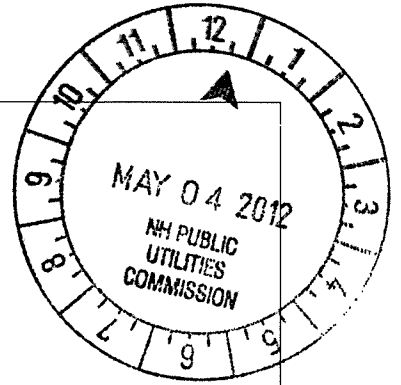


STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION



April 16, 2012 - 1:20 p.m. DAY 1
Concord, New Hampshire AFTERNOON SESSION ONLY

RE:

DG 11-040 NATIONAL GRID USA, ET AL:
Joint Petition for Authority to
Transfer Ownership of Granite State
Electric and EnergyNorth Natural Gas,
Inc. to Liberty Energy Utilities Corp.

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Michael D. Harrington
Commissioner Robert R. Scott

Sandy Deno - Clerk

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I N D E X

WITNESS: SCOTT J. RUBIN

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WITNESS PANEL: GREGORY L. MANN
TIMOTHY M. CONNOLLY

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1 P R O C E E D I N G S

2 CHAIRMAN IGNATIUS: So it looks
3 as though we may be switching order of
4 witnesses to accommodate Mr. Rubin's schedule,
5 which is great. Is that where we are?

6 MS. HOLLENBERG: Yes, it is.
7 Thank you.

8 CHAIRMAN IGNATIUS: And that's
9 agreeable with everyone?

10 (No verbal response)

11 CHAIRMAN IGNATIUS: All right.
12 Ms. Hollenberg.

13 MS. HOLLENBERG: Thank you very
14 much. The Office of Consumer Advocate calls
15 Scott Rubin to the stand, please.

16 (WHEREUPON, SCOTT J. RUBIN was duly
17 sworn and cautioned by the Court
18 Reporter.)

19 SCOTT J. RUBIN, SWORN

20 DIRECT EXAMINATION

21 BY MS. HOLLENBERG:

22 Q. Good afternoon, Mr. Rubin. Could you please
23 state your name for the record.

24 A. Scott Rubin, R-U-B-I-N.

1 Q. And in what capacity are you participating
2 in this proceeding?

3 A. I am a consultant for the Office of Consumer
4 Advocate.

5 Q. Are your -- is your experience and
6 qualifications summarized for the Commission
7 as part of prefiled testimony which you
8 filed on October 7, 2011?

9 A. Yes.

10 Q. And do you have any corrections or changes
11 that you would like to make to that
12 testimony at this time?

13 A. No corrections or changes, though some of
14 the information probably should be updated.

15 Q. Okay. Thank you. So your testimony was
16 prepared about six months ago. Have you
17 received any information in the last six
18 months that changes any of your conclusions
19 or recommendations?

20 A. Yes. My conclusions and recommendations
21 were summarized on Page 4 of the testimony.
22 The first dealt with the financial,
23 technical and managerial fitness of Liberty.
24 I still have concerns with Liberty's

1 technical and managerial fitness. The
2 settlement addresses those concerns, as I
3 think we'll get into a little later. But
4 the level of Staff involvement contemplated
5 in the settlement does not make Liberty any
6 more fit to own and operate these utilities,
7 but it does provide some limited protection
8 for the public against the consequences of
9 an inexperienced company taking over these
10 utilities.

11 On the financing terms and conditions,
12 we have now received information from
13 Liberty about the expected terms, conditions
14 and covenants in that financing. I have
15 reviewed them with a particular focus on the
16 special covenants the lenders will impose on
17 Liberty and the New Hampshire utility. I do
18 not object to the Commission's approval of
19 that financing, assuming that the terms,
20 conditions and covenants are as they were
21 provided to us on March 7th of this year in
22 a supplemental response to Staff, TS-2-22.

23 On the service quality issues, there's
24 no change in my testimony. I don't see a

1 benefit or a harm to the public in terms of
2 service quality.

3 So I think that updates where I am
4 based on additional information other than
5 the settlement.

6 Q. And turning to the proposed settlement
7 agreement, have you reviewed that?

8 A. Yes, I have.

9 Q. And does the proposed settlement agreement
10 affect any of your conclusions or
11 recommendations?

12 A. Yes, it does. The settlement provides an
13 extraordinary level of Staff oversight and
14 National Grid's continued involvement for
15 the next two or three years. And those
16 provisions combined address most of my
17 concerns about service quality and the
18 transition process.

19 In addition, there are several
20 ratemaking provisions in the settlement.
21 These include the EnergyNorth staff, the
22 transition period caps on information
23 technology-related investment and
24 unaccounted-for gas, the provision

1 preventing any change in accumulated
2 deferred tax balances as a result of the tax
3 treatment of the transaction, and limits on
4 rate case expenses in each of the companies'
5 first base rate cases under Liberty's
6 ownership. Taken together, those provisions
7 provide further protection for customers
8 against what otherwise would have been a
9 significant risk of higher rates under
10 Liberty's ownership than under National
11 Grid's ownership.

12 When I read all of the settlement
13 provisions together, I have reached the
14 conclusion that the settlement -- if the
15 settlement provisions are approved,
16 implemented and vigorously enforced, then I
17 believe it is likely that the public would
18 not suffer a net harm from the proposed
19 transaction.

20 Q. Thank you. This morning, Commissioner
21 Harrington asked about the potential loss of
22 economies of scale under Liberty ownership.
23 Do you have any information about that
24 issue?

1 A. Yes. I address this issue on Pages 13
2 through 15 of my testimony. And that
3 testimony largely remains true, based on
4 what we know today, except that we now have
5 a cap on IT investment of \$8.1 million.
6 When I prepared the testimony last fall,
7 Liberty's estimate was that the IT
8 investment would be \$6.3 million. So that
9 results in additional depreciation expense
10 and a higher return on investment. So the
11 net detriment now would be closer to
12 \$3 million, where in my testimony last fall
13 it was at about \$2.5 million. That is
14 offset somewhat, probably about a million to
15 a million and a half dollars, by a lower
16 cost of debt.

17 So, based on the information that I
18 have available, in my opinion, there's no
19 question that Liberty will not be capturing
20 some of the economies of scale that National
21 Grid provides today. That's especially a
22 concern in the early years, before the new
23 investment has depreciated. And we have
24 addressed that concern in the settlement by

1 having an extended stay-out for EnergyNorth
2 and by limiting rate case expenses for the
3 first rate case for each of the utilities.

4 So, in my opinion, these and the other
5 ratemaking provisions in the settlement are
6 designed to mitigate and essentially offset
7 Liberty's higher operating costs, at least
8 in the first few years.

9 Q. Thank you. Also this morning, Commissioner
10 Scott asked, basically, what's in it for
11 ratepayers. How would you answer this
12 question?

13 A. I mean, with all respect to the Joint
14 Petitioners here, my answer to that question
15 is: Nothing. I don't believe there's
16 anything in the settlement or in the
17 transaction that provides a net benefit to
18 ratepayers. The settlement provides
19 reasonable assurances, but no guaranty, that
20 customers will not be harmed as a result of
21 the transaction. But I do not find a net
22 benefit or any compelling reason from the
23 customer's perspective why the transaction
24 should occur. I do recognize, though, that

1 the current owner wants to get out of the
2 retail business in New Hampshire; and thus,
3 there is also a risk to forcing that owner
4 to remain in the business. Considering all
5 of these factors, I have concluded that the
6 transaction is in the public interest, as
7 long as the settlement provisions are fully
8 implemented and vigorously enforced.

9 Q. Thank you.

10 MS. HOLLENBERG: I don't have
11 any other questions. The witness is available
12 for cross-examination.

13 CHAIRMAN IGNATIUS: Ms.
14 Hollenberg, are you planning to introduce Mr.
15 Rubin's testimony?

16 MS. HOLLENBERG: Yes, I am.
17 Actually, if I could ask that that be marked
18 for identification as Exhibit 10. I've
19 already distributed a copy to the clerk and to
20 the stenographer.

21 CHAIRMAN IGNATIUS: Thank you.
22 So marked for identification. That was
23 prefiled testimony on October 7, 2011?

24 MS. HOLLENBERG: Yes, ma'am.

1 (Exhibit 10 marked for identification.)

2 CHAIRMAN IGNATIUS: In order of
3 cross-examination, the Joint Petitioners,
4 Legal Assistance, Mr. Sullivan and
5 Ms. Fabrizio. Does that work? Mr. Camerino.

6 MR. CAMERINO: The Joint
7 Petitioners have no questions for Mr. Rubin.

8 CHAIRMAN IGNATIUS: Mr.
9 Sullivan.

10 MR. SULLIVAN: No questions from
11 us. Thank you.

12 CHAIRMAN IGNATIUS: Ms.
13 Fabrizio.

14 MS. FABRIZIO: No, thank you,
15 Madam Chairman. I have no questions. Staff
16 has no questions.

17 CHAIRMAN IGNATIUS: All right.
18 Commissioner Harrington.

19 CMSR. HARRINGTON: Yeah.

20 INTERROGATORIES BY CMSR. HARRINGTON:

21 Q. Just referring to Page 13 of your
22 testimony -- and I think this time there's
23 only one number on the page, so it won't
24 confuse me -- at the very bottom of that it

1 says, Liberty's analysis shows that it would
2 require more employees and a higher level of
3 expenses to provide the same service that
4 National Grid is providing today.

5 Specifically, Slides 22 to 23 from Liberty
6 show the cost of service would be \$889,000
7 more than National Grid's cost of service.

8 First, over what period of time is that
9 referring to?

10 A. That's an annual number.

11 Q. That's an annual number. Okay. And could
12 you expand on exactly why that's going to be
13 that much more, and what does it break down
14 to as a rough percentage? I mean, is this
15 1 percent or 50 percent or --

16 A. I cannot explain why, other than that
17 National Grid is providing, let's call them
18 "back-office" types of services for a much
19 larger group of customers. When we think
20 about billing, customer service, accounting,
21 issues of that nature, they're able to
22 spread those costs over a much larger
23 customer base than Liberty will be able to.
24 That's, I think, what you were referring to

1 this morning as the economies of scale.

2 In terms of percentage, I don't know if
3 I have those numbers, off the top of my
4 head. If you could give me one moment,
5 maybe we do.

6 Q. Sure.

7 A. In Attachment SJR 3, on Page 3 -- and I
8 apologize for the tiny print -- that is a
9 summary of Granite State's operating and
10 maintenance costs for 2011. And the total
11 cost for Granite State in 2011 is...

