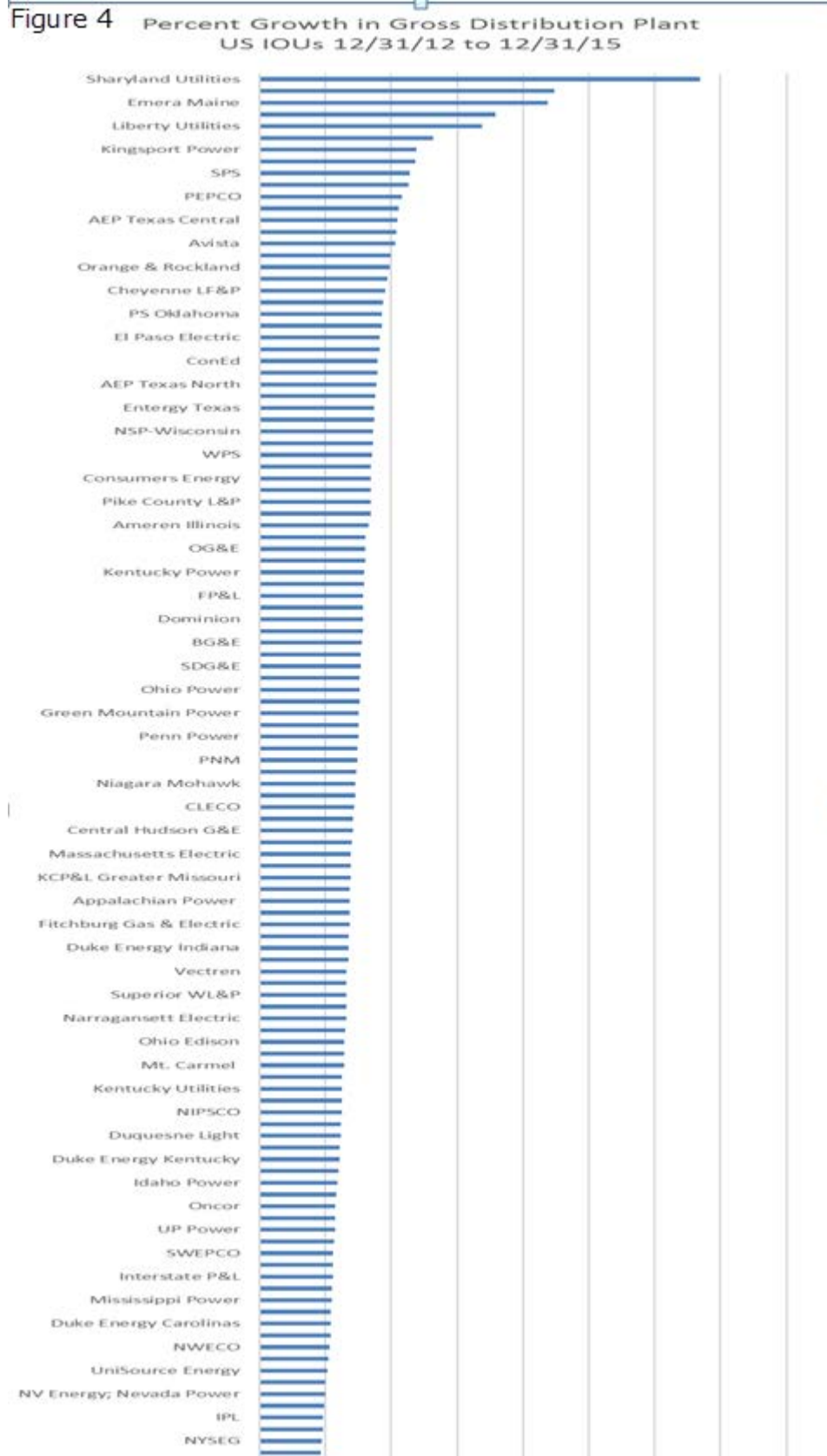
7 Figure 4: Liberty’s Percent Growth Distribution Plant vs. All US IOUs

8 Figure 5: Liberty’s Percent Growth Distribution Plant vs. IOUs with
 9 similar customer density

10 Figure 6: Liberty’s Percent Growth Distribution Plant vs. IOUs in ME,
 11 NH, VT

12 **Q. How does Liberty’s Growth Gross Distribution Plant compare to the**
 13 **All US IOUs?**