12 Q. You got me.

13 CHAIRMAN IGNATIUS: Yeah.

14 A. Yeah, this is not an exhibit I prepared.
15 This is something that was provided by the
16 Petitioner. I believe what this is showing
17 is -- yes, the very bottom line says "O & M
18 Expenses Plus Labor." And the budget
19 figure -- sorry. The National Grid figure
20 is the third number from the left on the
21 bottom. I think that's \$16,181,000. And
22 the figure to the right of that is Liberty's
23 budget, or the equivalent number for 2011,
24 which would have been \$17,070,000. And then

1 to the right of that I think is inflating
2 that number into 2012. That's probably a
3 little less relevant because we don't know
4 what National Grid's numbers would be for
5 2012. But for 2011, that's that \$889,000
6 difference. So that's 889,000 out of
7 16 million is, in round numbers, about 4 or
8 5 percent, and that's for Granite State.
9 The next page has the same type of analysis
10 for EnergyNorth.

11 Q. But we can read this page.

12 A. Yeah, this one's a little easier to read.
13 And that shows the \$876,000 difference out
14 of about \$28 million in 2011. That's
15 probably about around 3 percent higher,
16 something in that range. Again, this is
17 just looking at operating and maintenance
18 expenses and labor. It doesn't include the
19 rate base side of the equation. But I think
20 that puts it in some perspective for you.

21 Q. Yeah, that's very helpful. Thank you.

22 And you mentioned that the debt costs
23 were going to be lower. And that's just
24 because of Granite State, they're

1 refinancing something at a better interest
2 rate?

3 A. Yes. Liberty will be replacing most of the
4 existing debt, which is really debt -- as I
5 understand it, most of that is debt owed by
6 the utilities to National Grid. It's not
7 debt that's owed to unaffiliated third
8 parties. So that debt will be replaced by
9 debt that Liberty is issuing on the open
10 markets, and that's at a lower cost than
11 it's currently reflected on the books of
12 EnergyNorth and Granite State. So I think
13 the latest estimate I saw was a savings of
14 about a million and a half dollars in annual
15 interest costs from doing that.

16 Q. Now, so, would it be fair, then, to add
17 those two numbers together, the 800 -- in
18 the case of Granite State, the 889,000,
19 which is a higher expense, and then the
20 million dollars, which is a lower expense,
21 and come out with a net slight decrease
22 or --

23 A. No. If you look on Page 15 of my testimony,
24 there's a table at the top of the page that

1 summarizes it. The Granite State number was
2 updated somewhat from the exhibit we were
3 just looking at. So that's \$963,000 instead
4 of \$889,000 in increased costs -- the
5 increased cost to EnergyNorth -- and then,
6 you know, non-labor cost increase for IT
7 investment and then the return on IT
8 investment. If we were to update those
9 numbers today, the non-labor IT cost
10 increase would be higher because of
11 additional depreciation. The return on IT
12 investment would be higher because we're at
13 \$8.1 million instead of \$6.3 million when
14 this was prepared. So we'd be up closer to
15 \$3 million as Liberty's increased costs to
16 do business compared to National Grid's.
17 And then we would reduce that by about a
18 million and a half dollars for the lower
19 debt cost. So the net would be about, you
20 know, again, ballpark numbers, about
21 \$1.5 million in higher costs under Liberty
22 ownership, or the two utilities combined.

23 Q. And that's for per year?

24 A. Yes.

1 Q. Okay. So, about one and a half million
2 higher per year, all included. Okay. Thank
3 you.

4 A. Yes. And I think I referred to this
5 earlier. That's in the early years before
6 that IT investment has depreciated. Once,
7 you know, depreciation on that investment
8 has accumulated, the cost to consumers
9 becomes much lower on an annual basis. So
10 that \$1.5 million number starts to shrink.
11 And that's why I referred to the ratemaking
12 provisions in the settlement as largely
13 offsetting the cost increase in the early
14 years. And then in the later years we just
15 have to see what happens.

16 Q. All right.

17 CMSR. HARRINGTON: Thank you.

18 That's all.

19 CHAIRMAN IGNATIUS: Commissioner
20 Scott.

21 MR. SCOTT: Thank you.

22 INTERROGATORIES BY CMSR. SCOTT:

23 Q. I just wanted to clarify. Early on in your
24 statement you expressed you still have

1 concerns regarding managerial capability.

2 Was that more what you just discussed, as
3 far as having deep pockets and costs
4 related, or is it actual technical ability?

5 A. It was more related to experience. Liberty
6 itself does not have any experience with a
7 natural gas distribution utility. They have
8 limited experience with an electric
9 distribution utility -- you know, one
10 utility that they acquired within the last
11 two years or so, and that they're still
12 working through the transition process for.
13 So that's where those concerns are coming
14 there. I recognize that Liberty is bringing
15 in a number of people from National Grid who
16 have, you know, the more day-to-day,
17 hands-on type of experience, which is very
18 helpful. But at the upper management level,
19 Liberty really does not have the experience
20 with a natural gas utility and, again, very
21 limited experience with an electric utility.

22 Q. And on that same regard, you mentioned,
23 obviously, you felt a little bit more
24 comfortable, given all the controls that

1 were, for want of a better word, in place,
2 assuming the settlement agreement is
3 approved. Is there something -- what could
4 the Company do to make you feel more
5 comfortable regarding that aspect?

6 A. Well, I think the provisions in the
7 settlement are sufficient, or at least I
8 hope they're sufficient, to protect
9 consumers from any adverse effects.
10 Basically puts another layer of oversight,
11 you know, on top of Liberty's management.
12 That's something we normally would not see
13 if Liberty were, you know, a fully
14 experienced and qualified company coming in;
15 those provisions would not be necessary.

16 I'm not sure there's anything Liberty
17 could do to satisfy me that they, you know,
18 have the experience to, you know, reliably
19 operate a natural gas distribution company,
20 short of bringing somebody in at upper
21 management who has that type of experience.

22 And I talk about this a little bit in
23 the testimony, that what is required of a
24 natural gas distribution company is very

1 different than what is required of a water
2 utility. Water utility, we routinely see
3 lost or unaccounted-for water of 15 to
4 20 percent; and gas, we have to keep that
5 usually below 1 percent. In water, we have
6 fairly frequent -- maybe "frequent" is not
7 the right word. But it's not unusual to
8 have main breaks or sporadic outages. In
9 gas, there is zero tolerance for that. And
10 it's extremely expensive to respond to a
11 natural gas outage, even a limited one,
12 because somebody has to go door to door to
13 shut off gas and then turn it back on,
14 re-light pilot lights and so on. It's a
15 very different type of operation.

16 I've been in this business for close to
17 30 years. A lot of my work involves water
18 utilities. I know a lot of people who
19 operate and own water utilities, and the
20 mindset is very different than what I see in
21 the energy industry. And there's very
22 little experience out there with a company
23 that is engaged in both water and energy
24 distribution. There have been some electric

1 utilities that have tried to get into the
2 water business and quickly left because they
3 realized it was pretty different from what
4 they were used to. I'm not aware of any gas
5 utilities that have even tried to get into
6 the water business, or any water utilities
7 that have tried to get into the gas
8 business. So this is really some new
9 territory that's being plowed here, and it
10 makes me a little nervous.

11 MR. SCOTT: Thank you.

12 INTERROGATORIES BY CHAIRMAN IGNATIUS:

13 Q. Mr. Rubin, a couple times you referred to
14 that cost differential being higher during
15 the early years and coming down in the later
16 years. Can you put some time frames on what
17 "early" and "later" mean?

18 A. I'm not an accountant, and I'm certainly not
19 a depreciation expert. But I believe the
20 information we've seen has that initial IT
21 investment depreciating over either seven or
22 eight years. So if we take that -- let's
23 use some round numbers. Let's say it's an
24 \$8 million investment for IT, and that

1 depreciates over -- well, let's make it real
2 easy. Say it depreciates over eight years.
3 That means after a year, there's \$7 million
4 of investment left that's going to earn a
5 return. So, when we get out, you know, past
6 the first two or three years, that number is
7 getting pretty small and is getting closer
8 to the level of investment that National
9 Grid has that's being allocated to the New
10 Hampshire company. So I think once we get
11 past probably about three years of Liberty
12 ownership, then the information
13 technology-related costs start to become
14 much closer to what they would be under
15 National Grid ownership. And that's why
16 that initial stay-out is so important for
17 EnergyNorth, because it provides some time
18 for that investment to depreciate before
19 that first rate case is filed.

20 Q. In following up on your concerns about lack
21 of experience with a natural gas utility,
22 are there any indicators you can think of
23 that would be important to watch for that
24 might show you things are operating well or

1 things seem to be getting out of hand, and
2 before it gets even worse, apply some
3 greater scrutiny to what's going on?

4 A. Yes. I'll leave a lot of that detail to the
5 operations and safety experts you'll be
6 hearing from later.

7 One important measure is the
8 unaccounted-for gas, which we've included a
9 cap on that in the settlement. And that cap
10 was -- I won't go into exactly how that was
11 calculated. But essentially, that
12 represents EnergyNorth's typical experience
13 over the last five to six years. I mean,
14 there was some averaging and all that
15 involved. But that's at a level that we
16 think is comparable to what EnergyNorth has
17 experienced under National Grid ownership.
18 So if we see that number really start to
19 climb, that would be a concern. I think if
20 we see a big change in the level of
21 investment that's going into, you know,
22 replacing bare steel and cast iron in the
23 distribution system, that would be a
24 concern. Obviously, if there are customer

1 outages, that would be a very serious
2 concern -- again, looking at natural gas.

3 So those are, you know, three fairly
4 high-level indicators that, you know, I
5 would suggest you watch for. And I know the
6 settlement includes a number of more
7 detailed provisions as well. And you'll be
8 getting, I think on most of them, quarterly
9 reporting, which would be very useful, just
10 to make sure things are not deteriorating.

11 Q. Did you hear the testimony this morning
12 about the relationship between the org chart
13 that's been marked for identification as
14 Exhibit 6 and the way that that interacts
15 with the organization that has EnergyNorth
16 and Granite State sort of connected down
17 below through the operations side of things?

18 A. I did hear that, yes.

19 Q. As I understood it -- and we'll have more
20 testimony on this, so if I'm wrong, I hope
21 people will clarify for me -- all of the
22 positions identified in Exhibit 6 are really
23 sort of service -- providing services to
24 those two utilities. Utilities are

1 stand-alone businesses, but they obtain many
2 of their services through the Liberty
3 Utilities positions that we see identified
4 in Exhibit 6. Does that meet your
5 understanding of what's going on?

6 A. That is my understanding. Now, some of the
7 functions shown here as Liberty Utilities
8 New Hampshire are only going to be provided
9 to either Granite State or EnergyNorth. You
10 know, the gas supply function is an
11 EnergyNorth function. The electric supply
12 function is a Granite State function. So,
13 some of what's shown here, you know, is very
14 specific to one utility or the other. But
15 it's all reporting up to a Liberty Utilities
16 New Hampshire executive; you know, both gas
17 an electric supply are under the Liberty
18 utilities New Hampshire Director of Energy
19 Procurement.