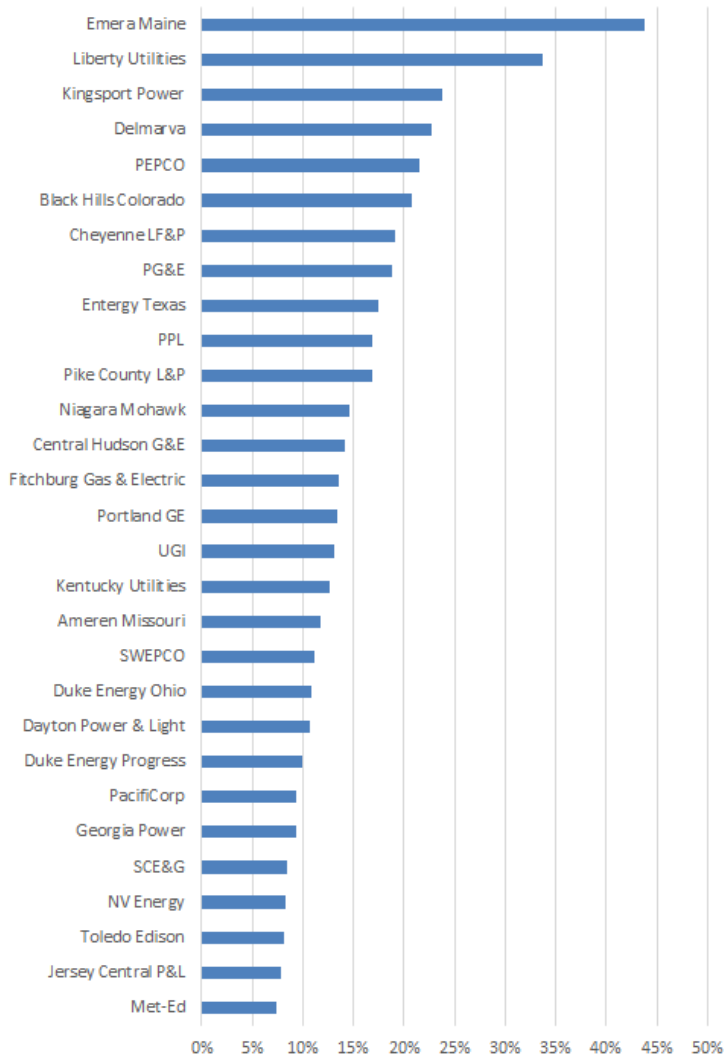
14 A. Figure 4 shows the comparison of Liberty’s growth in gross plant to
 15 the peer group “All US Electric IOUs. The results suggest Liberty may
 16 be investing more than is necessary to provide safe and reliable utility
 17 service. Based on comparison to all US electric utilities, only four
 18 Electric IOUs in the US grew their distribution plant at a greater
 19 percentage rate than Liberty between years 2012 and 2015. Based on
 20 this peer review Liberty has the fifth highest growth rate out of all 137
 21 utilities in the FERC database.



1 **Q. How does Liberty’s Growth Gross Distribution Plant compare to**
 2 **IOUS with similar customer density?**

3 A. Figure 5 shows Liberty’s percent growth in gross distribution plant
 4 compared to the customer density peer group. Liberty ranks second
 5 highest in percent growth based on comparison to IOUs with similar
 6 customer density.

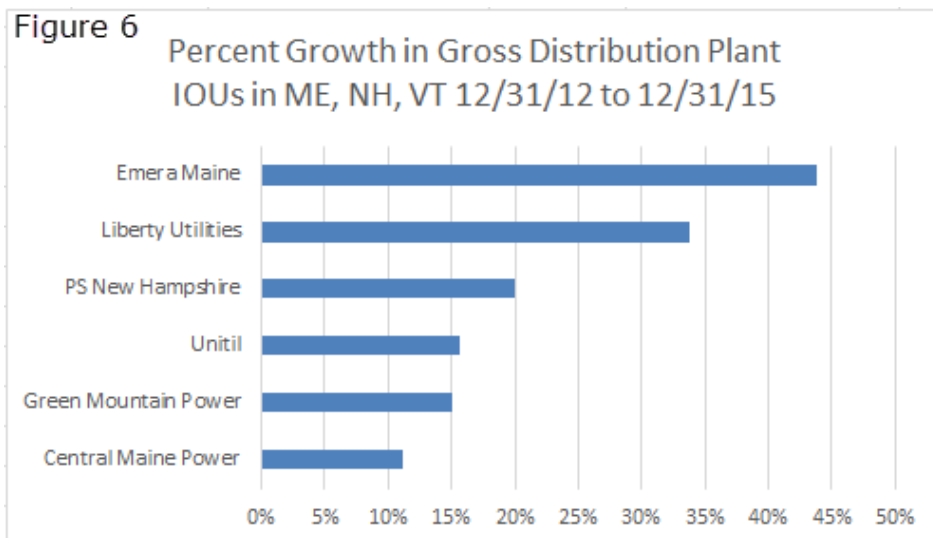
Figure 5
 Percent Growth in Gross Distribution Plant
 US IOUs with Customer Density of 30-40 per Line Mile
 12/31/12 to 12/31/15; Liberty Utilities = 34.1



7

1 Q. How does Liberty's Growth Gross Distribution Plant compare to
2 IOUs in ME, NH and VT?

3 A. Figure 6 shows Liberty's percent growth in gross distribution plant
4 compared to the regional utilities. Liberty ranks second highest in
5 percent growth based on comparison to the regional peer group.
6



7

8

9 **SECTION VIII Summary & Recommendation**

10 Q. Please summarize your position in this docket.

11 A. Liberty has emerged from its difficult three-year acquisition transition
12 with operating and maintenance costs above their pre-2012 acquisition
13 levels, above Unitil, and above benchmark comparisons to its peers for
14 every year since the acquisition. The OCA does not agree that Liberty's
15 higher test year 2015 operating expense levels, caused by major startup
16 challenges of 2012-2014, should automatically set a permanently higher

1 cost structure for customers to pay. Following four years of major
2 capital investment, lower costs, or at least stabilized costs should
3 follow.

4 Despite static customer growth, Liberty's Operations and Maintenance
5 Costs (O&M) have increased 21% since its acquisition, and Distribution
6 Plant (net) has increased 51%. Liberty's normalized O&M costs per
7 customer exceed peer group benchmarks all four years since the 2012.
8 This includes all three peer groups (All Electric US IOUs, Electric IOUs
9 with similar customer density, and IOUs in NH, VT, ME). This is in
10 contrast to Unitil²⁴ which shows normalized O&M costs per customer
11 lower than the peer groups in all years except 2013.

12 **Q. What is your conclusion regarding the proposed multiyear rate plan**
13 **for capital expenditures?**

14 The inclusion of a multiyear rate plan for capital expenditures
15 potentially shifts the risk of overbuilt plant from the company to rate
16 payers. Since its acquisition Liberty has had 50% growth rate in net
17 plant, cost overruns on capital projects, and documented deficiencies
18 in its planning processes discussed the 2016 Management Audit.

19 Liberty has not made its case for approving mechanism that paves for

24 Unitil is included in peer comparisons based Liberty's response to discovery.

1 future revenue increases as new Distribution Plant Assets extending to
2 2021.

3 In reviewing the proposed multiyear capital tracking mechanism the
4 Commission should keep in mind that:

- 5 - Liberty's capital projects have been accompanied by significant cost
6 overruns, suggesting the potential overbuilding of their network.
- 7 - Only four electric utilities in the US have grown their utility plant
8 faster than Liberty between 2012 and 2015.
- 9 - According to findings in the 2016 Management Audit Liberty does
10 not exercise the best capital budgeting planning and controls. This
11 raises the risk of building unnecessary plant. Based on technical
12 sessions it is unclear if this situation has been fully resolved.
- 13 - While Liberty's reliability compares favorably to peers on CAIDI,
14 and shows improvement in 2015 SAIDI, they have not justified their
15 high costs and over expansion in this docket.