20 And the same thing on the operating
21 side. Gas operations and electric
22 operations are shown as separate boxes here,
23 but they're both under the Vice-President of
24 Operations and Engineering, which is a

1 Liberty Utilities New Hampshire executive.

2 Q. Does that structure, splitting -- let's
3 stick with gas here -- splitting the gas
4 function into different lines of authority
5 that are separate and apart from the actual
6 gas distribution company make sense to you?

7 A. I don't feel qualified to really answer
8 that. I'm not an expert on the management
9 of any kind of company or management
10 structure. There are, I think, two
11 different ways to do it. You know, one
12 approach would be to have an electric
13 company and a gas company, each with its own
14 executive structure; then the service
15 company would provide fairly limited
16 support, you know, for common functions like
17 billing and metering, customer service,
18 accounting, those sorts of things. That's
19 one approach. This is a different approach.
20 This is centralizing most of those functions
21 at the -- call it the immediate parent
22 company, you know, the New Hampshire
23 parent -- and then not -- I don't want to
24 say each of the operating utilities wouldn't

1 be autonomous, but they would have a limited
2 level, I think, of executive -- well, I'm
3 not sure of the right way to say it. But
4 the operating utilities really would not be
5 autonomous entities. They would be
6 reporting up to directors and
7 vice-presidents at the parent company level.
8 So, presumably, they would not have that
9 type of executive leadership on a
10 stand-alone basis; they're getting it from
11 the parent company. And that's as far as I
12 can go, just to say that there are two
13 different models. I don't know if one is
14 better than the other.

15 Q. All right. And I think we'll be hearing
16 more about structuring management in panels
17 yet to come. So maybe that's fine for now.

18 CHAIRMAN IGNATIUS: All right.
19 I think that's it for our questions.

20 Any redirect, Ms. Hollenberg?

21 MS. HOLLENBERG: No, thank you.

22 CHAIRMAN IGNATIUS: Thank you
23 very much, Mr. Rubin. You are excused. And
24 if you need to travel, that's okay.

1 MR. CAMERINO: Would it be
2 appropriate if we have a couple follow-up
3 questions on responses that Mr. Rubin gave to
4 the Bench?

5 CHAIRMAN IGNATIUS: We don't
6 normally do that, certainly not as a matter of
7 course. Is it something that couldn't have
8 been anticipated, wasn't in the scope of
9 things that had been prefiled?

10 MR. CAMERINO: It's related
11 to -- he had answered in a lot more detail,
12 frankly, a question about why he believed that
13 Liberty didn't have the experience with regard
14 to operating a gas company, and I wanted to
15 just clarify what he had considered in
16 reaching that conclusion.

17 CHAIRMAN IGNATIUS: All right.
18 We'll allow it. I do want to not suggest that
19 we're always going to allow that. But if it's
20 something fairly brief and specific to things
21 that really couldn't have been anticipated,
22 that's fine.

23 MR. CAMERINO: We appreciate
24 that.

1 CROSS-EXAMINATION

2 BY MR. CAMERINO:

3 Q. Mr. Rubin, when you were sharing your
4 perspective on Liberty's experience with
5 regard to operating particularly a natural
6 gas company, but an electric gas company as
7 well, I take it your remarks related to --
8 when you said "Liberty," you meant Liberty
9 meaning Mr. Pasieka, Mr. Robertson and the
10 people at that level of the organization.
11 You were not referring to -- when we look at
12 this org chart, you were not passing
13 judgment on the capabilities of people like
14 Mr. Dafonte, Mr. Saad, Mr. MacDonald, Mr.
15 McCallum, and people that are here, saying
16 that those people that Liberty has engaged
17 don't have that experience. Is that a fair
18 statement?

19 A. Yes, you are correct. I was talking about
20 the -- I hope I don't bungle the names --
21 but at the Liberty Utilities level, the
22 Toronto-area headquarters, not the specific
23 people that would be doing the day-to-day
24 operations in New Hampshire.

1 MR. CAMERINO: Much.

2 CHAIRMAN IGNATIUS: All right.

3 Thank you. You're excused.

4 THE WITNESS: Thank you.

5 CHAIRMAN IGNATIUS: Do we have
6 now a panel on the settlement itself?

7 MS. FABRIZIO: This is Staff's
8 panel with its consultants on IT issues
9 related to the transaction.

10 CHAIRMAN IGNATIUS: You've told
11 me that twice. Maybe it might sink in at some
12 point.

13 MS. FABRIZIO: Staff calls
14 Gregory Mann and Timothy Connolly to the
15 stand.

16 (WHEREUPON, GREGORY L. MANN AND TIMOTHY
17 M. CONNOLLY were duly sworn and
18 cautioned by the Court Reporter.)

19 GREGORY L. MANN, SWORN

20 TIMOTHY M. CONNOLLY, SWORN

21 DIRECT EXAMINATION

22 BY MS. FABRIZIO:

23 Q. Mr. Mann, could you please state your name
24 and business address for the record?

1 A. (By Mr. Mann) Gregory Mann. The address is
2 11610 Tomahawk Creek Parkway, Leawood,
3 Kansas, 66211.

4 Q. And by whom are you employed and in what
5 capacity?

6 A. (By Mr. Mann) Managing vice-president for
7 Gorham|Gold|Greenwich & Associates.

8 Q. And what has been your involvement in this
9 proceeding?

10 A. (By Mr. Mann) Our involvement was to review
11 the IT systems and preparations and plans
12 that were being made by Liberty Energy -- or
13 Liberty Utilities and National Grid for
14 purposes of equipping Granite State Electric
15 and EnergyNorth with their IT systems
16 following the sale.

17 Q. Mr. Connolly, could you please state your
18 name and business address for the record?

19 A. (By Mr. Connolly) Timothy Connolly,
20 C-O-N-N-O-L-L-Y. My business address is
21 2005 Arbor Avenue, Belmont, California.

22 Q. And by whom are you employed and in what
23 capacity?

24 A. (By Mr. Connolly) I'm the vice-president for

1 regulatory compliance with
2 Gorham|Gold|Greenwich & Associates.

3 Q. And what has been your involvement in this
4 proceeding?

5 A. (By Mr. Connolly) As with Dr. Mann, review
6 of the IT plans and preparations of Liberty
7 and National Grid towards the implementation
8 of the systems for Granite State Electric
9 and EnergyNorth Gas.

10 Q. Thank you. Now I'll direct my next
11 questions to you both as a panel.

12 You filed direct and supplemental
13 testimony in this docket; is that correct?

14 A. (By Mr. Mann) That's correct.

15 Q. And was that testimony prepared by you,
16 under your direction?

17 A. (By Mr. Mann) It was.

18 MS. FABRIZIO: And Chairman
19 Ignatius, I would like to request that the
20 October 7, 2011 direct testimony and April 10,
21 2012 supplemental testimony of
22 Gorham|Gold|Greenwich & Associates, or G3
23 Associates, be marked for identification as
24 Exhibits 11 and 12.

1 CHAIRMAN IGNATIUS: So marked.

2 (11 marked for identification.)

3 (12 marked for identification.)

4 Q. Mr. Mann, do you have any corrections or
5 changes that you would like to make to your
6 testimony?

7 A. (By Mr. Mann) We have one minor correction.
8 I'd refer you to the attachment marked
9 "G3-1," Paragraph 2 --

10 Q. And are you looking at the April 10th,
11 2012 --

12 A. (By Mr. Mann) I'm sorry. Yes, the
13 April 10th, 2012 prefiled testimony and
14 report. Attachment G3-1, Page 3,
15 Paragraph 2, Bullet 1, there's a reference
16 there made in the second sentence to "Mr.
17 Pasieka will direct Liberty's Project
18 Management Office." That should be
19 corrected to refer to Mr. Wood as opposed to
20 Mr. Pasieka.

21 Q. And with that change, is this testimony true
22 and accurate to the best of your knowledge?

23 A. (By Mr. Mann) Yes, it is.

24 Q. Okay. Could you please briefly state how

1 you approached the task asked of you by
2 Staff and what you concluded in your report?

3 A. (By Mr. Mann) We were asked by Staff to
4 review the plans and proposals that were
5 being made and the efforts that were being
6 expended by the two companies.

7 At the time that we were engaged, the
8 Company was already -- the companies were
9 already in the process of developing their
10 approach to transitioning the IT system over
11 from National Grid to Liberty. At that
12 point in time, we found that a considerable
13 amount of work had been expended by both
14 parties to achieve a degree of cutover from
15 the initial state for their financial and
16 corporate governance systems, as they were
17 necessary to commence operations.

18 Liberty had concluded that its need
19 for -- to achieve the needed flexibility as
20 it assumed responsibility and worked with
21 National Grid to establish a process by
22 which National Grid would assist it in doing
23 so. As Liberty saw itself growing into its
24 new role, Liberty would flush out the IT

1 results that were required at a later date.
2 What this did was it manifested itself in an
3 IT strategy that deferred some of the
4 operational-level questions and requirements
5 to later times in the development cycle.

6 As a consequence, from our viewpoint,
7 what we concluded early on was that we were
8 disappointed in seeing the level of the lack
9 of detail at the back end of the transition
10 process. We also felt that, in the course
11 of events, the implementation schedule was
12 aggressive and would probably require some
13 additional extension before it could be
14 completed.

15 Subsequent to that, in the course of
16 events, we've had a significant amount of
17 discussion. We conducted fairly extensive
18 discovery with both companies, engaged in
19 quite a bit of discussion, toured the sites
20 that the Company envisioned its IT support
21 to be provided from, met with a considerable
22 number of their managers and executives and
23 talked about improvements that could be made
24 in the processes. And subsequently, by the

1 time we issued our October -- our April
2 report, we were relatively comfortable with
3 the changes that were being made on the part
4 of the Company and the improvements that
5 were being adopted on their part.

6 Q. Thank you. Generally speaking, how did the
7 Petitioners respond to your conclusions and
8 recommendations?

9 A. (By Mr. Mann) They were very supportive.
10 Initially, there was some questions in their
11 minds as to the things that we were asking
12 for. But they understood that what we were
13 attempting to do was put in place supports
14 that would allow them to be more successful.
15 And as a consequence, in every instance, the
16 recommendations that we made have been
17 adopted.

18 Q. Thank you. The next few questions I'd like
19 to turn to Exhibit 12. This is the
20 April 10, 2012 testimony and report prepared
21 by G3. On Page 4 of your report --

22 MS. FABRIZIO: And when I refer
23 to page numbers, I'm referring to the middle
24 at the bottom of the page. And I'm looking at

1 the Attachment G3-1 on Page 4.