16 **Q. What is your recommendation?**

17 A. The Commission should reject the proposed capital tracking
18 mechanism. Recovery of costs related to distribution plant assets
19 should incorporate performance based reliability metrics. Performance
20 incentives and financial penalty should be included in cost recovery

1 mechanism for future plant additions. Performance metrics and
2 Performance Based Regulation (PBR) is studied in “Performance-Based
3 Regulation in A High Distributed Energy Resources Future”, by Tim
4 Woolf and Mark Newton Lowry.²⁵

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

6 **A. Yes.**

7

25 “Performance-Based Regulation in A High Distributed Energy Resources Future”,
by Tim Woolf and Mark Newton Lowry (part of Lawrence Berkley National Labs
(LBNL) Future Electric series
https://emp.lbl.gov/sites/all/files/lbnl-1004130_0.pdf

1

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All US IOUs (peer group 1) JJB-1
Commonwealth Edison Company of Indiana, Inc.
NV Energy; Nevada Power
AEP Texas Central
AEP Texas North
Alabama Power
Alaska EL&P
Ameren Illinois
Ameren Missouri
Appalachian Power
APS
Atlantic City Electric
Avista
BG&E
Black Hills Colorado
Black Hills Power
CenterPoint
Central Hudson G&E
Central Maine Power
Cheyenne LF&P
Citizens' Electric
CL&P
CLECO
Cleveland Illuminating
ComEd
ConEd
Consumers Energy
Dayton Power & Light
Delmarva
Dominion
DTE Energy
Duke Energy Carolinas
Duke Energy Florida
Duke Energy Indiana
Duke Energy Kentucky
Duke Energy Ohio
Duke Energy Progress
Duquesne Light
El Paso Electric
Emera Maine
Empire District Electric
Entergy Arkansas
Entergy Gulf States

Entergy Louisiana
Entergy Mississippi
Entergy New Orleans
Entergy Texas
Eversource
Fitchburg Gas & Electric
FP&L
Georgia Power
Green Mountain Power
Gulf Power
HECO
HELCO
Idaho Power
Indiana-Michigan Power
Interstate P&L
IPL
Jersey Central P&L
Kansas G&E
KCP&L
KCP&L Greater Missouri
Kentucky Power
Kentucky Utilities
Kingsport Power
Liberty Utilities
Lockhart Power
Louisville G&E
Madison G&E
Massachusetts Electric
MECO
Met-Ed
Mid-American
Minnesota Power
Mississippi Power
MonPower
Montana-Dakota Utilities
Mt. Carmel
Nantucket Electric
Narragansett Electric
Niagara Mohawk
NIPSCO
North Central Power
Northwestern Energy
NSP-Minnesota

NSP-Wisconsin
NV Energy
NWECO
NYSEG
OG&E
Ohio Edison
Ohio Power
Oncor
Orange & Rockland
Otter Tail Power
PacifiCorp
PECO
Penelec
Penn Power
PEPCO
PG&E
Pike County L&P
Pioneer Power & Light
PNM
Portland GE
Potomac Edison
PPL
PS Colorado
PS New Hampshire
PS Oklahoma
PSE&G
Puget Sound Energy
Rochester G&E
Rockland Electric
SCE
SCE&G
SDG&E
Sharyland Utilities
SPS
Superior WL&P
SWEPCO
TECO
TEPCO
TNMP
Toledo Edison
UGI
UniSource Energy
United Illuminating

Unitil
UP Power
Vectren
West Penn Power
Westar Energy
Western Mass Electric
Wheeling Power
Wisconsin Electric
WPS
WPL

Attachment JJB-1
Page 4 of 4

JJB-2 FERC Accounts used in Peer Benchmark Analysis

OPERATING EXPENSES

580 Operations Supervision \$1652625
581 Load Dispatching \$626072
582 Station \$123875
583 OH Lines \$478090
584 UG Lines \$83922
585 Street Lighting \$31768
586 Meters \$128354
587 Customer Installs \$781
588 Miscellaneous \$691179
589 Rents \$0

MAINTENANCE EXPENSES

590 Maint Supervision \$43868
591 Structures \$2509
592 Stations \$243763
593 OH Lines \$1922369
594 UG lines \$2277
595 Transformers \$21186
596 Street Lighting \$65209
597 Meters \$360315
598 Miscellaneous \$544288

PLANT

(360) Land and Land Rights
(361) Structures and Improvements
(362) Station Equipment
(363) Storage Battery Equipment
(364) Poles, Towers, and Fixtures
(365) Overhead Conductors and Devices
(366) Underground Conduit
(367) Underground Conductors and Devices
(368) Line Transformers
(369) Services
(370) Meters
(371) Installations on Customer Premises
(372) Leased Property on Customer Premises
(373) Street Lighting and Signal Systems
(374) Asset Retirement Costs for Distribution Plant

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

OCA Data Requests - Set 1 (Permanent Rates)

Date Request Received: 7/11/16
Request No. OCA 1-6

Date of Response: 7/25/16
Respondent: Dwight Vanderwyk

REQUEST:

With regard Algonquin's acquisition of GSEC from National Grid approved in Order 25,370 Docket No.11-040, and referencing Liberty GSEC balance sheets contained in FERC Form 1 annual December 31 filings:

- a. In what calendar year(s) were primary acquisition entries, adjustments, restatements, and acquisition accounting related changes made to GSEC balance sheet? Discuss.
- b. Create three side by side GSEC balance sheets titled "12/31/2012 FERC Form 1 Balance Sheet", "2013 Acquisition Entries", and "12/31/2013 FERC Form 1 Balance Sheet. Illustrate and explain acquisition accounting impact on GSEC's balance sheet using the middle column. Include account numbers, balancing entries, and explanations.

RESPONSE:

- a. Primary acquisition entries were recorded in 2012 with subsequent adjustments made in 2013 within a year from the acquisition date in accordance with Generally Accepted Accounting Principles.
- b. Please see Attachment OCA 1-6 for a list of the acquisition-related journal entries that were recorded in 2013. All of the accounts included in the entries are balance sheet accounts. As there are many other entries that may have been posted to the various balance sheet accounts during 2013, including only the effect of the entries in Attachment OCA 1-6 would not result in the 12/31/2013 ending balances as reported in the FERC Form 1. Therefore, the requested analysis is not being provided.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

OCA Data Requests - Set 1 (Permanent Rates)

Date Request Received: 7/11/16
Request No. OCA 1-7

Date of Response: 7/25/16
Respondent: John Peellegoda
Steven Mullen

REQUEST:

Reference Liberty Utilities GSEC FERC Form 1 period 2015. The 12/31/2014 Changes to Retained Earnings at page 118 reflects a \$17,000,000 Capital Contribution. This contribution, along with transferred Income of \$6,549,880 resulted in a positive closing retained earnings balance of \$6,808,621 for period 12/31/2014.

- a. Please explain how and why this event occurred. Include discussion of underlying circumstances necessitating this capital contribution.
- b. Page 112 shows \$17,000,000 Advances from Associated Companies. List the affiliated companies.
- c. What is the rate?
- d. What are the repayment terms?
- e. What is the anticipated source of repayment on the advance?
- f. Show all accounting entries relative to the creation of this capital contribution, include account numbers.
- g. Was this a cash transaction where \$17,000,000 cash was injected into the company?
- h. If the answer to g is yes, discuss how the cash was used.

RESPONSE:

- a. Liberty Utilities monitors the status of the capital structure and the respective amounts of equity and debt at the various operating entities. The capital contribution to Granite State that occurred in 2014 was to improve the equity position of the Company.
- b. The \$17,000,000 shown on line 20 of page 112 relates to four long-term notes payable to Liberty Utilities Co., which are detailed on lines 6-9 on pages 256-257 of the FERC Form 1. Those debt issuances were done in connection with the Liberty Utilities acquisition of Granite State Electric and were approved by the Commission in Docket No. DG 11-040. The fact that the capital contribution was also \$17,000,000 is coincidental. The two amounts are separate and have no relation.
- c. The rates for the four long-term debt issuances from Liberty Utilities Co. are 3.51%, 4.49% and two issuances at 4.89%. Those cost rates are shown on pages 256-257 of the FERC Form 1.