2 CMSR. HARRINGTON: Excuse me.

3 Is the report 07? Is that what you're
4 referring to?

5 MS. FABRIZIO: It's attached to
6 the April 10, 2012, and there's an April 10,
7 2012 date in the header. There were two
8 reports: One filed in October and the
9 supplemental filed in April.

10 CMSR. SCOTT: To clarify, so the
11 header says "2011," but it should be "2012";
12 correct?

13 MS. FABRIZIO: Yes. We filed a
14 revised version that replaced that date.

15 CMSR. HARRINGTON: I'm sorry.
16 I'm still -- there's two reports?

17 MS. FABRIZIO: Yes. G3 filed
18 testimony with an attached report on
19 October 7th, 2011. That's Exhibit 11. And
20 then it filed supplemental testimony with a
21 supplemental report on April 10th, 2012. And
22 that has been marked as Exhibit 12. I'll be
23 happy to provide --

24 CMSR. HARRINGTON: So this is

1 the report you're referring to that came with
2 October 7th, that's dated October 7th, and it
3 says "National Grid and Liberty Energy
4 Utilities Company Technical Report"?

5 MS. FABRIZIO: Yes, that's --

6 CMSR. HARRINGTON: That's part
7 of --

8 MS. FABRIZIO: That's attached
9 to the testimony. So that's as one with
10 Exhibit 11.

11 CMSR. HARRINGTON: Okay. Thank
12 you.

13 A. (By Mr. Mann) And your question related to
14 the attachments to that report.

15 BY MS. FABRIZIO:

16 Q. To the April report -- to the April
17 testimony.

18 A. (By Mr. Mann) All right.

19 Q. And my questions really go to more general
20 remarks from G3. So it's actually not
21 necessary to flip pages, if that makes it
22 easier.

23 On Page 4 of the April 10th report, you
24 mentioned that Liberty has prepared an IT

1 plan and IT migration plan. Could you
2 outline briefly your assessment of those
3 plans, and could you also comment on
4 Liberty's "Greenfield," as you term it, its
5 approach to IT planning.

6 A. (By Mr. Mann) Liberty Energy has prepared
7 two documents that principally codify what
8 constitute their total planning efforts.
9 The initial plan, the IT plan, is an
10 over-arching document that outlines the
11 requirements that their operating company
12 will have for IT support and how they intend
13 to approach that.

14 The IT migration plan is actually a
15 working document that, over time, will guide
16 the implementation by the companies and will
17 permit Staff the ability to monitor their
18 implementation efforts and judge the merits
19 of their work.

20 The migration plan incorporates many of
21 the concerns -- or addresses many of the
22 concerns that we had in our initial report.
23 It provides for an extensive amount of
24 testing to ensure that the capabilities of

1 the various software applications that are
2 being introduced in the system will work.
3 It provides for a change-management process
4 that will govern changes that may in fact be
5 required as the implementation occurs. It
6 also provides what will serve as the basic
7 mechanism by which the Staff will be able to
8 judge both the efficiency of the
9 implementation, but also to be knowledgeable
10 early on of anything that may affect either
11 cost or schedules associated with the plan
12 to transfer.

13 The question of "Greenfield" -- that's
14 a term of art that's used. One thing that
15 was very apparent in this engagement, that
16 has been generally different than in many
17 other instances, Liberty Energy has the
18 ability to institute or introduce many
19 different, new types of -- let me rephrase
20 that -- has the opportunity to examine what
21 its requirements are from the bottom up from
22 its user standpoint and is in the process of
23 designing its systems and its capabilities
24 to meet those user requirements. It's not

1 bound to the legacy systems that have been
2 employed by National Grid, which in and of
3 themselves have mutated quite extensively
4 over the years as National Grid has
5 assembled many of its operating units.

6 In this particular instance, Liberty
7 went with the approach that it was looking
8 to try and balance out the capabilities that
9 its users needed with the cost of delivery,
10 and as a result, resulted in a systems
11 approach that was markedly different than
12 the approach that National Grid has
13 employed. And so from that standpoint, we
14 considered it a "Greenfield" because they
15 were willing to start from scratch and look
16 at it from the bottom up.

17 Q. Thank you. On Page 9, at Footnote 6 of the
18 same April 2012 report, you note that
19 Liberty's New Hampshire acquisitions will
20 utilize similar IT development and
21 deployment approaches as the CalPeco
22 acquisition in California. Could you
23 comment on the similarities and whether
24 there are lessons that have been learned

1 through the CalPeco experience?

2 A. (By Mr. Connolly) There are some
3 similarities and some parallels between the
4 CalPeco experience and Granite State/
5 EnergyNorth. And then there are some
6 differences and there are some lessons
7 learned. Let me start with the
8 similarities.

9 Liberty is acquiring the operations of
10 a company and its about 40 some-odd thousand
11 electric users in California. And the
12 systems that are being put into place for
13 CalPeco operations are "off the shelf" or
14 "out of the box" -- that's the
15 terminology -- acquired from vendors,
16 reputable vendors who have gotten proven
17 experience in their application. And the
18 host, the selling company -- in this case,
19 Sierra Nevada -- has the data that needs to
20 be populated into these new systems. And
21 there's some transition services which guide
22 the operation of the company between the
23 time that it starts to acquire information
24 and data and the time it begins to operate

1 on its own. Those three things are very
2 consistent parallels with what we see here
3 in New Hampshire with Granite State and
4 EnergyNorth.

5 In terms of some differences, CalPeco
6 is just electric, with 7,500 or so users.
7 It's a lot smaller than the territory that's
8 being brought in from National Grid. And
9 the third major one, the third major
10 difference, is that the National Grid system
11 that houses the data for New Hampshire
12 operations is co-mingled with user
13 information, circuit information, field
14 information, dispatch information and
15 records Works management and so forth for
16 New Hampshire, for Massachusetts, for Rhode
17 Island, for New York, contrasted with Sierra
18 Nevada, which had isolated all of the
19 information about its operations into a
20 separate system and running it out of their
21 combined operation network. So the data
22 bases, for National Grid purposes, are
23 co-mingled with many other states, and for
24 Sierra Nevada were isolated into one

1 operating region.

2 So, those two -- set of parallels, set
3 of differences -- are what apparently what
4 we have seen that Liberty has learned from
5 those CalPeco lessons, that IT testing is
6 critical to the success of turning up these
7 applications.

8 We have seen -- they've shared
9 information with us about their experience,
10 the way it's gone, things that -- they've
11 had one test plan. They needed to
12 supplement that with other test plans. They
13 needed to do more reiterative testing. So
14 those are the practical lessons learned
15 about that. They've also learned about the
16 complications of training users to work with
17 these systems will take longer than the
18 initial forecast of however many training
19 hours and training days. Things take longer
20 when you have more people involved, and
21 other training resources need to be
22 deployed. So I think that was a very
23 helpful lesson that was learned.

24 I know that they've learned about

1 transition services and what those require
2 for purposes of managing the cost of those,
3 managing the delivery and operation of those
4 transition services as they will be
5 receiving those services from National Grid.
6 They've already been receiving them for
7 Sierra Nevada. So there's an awareness, a
8 set of lessons being learned there.

9 I think the bottom line is that they've
10 learned that implementation of these
11 systems, this IT environment, is
12 complicated. It requires dedicated people
13 who have experience in information
14 technology, and these things take time and
15 they take resources. And you have to do
16 them right, and you have to do them well, or
17 you have to do them over and over again.

18 So I think those are key lessons
19 learned from the CalPeco environment. And I
20 think, as I mentioned, there's parallels and
21 differences about those.

22 Q. Thank you. Now, in your October report, you
23 mentioned some concerns that you had
24 regarding Liberty's ability to effect an

1 orderly and cost-efficient transition of
2 responsibilities for information-related
3 systems and services. Have you revised your
4 opinion on that point?

5 A. (By Mr. Mann) We have. Our original
6 position on this related more to the fact
7 that we did not see the type of strong
8 governance system in place that we would
9 have liked to have had. Also, we were
10 concerned about the lack of definition in
11 the long-term planning area. Subsequent to
12 that, the companies both have made major
13 commitments to strengthening both the
14 governance processes, as well as commitments
15 for senior executives to monitor or to
16 manage the process. And we've also seen a
17 significant amount of clarity that's been
18 added to the planning, the longer-term
19 planning requirements, including the
20 testing, the user needs analysis, vendor
21 management cost program that's been put in
22 place to ensure the support that their
23 vendors are delivering products and services
24 that they've agreed upon. We've seen

1 formalization of a data-retention agreement
2 between the two companies that ensures and
3 preserves long-term access to historical
4 data that National Grid currently maintains.

5 And so there have been a number of
6 things that, from our standpoint, are the
7 things that we would look to, to ensure a
8 more orderly transition, but also one that
9 is as close to what is projected in budgets
10 as could be conceived at this point in time.

11 Q. Thank you. Now, on Page 6 of your April
12 report, you referred to "subsequent effort
13 to solidify the Petitioners' commitment to
14 testing the IT systems." Could you
15 elaborate on that, please?

16 A. (By Mr. Connolly) Our first report, our
17 October report, found that the testing that
18 had been envisioned by Liberty for its Day
19 One environment was structured around
20 financial systems and financial reporting
21 and the limited infrastructure, technical
22 infrastructure that was necessary for Day
23 One operations. And we asked about the
24 testing disciplines that were being

1 embraced. And we thought those -- we think
2 those involve system testing, integration
3 testing and user testing and stress testing,
4 and all the disciplines that go into a
5 comprehensive, solid, well-disciplined and
6 well-defined IT testing program. And when
7 we asked about that nature of testing
8 commitment for the turn-up of those first
9 systems, we didn't get the positive
10 reinforcement that we were looking for. And
11 then we went and looked beyond those first
12 set of Day 1 systems and asked about what's
13 the commitment to testing for the customer
14 roll-out or the billing roll-out or the
15 Works management program, which are coming
16 in their own environments as progress is
17 made in the IT world. And again, we weren't
18 strongly reinforced about the level of
19 commitment to that kind of testing that we
20 saw as mandatory to turning up quality
21 applications that met user needs, that
22 operated consistent with the IT strategies
23 and so on and so forth.

24 Since that report was issued, and since

1 we began having the technical sessions and
2 some of the conferences that Staff led, the
3 engagement on testing has become very, very
4 positive. And if you go through -- when you
5 go through Attachments G and H, which are
6 the IT plan and the migration plan, you'll
7 see that Liberty has emphasized testing and
8 emphasized the continuum of testing from the
9 first part of the application being ready to
10 all the way to the users being satisfied
11 with the commitment that they've made, which
12 is on -- in the IT plan where it says,
13 quote, Liberty will ensure that its quality
14 assurance goal is met by having all
15 applications tested before they are moved
16 into production. We see that now. We never
17 saw that commitment level before. So I
18 think this goes to Liberty's recognition and
19 acknowledgment that, in order to succeed,
20 testing and proving that the systems work
21 was done, and done well, is really critical
22 to their success, and certainly critical to
23 all of the implementations that we know will
24 be coming up over the next several years.