Docket No. DE 16-383 Request No. OCA 1-7

- d. Please see Attachment OCA 1-7.1 for copies of the notes.
- e. As stated in the responses to parts b. through d. of this question, the amounts are notes payable to Liberty Utilities Co. The "Advances" terminology is from the FERC Chart of Accounts for the title of account 223, which includes "the face value of notes payable to associated companies." The notes will be repaid in accordance with the terms and conditions included in Attachment OCA 1-7.1.
- f. Please see Attachment OCA 1-7.2.
- g. Yes, but over a period of time through the Due To/Due From accounts.
- h. The funds were used for general corporate purposes including use in the day-to-day operations of the Company.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

OCA Data Requests - Set 1 (Permanent Rates)

Date Request Received: 7/11/16
Request No. OCA 1-8

Date of Response: 7/25/16
Respondent: Steven Mullen
Howard Gorman

REQUEST:

Reference Liberty Utilities GSEC FERC Form 1 period 2015. The 12/31/2015 Changes to Retained Earnings at page 118 reflects a Transfer from Income of \$2,828,315 resulted in a closing retained earnings balance of \$9,636,936 for period 12/31/2015. Also reference Mullen - Gorman Testimony, Attachment SEM/HSG-2, Schedule RR-4 column "Historic Year Ended Dec 31, 2015" Capitalization at Bates Page 162, Lines 31-40. Both reflect total Proprietary Capital of \$90,023,362 but arrive at the total with inconsistent sub-components amounts of Other Paid In Capital and Retained Earnings:

- a. What is the source of data in column "Historic Year Ended Dec 31, 2015"?
- b. How does Historic Year Ended Dec 31, 2015 numbers compare to the 2015 FERC Form 1?
- c. Please add a new column titled "FERC Form 1 Dec 2015" next to existing column titled "Historic Year Ended Dec 31" and reconcile the differences between the columns.
- d. Why is \$17,000,000 Other Paid-in Capital (RR-4 row 33) not included in FERC Other Paid in Capital 208-211 (Form 1, page 112, row 7 (balance \$0))?
- e. Historic Test Year Dec 31, 2015 reflects Retained Earnings of (\$10,191,379) at line 34. Where is this value taken from? What is the similar value for periods 12/31/2014 and 12/31/2013?
- f. Discuss why \$9,636,936 Retained Earnings reflected on FERC Form 1, page 112, line 11 is presented differently on RR-4 rows 34, 35, and 36.
- g. Discuss \$1,638,476 retained Earnings adjustments (RR-4 row 36)

RESPONSE:

- a. The source is the Company's year-end adjusted trial balance.
- b. The "Historic Year Ended 31, 2015" numbers are the same numbers as included in the 2015 FERC Form 1 as they were both prepared using the Company's year-end adjusted trial balance. In some cases, due to the specifics of the FERC report, the presentation differs.
- c. See table below.

Docket No. DE 16-383 Request No. OCA 1-8

Item	FERC Form 1	
	Schedule RR-4	Dec-15
Common stock issued		6,040,000
Other Paid-in capital		75,984,903
Total Common stock	82,024,903	82,024,903
Other Paid-In Capital	17,000,000	
Retained earnings	(10,191,379)	6,808,621
Retained earnings	2,828,315	2,828,315
Total Retained earnings	9,636,936	9,636,936
Adjustments	(1,638,476)	(1,638,476)
		Accumulated Other Comprehensive (Loss)
Total Proprietary Capital	90,023,362	90,023,362

- d. The \$17,000,000 capital contribution in 2014 was shown as an adjustment to retained earnings in 2014 and, therefore, it was carried forward in the balance of retained earnings. The presentation should be as Other Paid-In Capital in the FERC Form 1.
- e. The (\$10,191,379) is the \$6,808,621 12/31/2014 year end retained earnings with the \$17,000,000 Other Paid-In Capital removed and shown on line 33. Using a similar presentation for 12/31/2014, line 33 would have also shown \$17,000,000 and line 34 would have shown (\$258,741). There would be no change to 12/31/2013 as the capital contribution was made in 2014.
- f. See part c. of this response. Line 36 of Schedule RR-4 is not included in the \$9,636,936.
- g. The item labeled "Retained Earnings adjustments" on line 36 of Schedule RR-4 is the balance in Accumulated Other Comprehensive Income as shown in the FERC Form 1, page 112, line 15.

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383
Distribution Service Rate Case

OCA Data Requests - Set 1 (Permanent Rates)

Date Request Received: 7/11/16
Request No. OCA 1-16

Date of Response: 7/25/16
Respondent: Steven Mullen

REQUEST:

Reference Plant in Service on FERC Form 1 Summary of Utility Plant And Accumulated Provisions for Depreciation, Amortization and Depletion found on page 200 for years 2012 and 2013.

- a. Reconcile changes from 2012 to 2013 for Plant In Service (line 3), Plant Purchased or Sold (line 5) and Depreciation (line 18). Include debit and credit entries and account numbers.
- b. Discuss all significant acquisition accounting entries that may exist.
- c. Discuss accounting standards used for any acquisition accounting entries made.

RESPONSE:

- a. The changes in Plant in Service (line 3) from \$134,312,580 in 2012 to \$145,769,570 2013 are shown on pages 206-207 of the 2013 FERC Form 1. Plant Purchased or Sold shown on line 5 in 2013 is an acquisition adjustment resulting from the purchase of the Company's assets from National Grid and should have been shown on line 12. The acquisition adjustment was not reflected in the 2012 FERC Form 1, but, as explained in the response to OCA 1-17, the acquisition adjustment reduces both the cost of assets and the related accumulated depreciation in offsetting amounts, so that net book value is unaffected by the adjustment. The reconciliation of Accumulated Depreciation (line 18) is provided in the table below:

Accumulated Depreciation - 2012 FERC Form 1	55,447,764	2012 FERC Form 1, page 200, line 18
Add Back: Cost of Removal Adjustment	4,279,480	2012 FERC Form 1, page 219, line 16
	59,727,244	
Acquisition Adjustment	(53,184,734)	
2013 Accum. Depr. Beginning Balance	6,542,510	2013 FERC Form 1, page 219, line 1
2013 Depreciation Expense	5,085,372	2013 FERC Form 1, page 219, line 10
2013 Book Cost of Plant Retired	(7,337)	2013 FERC Form 1, page 219, line 12
2013 Cost of Removal	(171,442)	2013 FERC Form 1, page 219, line 13
Other Adjustments	(457,467)	2013 FERC Form 1, page 219, line 16
Accumulated Depreciation - 2013 FERC Form 1	10,991,636	2013 FERC Form 1, page 200, line 18
		(\$1 difference due to rounding)

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- b. No acquisition accounting entries were recorded during 2013 that affected the balances discussed in part a. of this response. Rather, the reconciling items relate to how items were reported in the FERC Form 1 for each of the years. The Company acknowledges that the acquisition adjustment was not reported consistently in prior years. The Company will be reporting the acquisition adjustment consistent with the 2015 FERC Form 1 in future years.
- c. See part b. of the response above.

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Distribution Service Rate Case

OCA Data Requests - Set 4 (Permanent Rates)

Date Request Received: 10/21/16
Request No. OCA 4-7

Date of Response: 11/3/16
Respondent: Steven Mullen

REQUEST:

What productivity growth and operating efficiencies have the company experienced since it was acquired in 2012? Please cite specific metrics and results. Provide definitions on how each metric is calculated.

RESPONSE:

Since the acquisition in 2012, the Company has been transforming as a start-up utility with the creation of a local organization, implementation of various computer systems, development of the supporting corporate organization, the use over a period of time of Transition Service Agreements (TSAs) with National Grid, the termination of those TSAs, and the development of policies and procedures among other factors. As developments and changes took place, the Company continued to find ways to improve and enhance its policies and procedures to allow for productivity, growth and operating efficiencies, although more growth opportunities exist on the gas side of the business. Many efficiencies take place through changes to policies and procedures as well through other means such as organizational changes and therefore are not quantifiable in terms of a specific metric. Please also see the response to OCA 1-20 for further discussion of efficiencies and metrics. Given the changes described above as well as the impact of the TSA costs while they were in effect (i.e., TSA costs were included in A&G costs, but many of the underlying tasks are now recorded in either O&M costs or A&G costs depending on the nature of the service), looking at metrics such as O&M per customer or A&G per customer over that time period would not produce meaningful, comparative results.