1 Q. Thank you. On Page 7 of the April report,
2 you note that further negotiations between
3 Staff and Liberty will be required with
4 respect to IT implementation post-close.
5 What, in your opinion, is the scope of what
6 will be required?

7 A. (By Mr. Mann) We believe that the Staff will
8 need to be actively engaged with the
9 companies in not just monitoring the
10 schedule that's been set forth, but ensuring
11 that the commitments that are made in that
12 schedule are in fact fulfilled. Staff will
13 have to closely monitor the expenses
14 associated with the services that are being
15 provided under the TSA agreements --
16 specifically, in our instance, the
17 IT-related expenses.

18 As was pointed out earlier this morning
19 by one of the panels, the capital costs
20 associated with the IT project are capped.
21 The operating expenses associated with it
22 are not. Those expenses will need to be
23 monitored by Staff to ensure that not only
24 are they being incurred on behalf of -- on

1 direct behalf of implementation of the IT
2 requirements, but also that they reflect
3 expenses that are judicious and prudent
4 before they could be -- so that later on
5 they could be considered, if required, in a
6 rate case for recovery purposes.

7 Q. Thank you. On a related note, on Page 10,
8 you raise concerns regarding the increased
9 projections of Liberty's IT costs and
10 suggest that Staff will need to monitor
11 implementation. Could you explain what you
12 mean when you suggest that "Staff should
13 ensure that all expenditures meet recognized
14 prudence tests"?

15 CMSR. HARRINGTON: Excuse me.
16 When you say "Page 10," is that -- there's two
17 numbers on the page. Which one are you -- is
18 it in Attachment G3-1?

19 MS. FABRIZIO: I'm looking at
20 the number in the center.

21 CMSR. HARRINGTON: This is
22 Attachment G3-1?

23 MS. FABRIZIO: Yes.

24 CMSR. HARRINGTON: The page

1 number in the center. Okay.

2 A. (By Mr. Mann) Essentially what we're saying
3 here is that expenses may in fact be
4 incurred.

5 MR. MANN: I think,
6 Commissioner, you pointed out this morning
7 that not every implementation goes exactly the
8 way it's envisioned. And we expect that to be
9 the case here. That's why we requested that
10 there be a change-management process put in
11 place with the implementation so that Staff
12 could monitor the changes and assess what, if
13 any, financial impact those changes might
14 have, as well as schedule changes.

15 A. (By Mr. Mann) Now, expenses that are incurred
16 need to be justified, even as they go along,
17 so that Staff can better understand what the
18 nature of the change is, why it's required,
19 what its impact is, and whether or not it
20 reflects poor decision-making that might
21 have been made previously, or if it's a
22 result of exogenous factors that were
23 unforeseen events that were not considered
24 before.

1 And so the prudence test is essentially
2 a derivative of a set of tests that were
3 established for nuclear power plant
4 construction, which I'm sure you're probably
5 familiar with. And they basically deal with
6 the "Reasonable Man Theory" of what was
7 known at the time those decisions were made;
8 what options were available and were
9 considered; why were the options that were
10 selected chosen, and were those in fact
11 good; and if so, the expense is prudent; if
12 not, then it's not prudent.

13 Q. Thank you. On Page 11, also of the April
14 report, you note that Liberty has made
15 material improvements in program governance
16 with respect to IT planning. Could
17 you explain that further?

18 A. (By Mr. Connolly) Well, I think that the
19 first panel this morning with Mr. Pasieka
20 and Mr. Horan described the
21 transition-management approach that the
22 companies have now put in place, which was
23 not in place as we did our examination of
24 the companies' preparedness. So we see a

1 heightened awareness. We see a structure
2 that's been put in place for transition
3 management, for program management. And
4 certainly, most importantly, in order to
5 make the IT world work is the IT Steering
6 Committee and its role as its explained in
7 the planning documents and as the
8 companies -- as the settlement agreement
9 provides.

10 There's communication protocols that
11 are established, frequency of reporting and
12 meetings to make sure that things are
13 understood and that action plans are built
14 and remedies are put in place before they
15 come out of control. The change-management
16 program, as Dr. Mann mentioned, is another
17 element of the governance process being the
18 subject of a lot of attention and much in
19 the way of resolution that's been brought
20 about in the intervening months.

21 Q. Thank you. On Page 12, you refer to a
22 data-retention agreement reached between
23 Liberty and National Grid. Can you explain
24 the significance of that agreement?

1 A. (By Mr. Mann) The data-retention agreement
2 formalizes an understanding that was reached
3 between the parties, before we were actually
4 engaged, that was going to provide the
5 Company with information -- historical
6 information that was not going to be
7 converted or transferred over to Liberty at
8 the time of the conversion. This related to
9 customer data, operational data, other
10 information that was thought to possibly be
11 useful but didn't warrant moving it across
12 or trying to convert it at this point in
13 time.

14 The concern that we had was that we
15 wanted to see that relationship formalized
16 in a contract that set forth the rights that
17 each of the two parties had to that
18 information, to the use of it in subsequent
19 years, trying to make sure that in fact
20 Liberty Energy did not find itself
21 disadvantaged at some point in the future by
22 not having access to that historical data.
23 More importantly was that, by making that
24 agreement -- putting that agreement in place

1 and ensuring that that information is
2 retained, it gives to the Staff the ability
3 to ensure that all the existing reports that
4 have been provided by National Grid, that
5 there's sufficient data available, that in
6 the future, as Staff requires information
7 and wants to look back before the
8 transaction, it has the ability to do so.
9 So we've preserved that capability on
10 Staff's part.

11 Q. Thank you. Now, who, to your knowledge, is
12 paying for the IT conversion cost of this
13 transaction? Is that Liberty, Grid, or both
14 companies?

15 A. (By Mr. Connolly) Sorry?

16 Q. Who is, to your knowledge, paying for the IT
17 conversion costs for this transaction?
18 Liberty, National Grid, or both?

19 A. (By Mr. Connolly) There are seven or eight,
20 subject to check, IT services in the
21 Transition Services Agreement for -- seven
22 or eight for Granite State and similar or
23 same seven or eight for EnergyNorth. The
24 services that are provided under there are

1 described in the TSA in Attachment A. Those
2 costs are borne by Grid to generate the
3 service and are paid for by Liberty upon --
4 along with all the other transition services
5 that are acquired during the period from
6 Day 1 to ultimate Day N.

7 The IT investment expenses, which are
8 the start-up costs for licenses, for
9 systems, hardware, infrastructure and
10 configuration, expenses that Liberty pays
11 for to the vendors who do that work for the
12 people in Liberty, who do that work as
13 employees of Liberty, those expenses are in
14 the \$8.1 million cap IT investment pool that
15 is Liberty's to pay for.

16 Q. Thank you. And you mentioned earlier that
17 in New Hampshire, utilities data is
18 co-mingled with that of other utilities
19 owned by National Grid. Are there National
20 Grid-related IT conversion costs that will
21 actually be borne by Grid as a result?

22 A. (By Mr. Connolly) In order to -- yes, there
23 are. Some of those costs would be for the
24 staff that is assembled under Madeleine

1 Hanley, who's the head of the IT Steering
2 Committee. Those Grid employees help to
3 explain the structure, content and
4 arrangement of the data within the National
5 Grid legacy systems. That data needs to be
6 extracted from the Liberty systems and put
7 into a transfer medium and given to Liberty,
8 according to schedules, protocols,
9 conversion tests, and all the assurances
10 that go along with making sure that the data
11 is complete, that it's timely and it's
12 accurate. Those costs, to my understanding,
13 are being incurred by National Grid and are
14 not being passed to Liberty.

15 Q. Thank you. In your October testimony and
16 report, you express some reservations that
17 you had with respect to Liberty's IT
18 efforts. Could you explain those
19 reservations?

20 A. (By Mr. Connolly) Yes. Actually when you
21 get all down to it, it's a very long list.
22 But it's a very important list of things.
23 For example: We saw Liberty's progress
24 towards the system and Works operations was

1 not very well advanced, and if imagined to
2 its fruition, the time frames allowed for
3 that were terribly compressed and way too
4 aggressive. We saw that Liberty was relying
5 very heavily on third-party vendors to
6 achieve the IT objectives. As Mr. Pasieka
7 referred to, the SADDIS, S-A-D-D-I-S, data
8 center is where its applications are stored
9 and all of the vendors that contribute to
10 the information technology platform. We
11 didn't see any demonstrated vendor
12 management skill sets that are very
13 necessary for that environment.

14 As I mentioned earlier, we didn't see
15 its ability or its commitment to plan and
16 thoroughly test its IT systems before
17 implementation. We didn't see that there
18 was a clear vision -- there was a clear
19 vision for IT Day 1, but very little beyond
20 Day 1 and for the other parts of the
21 applications that came up and that would be
22 coming up shortly after Day 1. We didn't
23 see much had been conceived in solid
24 planning for those.

1 We saw the transition services as a
2 huge risk in this area, because it's a \$20
3 million expense for the two companies. And
4 those were lifeline services absolutely
5 required to take everything from the
6 beginning of Day 1 until Day N. But we
7 didn't see a service management plan. We
8 didn't see a way for them to effectively
9 deal with a \$20 million obligation.

10 And when we met with the Liberty people
11 and we met with the National Grid people and
12 we talked with some of the vendors involved,
13 one of the things that we saw was that
14 Liberty had an understanding that National
15 Grid was going to be there all the way
16 through, and what we found in our analysis
17 was that Grid was involved but not
18 committed. And as we've talked through
19 these things, there's been a marvelous
20 transformation. There's been tremendous
21 progress made from the time that we made our
22 first observations in our report in October;
23 so now what we see is a fairly changed set
24 of circumstances. So I think that's where

1 we came from and...

2 Q. So, do the terms of the settlement agreement
3 that has been filed with the Commission
4 address the concerns that you have raised?

5 A. (By Mr. Mann) Yes, they do.

6 Q. And do you have any further comments you'd
7 like to share with the Commissioners with
8 respect to this proposed transaction?

9 A. (By Mr. Mann) We'd just like to put things
10 in perspective, if we might.

11 The challenge that's facing Liberty
12 Energy and National Grid has been to not
13 only effect an orderly transfer from one
14 company to another, but to create a safe,
15 scalable, sustainable operating framework
16 for those two companies. And we've
17 concluded that effort remains a work in
18 progress, an ongoing effort to jointly
19 achieve a desired outcome, a commitment to
20 doing so by both parties that merits
21 endorsement. The level of effort and the
22 scope of change that's necessitated to
23 achieve Liberty Energy's vision is
24 significant, and it requires the concerted

1 attention of Liberty, National Grid, its
2 consultants, its vendors and its providers.
3 Liberty's IT vision embodies a lot of moving
4 pieces: A number of partners, an array of
5 specialized software applications, a
6 coordinated transition process, and pieces
7 that warrant caution and commitment to
8 ensure the outcome is realized.

9 After our efforts and discussions and
10 negotiations, we reached a set of conditions
11 that we believe will substantially improve
12 the likelihood of their success and are
13 consistent with the commitments that have
14 been shown to this by both companies. It's
15 our opinion that, with agreement to those
16 conditions, but with active, regulatory
17 monitoring during the transition period,
18 that the Petitioners can realize an orderly
19 transition of responsibilities and a
20 cost-effective solution to the IT needs of
21 both companies.

22 Q. Thank you both.

23 MS. FABRIZIO: I have no further
24 questions.

1 CHAIRMAN IGNATIUS: Thank you.
2 I think in order of cross, we'll keep going
3 the way we've been going.

4 Mr. Camerino, for the Joint
5 Petitioners.

6 MR. CAMERINO: We have no
7 questions.

8 CHAIRMAN IGNATIUS: Mr. Linder.

9 MR. LINDER: No questions.

10 CHAIRMAN IGNATIUS: Mr.
11 Sullivan.

12 MR. SULLIVAN: No questions.
13 Thank you.

14 CHAIRMAN IGNATIUS: Ms.
15 Hollenberg.

16 MS. HOLLENBERG: No questions.
17 Thank you.

18 CHAIRMAN IGNATIUS: Commissioner
19 Harrington, questions?

20 CMSR. HARRINGTON: Yeah, just a
21 couple.

22 INTERROGATORIES BY CMSR. HARRINGTON:

23 Q. Let me get this right. In Exhibit 12, the
24 April 10th testimony, on Page 8, these

1 questions were asked. "Have you drawn a
2 general conclusion from your investigation?"

3 It says, "Yes, despite the initial
4 reservations expressed in our earlier
5 testimony, we conclude that Liberty Energy,
6 given appropriate support from its
7 partners" -- who are you referring to
8 specifically there?

9 A. (By Mr. Mann) That's a term that we've used
10 since the outset of this. The way in which
11 Liberty is approaching providing its IT
12 services has defined fairly large roles for
13 vendors and consultants. At the very
14 beginning, it was our view that those
15 vendors and consultants were being viewed
16 more as partners than providers; and as
17 partners, they assume a much greater
18 responsibility. In our view, the term
19 there, when we talk about "partners," we're
20 referring to those vendors, those suppliers,
21 those consultants, and also National Grid,
22 as well as just the Liberty Utilities family
23 of employees.

24 Q. And you say that they were originally kind

1 of looked at as more vendors and
2 consultants, and now they're viewed as
3 partners. Are there adequate agreements in
4 place to guarantee performance as a partner
5 as compared to a vendor or consultant?

6 A. (By Mr. Mann) The "partnership" perspective
7 was our characterization, not theirs. They
8 saw them as vendors and suppliers, but we
9 saw the relationships that they had
10 developed with them and the dependence they
11 had upon them, we characterized it more as
12 "partners" than they did.

13 Subsequent to that, you know, they've
14 done an extensive amount of work in putting
15 together a vendor management program that
16 ensures that they have control over them.
17 They've also agreed to incorporate into new
18 contracts a performance-related agreement,
19 portions of their provisions in their
20 agreements. They're strengthening their
21 oversight of those vendors to make sure that
22 they do deliver on time and on budget. So,
23 yes, we're comfortable with what's been
24 done.

1 Q. And just two comments. Further down on that
2 page, under the -- near Lines 18 through 20,
3 it says, "We further express our opinion
4 that the Commission must maintain an
5 oversight role for an extended period of
6 time after granting any approval to ensure
7 the public's interest is served by the
8 transfer."

9 And on Page 10, starting at Line 19, it
10 says, "We continue to hold the opinion that
11 ensuring that an efficient and
12 cost-effective transfer is achieved requires
13 active monitoring by NHPUC Staff during the
14 transition and implementation period." So,
15 those two statements, I have a couple
16 questions.

17 First, you mentioned an extended period
18 of time after granting approval, any
19 approval, and during transition and
20 implementation periods. Can you be more
21 specific as to what amount of time that
22 involves?

23 A. (By Mr. Mann) It's our opinion that the
24 commitments that have been made by the two

1 parties, Staff has a responsibility to
2 ensure that those commitments are adhered to
3 and honored. Those commitments, from our
4 standpoint, go through till Day N, at such
5 point in time as there is a readiness shown
6 or demonstrated by Liberty to assume
7 responsibility for all of its IT functions
8 and capabilities. Staff needs to be
9 continuously involved in that, in monitoring
10 those developments. Currently, that's
11 envisioned to be November -- the end of
12 November, or the end of the -- somewhere in
13 the fourth quarter of 2013. But very
14 reasonably, it could extend beyond that.
15 That's why we have basically viewed Day N as
16 the trigger point.

17 Q. Okay. So, tentatively, that was, again,
18 November?

19 A. (By Mr. Mann) The current schedule is --
20 that's been put forth by the Company is
21 completion of the transition in November of
22 2013. That's today.

23 Q. And is this something that is going to be
24 easily recognizable? I mean, is there a

1 particular yardstick that can be measured
2 where one can declare that they now have
3 full responsibility, or is it just a matter
4 of them saying we now have full
5 responsibility for all IT functions?

6 A. (By Mr. Mann) No. They have some fairly
7 defined processes set in place and some
8 agreements with Staff about how those
9 various events will take place and at what
10 point each of these services will be turned
11 over, what triggers they have to meet to do
12 that. So it's a fairly formula-based
13 process.

14 Q. And again, you do mention "active monitoring
15 by Staff" in a couple places. Is this more
16 of a -- I don't want to put this in a
17 derogatory term -- is this more of a
18 checklist type-function, where Staff would
19 say, Okay, you need to submit something by
20 this date that's signed by so-and-so saying
21 you did something? Or is this more of an
22 analysis-type thing, where the Staff would
23 be responsible for looking at a situation,
24 analyzing it and making a determination as

1 to whether it met the requirements?

2 A. (By Mr. Mann) I would have to characterize
3 it as something of both. Much of the
4 monitoring process involves periodic
5 reporting, face-to-face reporting on a
6 regular basis between the companies and,
7 again, Staff. They have certain submission
8 requirements that have to be made at each of
9 those milestones, which Staff will, in turn,
10 have to review and analyze and then discuss
11 with the Company to determine whether or not
12 they're in agreement on what's been done and
13 what hasn't been done. Similarly, part of
14 that reporting process involves changes to
15 schedule, changes in cost, that in each case
16 Staff will want to examine carefully to
17 better understand what it is that's
18 precipitating those changes. And so it's
19 not simply a checklist. There are
20 checklists associated with it, but there's
21 also some analysis that has to take place as
22 well.

23 Q. Do you think that the Staff has the
24 technical expertise to do that type of

1 analysis?

2 A. (By Mr. Mann) Staff can walk on water.

3 Q. That's not the answer I was looking for. I
4 was looking for the truth.

5 (Collective "Ooh.")

6 Q. 'Cause I mean this is something that we
7 don't delve into on a regular basis, looking
8 at the complicated transfer of, you know,
9 software systems. I don't think we have any
10 software professionals on Staff, for
11 example, who have been involved, you know,
12 actually performing this type of a transfer.

13 A. (By Mr. Mann) There would probably be
14 requirements for supplementing Staff with
15 specialized expertise, yes.

16 Q. Okay. Thank you.

17 CMSR. HARRINGTON: That's all I
18 have.

19 CHAIRMAN IGNATIUS: Commissioner
20 Scott.

21 INTERROGATORIES BY CMSR. SCOTT:

22 Q. Good afternoon. You mentioned earlier in
23 your introductions that, as we know, there's
24 a cap on the capital costs for the IT

1 infrastructure plans, but not on the
2 operational moving ahead. Obviously, this
3 transition is very important. But I'm also
4 a little bit concerned that the upkeep and
5 maintenance of whatever comes of this is
6 reasonable also. Can you talk to that a
7 little bit?

8 A. (By Mr. Mann) What we're really talking
9 about here is the sustainability --

10 Q. Yes.

11 A. (By Mr. Mann) -- of the solution. One thing
12 that you have to understand is that, you
13 know, IT has a very short life cycle. If
14 you bought a PC two years ago, it's obsolete
15 now. I think it's very difficult to
16 determine whether or not -- long term what
17 those operating costs are going to be. But
18 I would suggest to you that the approach
19 that the Company is using is designed to not
20 only provide itself the flexibility that it
21 needs to be able to address changes in
22 technology over time, but also to provide
23 for itself the technology that it needs at
24 the time that it needs it, so that it's not

1 investing in something that it may not need
2 for three to five years. Its approach is
3 basically to acquire the technology that it
4 needs now, with the assurance that the
5 people that are providing it to them have
6 the capability to ramp up or scale up as
7 they need it.

8 So there's some cost optimization that
9 comes as a result of that. The costs
10 themselves, the operating costs, very
11 difficult to judge until you're actually
12 there. And that was one of the reasons why
13 we put in here that it becomes incumbent
14 upon Staff during the implementation period
15 to closely monitor those decisions and to
16 understand what the cost implications are of
17 them, so that later on they can make a
18 determination of whether or not they were
19 reasonable and just expenditures. But to
20 say long term what the costs were going to
21 be associated with it, it would be anybody's
22 guess.

23 Q. That's fair. Along that same line, you
24 mentioned the development that the Company

1 doing is "Greenfield." Is that potentially
2 an advantage, taking a "Greenfield"
3 approach, rather than taking the legacy
4 system in?

5 A. (By Mr. Connolly) Liberty didn't really have
6 a lot of choices. It couldn't reasonably,
7 couldn't easily and couldn't efficiently
8 make a copy of the National Grid systems and
9 shrink it down to New Hampshire and say I'm
10 going to run this way. It just doesn't work
11 that way. That was not going to be a
12 possible avenue. It could have decided
13 that, for the period between Day 1 and its
14 self-sustaining operations, to develop all
15 of its own new systems. That's been tried
16 before and done before. Liberty looked at
17 that and said that's information systems,
18 programmers and designers and so forth.
19 That's not a core competency of ours, so
20 take that one off the table.

21 Third choice would have been go find a
22 vendor that can build all these systems
23 custom for you and have that vendor assume
24 the liability and responsibility for it.