Productivity and operational efficiencies can be more meaningful and observable at a more granular level such as through an organizational change within a department or changes to departmental policies and procedures. The efficiencies resulting from such changes can then result in improvements to other reportable metrics. For example, call answering and billing statistics for the Company have improved over time due to a combination of organizational changes and improvements to policies and procedures. Those metrics as well as a number of other customer service/billing metrics are periodically filed with the Commission and many can be found in the Commission's docketbook for Docket No. DG 11-040. Definitions of those metrics as well as how they are calculated can be found in Attachment N to the Settlement Agreement in DG 11-040: <https://www.puc.nh.gov/Regulatory/CASEFILE/2011/11->

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[040/LETTERS-MEMOS-TARIFFS/11-040%202012-05-17%20NGRID%20NH%20ATT%20N%20\(CUSTOMER%20SERVICE%20PERFORMANCE%20METRICS\).PDF](#)

Operational efficiencies can also be demonstrated through review of the Company's reliability statistics which have shown improved reliability results since 2012. The calculations of those metrics and the results can be found in the reports filed pursuant to Puc 307.09 as well as in the Company's annual report on its Reliability Enhancement Program and Vegetation Management Program.

Among the notable results, Granite State has achieved the best SAIDI performance in its history in 2015, the timely filing of 100% of its regulatory compliance filings for twenty-six consecutive months, and a reduction in its accounts receivable in excess of 60 days from approximately \$4 million as of the end of June 2015 to approximately \$2.5 million as of the end of June 2016 (with a corresponding reduction in monthly write-offs).

As an example of efficiencies that have been achieved by the Company, the following is a list of improvements made and monitoring metrics that have been implemented with respect to collections and customer accounts:

Collections

- Implemented Outbound Call program January 2015. The objective is to reduce the number of disconnect orders in the field and reduce the number of customers disconnected for non-payment.
- The number of orders to the field has decreased by 16% through September.
- The number of Disconnect Notices have decreased by 7.7% (439 disconnect notices)

Collection Metric Definitions:

- Outbound call program—dollars collected are tracked by each Collections Specialist and reviewed by Collections Supervisor. Dollars collected must be in-house at the time of reported month. Dollars collected are tracked by representative and month.
- Collection Notices reports are system generated and tracked monthly for month-to-month and year-to-year comparisons.

Electric Assistance Program

- Set-up Secure Energy Assistance Email box that allows immediate assistance.
- A dedicated CSR tracks and monitors all activity such as: New Enrollments, Removals, and changes.

Financial Assistance

- Dedicated Social Services line for community action agencies and/or town municipals.

Vacant with Usage

- The number of meters in vacant status with usage has been reduced by 93% through September 2016 vs. September 2015.

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- Reporting is generated each month to identify accounts that are in vacant customer status and have usage of 25+ kilowatt-hours.
- The numbers are recorded monthly for month-to-month and year-to-year comparisons

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities

DE 16-383

Distribution Service Rate Case

OCA Data Requests - Set 1 (Permanent Rates)

Date Request Received: 7/11/16
Request No. OCA 1-20

Date of Response: 7/25/16
Respondent: Steven Mullen

REQUEST:

Regarding operational and administrative efficiencies of Liberty GSEC relative to its peer utilities:

- a. How would you compare the level of efficiency of the Company compared to peer utilities?
- b. What utilities does Liberty GSEC view as peer utilities? Discuss key metrics used to determine peers. Why?
- c. For 2014-2015 time period are GSEC's average O&M expenses per customer lower, roughly same, or higher than peers utilities?
- d. For 2014-2015, are GSEC's General and Administrative per customer expenses lower, roughly same, or higher than its peer utilities?

RESPONSE:

- a. Efficiency is a broad term that can encompass things such as job planning and execution, decision making, costs/timing of performing certain tasks, etc. Liberty has not performed such a comparison.
- b. In New Hampshire, the utility closest to a peer would be Unitil. Some metrics used to determine peers include size of the utility, lines of business (e.g., electric, gas, transmission, generation), operating jurisdiction, and regulatory and legislative similarities and differences.
- c. Liberty has not performed the requested analysis. In addition, the amount of O&M expenses recorded in a given year can also be influenced by the amount of capital investment, and therefore, the O&M charged to capital jobs in that year. In any event, a meaningful comparison is the distribution rates of the utilities. Liberty's distribution rates compare favorably to other New Hampshire electric distribution utilities.
- d. Liberty has not performed the requested analysis. In addition, the amount of A&G expenses recorded in a given year can also be influenced by the amount of capital investment, and therefore, the A&G charged to capital jobs in that year. In any event, a meaningful comparison is the distribution rates of the utilities. Liberty's distribution rates compare favorably to other New Hampshire electric distribution utilities.