1 That's been tried before, and that's got --
2 that works. There's a lot of risk
3 associated with it.

4 Fourth choice is go and find vendors
5 who have application packages "off the
6 shelf" or "in the box," where packages have
7 proven to work and can be integrated so that
8 they work together, and use that technology
9 going forward. That fourth one is
10 essentially what Liberty has chosen to do.
11 They went through and checked off the first
12 three and recognized that risk, not our
13 skillset and impossible to do, weren't going
14 to be ways to go about this business. So
15 the choice they made was proven vendors,
16 applications that can be integrated in the
17 Microsoft Great Plains environment. And a
18 diversification of vendors helps to spread
19 the risk, so that while one's working on the
20 Works management program, one can be working
21 on billing, another one can be working on
22 labor scheduling and program management.
23 So, diversification goes to minimum --
24 taking some of the risk out of the equation,

1 because you've got concurrent development
2 going on and you've got -- you don't have
3 all your eggs in one basket.

4 Q. That's helpful. Thank you.

5 And I guess my last question is, the
6 plans that are in the proposed settlement
7 agreement -- and again, either one of you
8 can answer -- how does that compare -- or
9 how do these compare to what you've seen in
10 other dealings you've had with other
11 companies?

12 A. (By Mr. Mann) I would say that they're
13 comparable to what we've seen elsewhere. In
14 this particular instance, given the nature
15 of the transaction, it entails a lot of
16 complexity changing that you don't normally
17 see in other mergers or acquisitions that
18 take place. And so from our standpoint, the
19 planning is sufficient to what's required to
20 provide the framework that's necessary to
21 start with, gives us all the tools we need
22 to monitor it. And I would have to say
23 we're comfortable with what we've seen so
24 far and expect to see improvements in the

1 migration plan as well.

2 MR. SCOTT: Thank you. That's
3 all I have.

4 CHAIRMAN IGNATIUS: I have a few
5 other questions, and I'll let you pick and
6 choose who's best to respond.

7 INTERROGATORIES BY CHAIRMAN IGNATIUS:

8 Q. One of the things that we've seen that's
9 been an issue in other mergers is situations
10 where you have multiple systems that have to
11 knit together, and they end up not talking
12 to each other as well as was hoped. Are
13 there ways in which that's going to be
14 required for this transaction?

15 A. (By Mr. Connolly) There are certain parts of
16 information -- there are information streams
17 that need to be replicated in one family of
18 systems to another family of systems to
19 another. An example would be accounts
20 receivable, the system that tracks the
21 current charges for a customer, renders a
22 bill and creates an account receivable
23 record. That record needs to be put into
24 the system that the collections people would

1 use, so that amount of money can be looked
2 at from time to time to determine whether
3 it's the right day to call and say where's
4 my money. That accounts receivable
5 information also needs to go into the
6 general ledger system because it's an
7 accounting entry that you use for that
8 purpose. So that stream of information
9 needs to migrate itself through various
10 systems. And there are many more examples
11 of that. One of the things that this common
12 framework for the systems that Liberty has
13 chosen to use, one of the benefits of that
14 is that you can programatically work this
15 integration of the information streams. You
16 can rely on an account receivable in the
17 billing system that you're going to get from
18 Cogsdale to be a record that is usable in
19 the general ledger system that they use for
20 WennSoft. That account receivable has a
21 common language to them, to both those
22 vendors, and that goes to solve that
23 particular problem in that case. But each
24 of the other applications, where they need

1 to find an address record -- for example, in
2 the SCADA system -- and that address system
3 needs to be in the work scheduling system
4 because someone's going to go to that
5 address, and that's also the address you're
6 going to use to bill the customer. That
7 same piece of information about that address
8 needs to appear in all those different
9 systems. Liberty's plan looks at
10 integration of that data as a key part of
11 their responsibility and a key piece that
12 needs to be managed.

13 Q. And is that coordination among the
14 different -- maybe it's not different
15 systems, but different pieces that all have
16 to integrate, will that be tested?

17 A. (By Mr. Connolly) Yes.

18 Q. So they're not tested on a stand-alone
19 basis, but ways in which the kinds of
20 examples you were giving, where one change
21 has to show up in multiple different
22 locations to be complete, will be tested?

23 A. (By Mr. Connolly) We were talking earlier
24 about the commitment to testing. One of the

1 aspects of testing that's in the Liberty
2 plan at this point is the integration of
3 systems, that when one system is ready for
4 implementation, there is a test done to make
5 sure it fits, and all of its interfaces and
6 tentacles fit within the systems that are
7 already operating. And then there's a set
8 of regression tests to make sure that it
9 fits as new systems come in at a later date.
10 So the commitment to doing that testing is
11 in the plans and that's an integral part of
12 it. And the goal of the testers within the
13 Liberty system, shared by its venders,
14 shared by its partners, all goes to
15 achieving the kinds of testing that prove
16 that those things work.

17 And Commissioner, if might add, too.
18 We've concentrated pretty much on the
19 processes and procedures, but one of the
20 critical elements in this from the very
21 beginning, from our standpoint, was
22 expertise leadership. We can put in place a
23 framework. We can establish all the
24 processes and procedures. But unless

1 there's executive leadership behind it that
2 can drive those processes and procedures, it
3 doesn't mean a lot. One of the most
4 significant commitments, I think from our
5 standpoint, has been the dedication that
6 National Grid has made to provide one of its
7 senior -- most senior IT executives to this
8 transition. We understood from the very
9 outset that National Grid's involvement and
10 engagement in this was absolutely critical.
11 Experience just shows that, unless the donor
12 is as equally committed to the recipient, it
13 just doesn't work. They provided a
14 commitment of the individual who has
15 considerable experience, been through a
16 number of mergers within the National Grid
17 history, knows full well the systems
18 integration issues and difficulties.
19 Additionally, Liberty Energy has brought
20 online a senior IT executive to head up its
21 side, who also has an extensive portfolio of
22 experience in systems integration and
23 transition management. Added to that,
24 they've also applied Mr. Wood, who will

1 handle the transition issues, which is to
2 coordinate the bringing online of the IT
3 systems with the transition of the Work
4 functions within the organizations to match
5 the systems and the users together.

6 So we're very comfortable with the
7 fortification, I guess you could say, that's
8 been made on that side of it, and we're
9 confident that with the provisions that Tim
10 has pointed out, commitments to testing are
11 going to be sufficient to make sure that
12 when things do come online, they do work as
13 expected.

14 Q. Who are the individuals you were referring
15 to as "senior" people from National Grid and
16 from Liberty?

17 A. (By Mr. Mann) Madeleine Hanley is
18 vice-president with National Grid, and
19 she'll be dedicated to this project on their
20 behalf. And she's very familiar with all of
21 the existing systems. One of the things we
22 pointed out to Staff is what she brings
23 that's more important than anything else is
24 her Rolodex, because she knows who to call

1 and how to get things done within the
2 National Grid organization.

3 Q. That's not exactly a high-tech solution, but
4 maybe it's the best --

5 A. (By Mr. Mann) It works. That's what counts.

6 David Carlton is the IT executive for
7 Liberty Energy that has been brought on
8 since we issued our October report and
9 provides now the overall leadership for the
10 IT planning and the migration from their
11 side. Bob Wood also works for Liberty
12 Utilities, and he is going to be the project
13 manager and manage the project management
14 office, the PMO. And he'll be working --
15 and the three of them collectively, between
16 their credentials and their experience, we
17 feel very comfortable with those
18 improvements.

19 Q. Once the transition is complete, do we see
20 any of those three people again?

21 A. (By Mr. Connolly) Mr. Carlton stays, for
22 sure, because his role is for IT operations
23 and overall IT for Liberty Utilities. The
24 National Grid component, that evaporates

1 when the last TSA goes away and the
2 necessary housekeeping that ensues. And the
3 transition management function also gets
4 eliminated because things have transitioned
5 from Grid into Liberty.

6 Q. Mr. Carlton, as you say, would still be
7 involved with Liberty Energy, but doesn't
8 appear to be on the Liberty New Hampshire
9 org chart; is that right?

10 A. (By Mr. Mann) That would be correct. He is
11 a Liberty Utilities corporate employee.

12 Q. IT will be under the Director of Finance; is
13 that right? On the org chart it appears to
14 be under --

15 A. (By Mr. Mann) I don't have the org chart in
16 front of me.

17 Q. That would be Exhibit 6.

18 (Ms. Fabrizio hands document to witness.)

19 A. (By Mr. Mann) The organization chart that
20 we're looking at, just to make sure we're on
21 the same, is the Liberty Utilities New
22 Hampshire.

23 Q. Yes.

24 A. (By Mr. Mann) The individuals that are shown

1 under the Director of Finance there, fourth
2 box down from Information Systems, those are
3 basically individuals within New Hampshire
4 who are responsible for dealing with end
5 user as a liaison, between the end user
6 departments like customer service,
7 operations. And they'll be dealing with the
8 corporate people, who in fact will be --
9 they'll be working with in terms of making
10 changes to the systems.

11 A. (By Mr. Connolly) If you were a user and you
12 forgot your password, you might call one of
13 these folks to get that reassigned and
14 re-established, technical matters of that
15 nature is the type of functions these
16 individuals do for Liberty Utilities New
17 Hampshire.

18 Q. So who do you go to in the Liberty New
19 Hampshire structure for some of these
20 sophisticated, ongoing IT needs that aren't
21 the end users, but the system, if things
22 aren't working well and the coordination
23 between, let's say the billing system and --

24 A. (By Mr. Mann) The responsibility for

1 maintaining those capabilities rests with
2 people who are located in Oakville, who
3 report to Mr. Carlton at Liberty Utilities
4 at the parent corporate level. Now, if the
5 problem is manifested at the local level in
6 New Hampshire, then one of these individuals
7 would primarily be the responsible person to
8 convey that information on to the people in
9 Oakville as to what the nature of the
10 problem is and what needs to be done.
11 Resolving issues will rest with Mr. Carlton
12 and his staff in Oakville.

13 Q. In some merger situations, we've had
14 complaints from customers who say they keep
15 explaining what's wrong, let's say in a
16 billing situation, and the response
17 continues to be, "Well, I'm sorry. The
18 system just doesn't recognize that," or "We
19 thought we fixed it, but it seems not to
20 have been fixed," as if the system drives
21 the actions and the individuals don't have
22 much ability to affect it. Is there reason
23 to be concerned that that can be happening
24 in this transaction?

1 A. (By Mr. Mann) I don't think there's any more
2 reason to be concerned about it than what we
3 would see in any transaction. There are
4 always expectations from the user's
5 standpoint of what things should do.
6 Personally, I hate dealing with, you know,
7 voice-activated response systems. Not a lot
8 I can do about it. I can complain about
9 them, but it doesn't seem to make much
10 difference.

11 I think one of the points that the
12 Company has made is that they are attempting
13 to be more responsive in the way in which
14 they design their systems. They've
15 expressed to us a very strong commitment to
16 what they call "customer facing systems."
17 The idea is to make those as user friendly
18 as possible. I cannot say with assurance
19 that the way in which the Company will
20 respond to those complaints or concerns is
21 going to be any different than any other
22 company would respond to it. I'm sure
23 they'll look at them and make a decision
24 whether or not they can accommodate it or

1 not.

2 One of the limiting factors here is
3 that in most instances we're dealing with
4 commercially available software
5 applications. They don't provide for a lot
6 of customization. Consequently, it's like
7 you and I on our home computer if we buy
8 Microsoft Word. Microsoft Word is what it
9 is. We don't like some of the ways in which
10 it works, but we learn how to accommodate
11 and work around it. And so, you know, they
12 are going to have some limited options
13 available to them. But I would assume that
14 they are listening to your comment right now
15 and will take that to heart.

16 Q. Well, I'll throw in another one then. In
17 similar situations, you find that the
18 customer data that the new company is trying
19 to absorb and respond to is out of date.
20 And for whatever reason, things have changed
21 in the customer rolls and addresses have
22 changed, accounts have shifted, and without
23 fairly up-to-date records, things can get
24 bungled up pretty quickly. Has anyone

1 looked at that possibility or insured that
2 when a cutover occurs, it will be working
3 with the most current customer information
4 there is?

5 A. (By Mr. Connolly) There was -- there was,
6 there has been and there continues to be
7 exercises that are going on between Grid and
8 Liberty in the analysis of data that is
9 resident in the National Grid data bases and
10 the data that's needed in the Liberty plan
11 data bases. The technical term for those
12 are "function mapping" and "data mapping"
13 and "information mapping" exercises, where
14 National Grid says, Here's what I have on my
15 side and here's what you need on this side;
16 how do we get it from here to there so that
17 it's timely represented, it's accurate and
18 it's complete? Part of the work that the IT
19 Steering Committee addresses, and is the
20 National Grid IT commitment, is to make
21 those things clear and understandable by the
22 Liberty people and the vendors for Liberty's
23 application systems, so that those types of
24 problems that you've described ultimately,

1 most desired, would not happen, but
2 practically would get minimized, because
3 there's been focus on what is the data that
4 I have, what is the data that I need, and
5 how do I get it this.

6 Q. And when I said earlier today that it seemed
7 like there were parallel systems running so
8 that you really were testing the new system
9 before making a change, is that correct?
10 I'm sure I've grossly over-simplified it,
11 but --

12 A. (By Mr. Mann) It's a phase process. The
13 applications are going to be phased in, in
14 batches. Once there's adequate testing
15 done, and they've been able to determine
16 that they operate at the adequate level that
17 they're expecting them to operate, there
18 comes a point at which old systems are
19 unhooked or reduced as new systems come
20 online. And so from our viewpoint, it is a
21 migration. It is not a "flash cut" on this.
22 And it will only be -- each piece will only
23 be turned over and declared operational when
24 there's sufficient demonstration that it's

1 stable and that it's operating in the manner
2 that it was expected to operate in. That's
3 why, from our standpoint, people that are
4 directly responsible for managing this have
5 been through these kinds of things before.
6 They understand there's no going back. Once
7 you put something in and turn it up, you
8 don't have the recovery. So they are very
9 aware of what the requirements are here, and
10 we feel comfortable that they'll fulfill
11 those. But that's part of the monitoring
12 process, is to ensure that those things do
13 in fact happen.

14 Q. Thank you. I think Commissioner Harrington
15 has another question.

16 INTERROGATORIES BY CMSR. HARRINGTON:

17 Q. You just prompted me with your last
18 statement there. Who actually has the final
19 authority of the transfer of the system?
20 Who accepts the new system? Is that -- I've
21 seen that Fair -- wrong company. There's
22 somebody at Liberty, and who is it? Do you
23 know who it is?

24 A. (By Mr. Connolly) The transition governance

1 process provides a mechanism for a sign-off
2 at commensurate levels of responsibilities
3 as it gets to the top, and that's when the
4 AOK is given.

5 Q. So it is addressed in the agreement then.

6 A. (By Mr. Connolly) It's in the IT plans and
7 the migration plans.

8 Q. And I'm assuming that until that's done,
9 then National Grid is committed to providing
10 support until such time as Liberty signs
11 that acceptance.

12 A. (By Mr. Connolly) The transition services
13 continue until that cutoff is made. And as
14 Dr. Mann said, the process of cutting off is
15 not a razor cut through. It's a matter of a
16 processes through --

17 Q. Right, right. Steps.

18 A. (By Mr. Mann) It's not unilateral, either.
19 They both have to be in agreement that they
20 they've reached a particular point that's
21 acceptable to each of them.

22 Q. Okay. Thank you.

23 CHAIRMAN IGNATIUS: Thank you.

24 I think that concludes questions from the

1 Bench.

2 Ms. Fabrizio, any redirect?

3 MS. FABRIZIO: Yes, if you could
4 give us just couple minutes?

5 CHAIRMAN IGNATIUS: That's fine.

6 REDIRECT EXAMINATION

7 BY MS. FABRIZIO:

8 Q. I'm going to try to take a stab at relating
9 this question to you, Greg and Tim.

10 Could you discuss basically the
11 simultaneity or parallel processes that are
12 going on as Grid is actually sending out
13 bills to customers and Liberty is testing at
14 the same time, the billing process kind of
15 shadowing the Grid process?

16 A. (By Mr. Connolly) The process by which
17 meters are read and payments are processed
18 and so forth and bills go out, that doesn't
19 change coming from the Grid system until the
20 Liberty system is capable of doing all of
21 those functions.

22 Q. And will the testing be occurring while Grid
23 is continuing to perform this function?

24 A. (By Mr. Connolly) Yes. Yes, the testing

1 mechanisms will be sorted out. But what it
2 will entail is essentially back-office
3 parallel processing. Customer's bills are
4 not going to be mailed out from Liberty in
5 test mode to make sure that the post office
6 delivers them properly. But there will be
7 tests done with the transactions and tests
8 done with the bill production mechanisms to
9 make sure that a bill representing the same
10 sorts of charges from meters read over this
11 period and serviced by these dates would be
12 the same amounts of money going to the same
13 customers.

14 Q. And this will help to ensure a seamless
15 transition as that particular service
16 function transfers to Liberty?

17 A. (By Mr. Connolly) Yes.

18 Q. Okay. Great. Thank you.

19 CHAIRMAN IGNATIUS: Thank you.
20 Gentlemen, you're excused. Thank you very
21 much.

22 It's 3:15. Why don't we go
23 off the record.

24 (Whereupon a brief recess was taken at

1 3:16 p.m. and resumed at 3:37 p.m.)

2 CHAIRMAN IGNATIUS: Welcome
3 back, everyone. Is it time for the panel on
4 the settlement?

5 MS. FABRIZIO: Yes, Chairman
6 Ignatius, it is.

7 CHAIRMAN IGNATIUS: Thank you.
8 Please proceed, unless we have anything else
9 to attend to beforehand.

10 MR. CAMERINO: And actually,
11 because this a joint panel of Staff and
12 witnesses from the two companies, we've agreed
13 to proceed that I'm going to begin with Mr.
14 Eichler and Mr. Burlingame. We're just going
15 to get their background and credentials on the
16 record. They don't have any direct beyond
17 that. Then, Ms. Fabrizio is going to do the
18 same with the Staff witnesses, but they do
19 have some direct. And when that's complete,
20 they'll be available for questioning. For
21 example: The companies do have a few
22 questions for Mr. Frink, I believe, and other
23 parties obviously may have other questions.
24 So if that's okay with the Bench, that's our

1 plan.

2 CHAIRMAN IGNATIUS: That's fine.

3 MR. CAMERINO: So if we could
4 get the witnesses sworn.

5 (WHEREUPON, PETER EICHLER, RICHARD
6 BURLINGAME, JR., STEPHEN P. FRINK AND
7 STEVEN E. MULLEN were duly sworn and
8 cautioned by the Court Reporter.)

9 PETER EICHLER, SWORN

10 RICHARD BURLINGAME, JR., SWORN

11 STEPHEN FRINK, SWORN

12 STEVEN MULLEN, SWORN

13 DIRECT EXAMINATION

14 BY MR. CAMERINO:

15 Q. Mr. Eichler, let me begin with you. Would
16 you state your name and business address for
17 the record, please.

18 A. (By Mr. Eichler) Sure. It's Peter Eichler.
19 That's E-I-C-H-L-E-R. My business address
20 is 2865 Bristol Circle in Oakville, Ontario.

21 Q. And by whom are you employed and in what
22 capacity?

23 A. (By Mr. Eichler) I'm employed by Liberty
24 Utilities Canada Corp. as a director of

1 regulatory strategy.

2 Q. And what are your responsibilities in that
3 regard?

4 A. (By Mr. Eichler) My responsibilities in that
5 regard are to oversee the regulatory
6 strategy of our utility holdings, to ensure
7 compliance across the board and consistency
8 on the processes from a regulatory
9 perspective.

10 Q. And there was prefiled testimony submitted
11 in this case, dated March 4, 2011, that's
12 part of Exhibit No. 1 for identification,
13 which bears your name. And was that
14 testimony prepared by you or under your
15 direction?

16 A. (By Mr. Eichler) Yes, it was.

17 Q. And do you have any changes or corrections
18 other than updates as a matter of the
19 passage of time?

20 A. (By Mr. Eichler) No, I do not.

21 Q. And so is that testimony true and correct to
22 the best of your knowledge and belief?

23 A. (By Mr. Eichler) Yes, it is.

24 Q. And you're also familiar with the settlement

1 agreement filed in this case as Exhibit 2?

2 A. (By Mr. Eichler) That's correct.

3 Q. And could you just describe very briefly
4 your role with regard to that settlement,
5 your familiarity with it.

6 A. (By Mr. Eichler) Sure. As one of my
7 responsibilities, I oversaw the management
8 of this docket from a regulatory
9 perspective, but also coordinated the
10 thoughts of my colleagues and our management
11 team here in New Hampshire, and helped
12 coordinate and manage a lot of the aspects
13 of the settlement agreement. So I have a
14 significant level of familiarity with most
15 of the terms and conditions.

16 Q. Thank you.

17 I'm going to turn to you, Mr.
18 Burlingame. Thank you for grabbing that mic
19 and taking it closer. I know that the two
20 of you are sharing one.

21 Would you state your name and business
22 address, please.

23 A. (By Mr. Burlingame) It's Richard Burlingame,
24 Jr., 40 Sylvan Road, Waltham, Massachusetts.

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

3 A. (By Mr. Burlingame) I am director of U.S.
4 Mergers and Acquisitions for National Grid
5 USA Service Company.

6 Q. And did you have any prefiled testimony in
7 this proceeding?

8 A. (By Mr. Burlingame) I did not.

9 Q. And what were your responsibilities with
10 regard to the settlement agreement, and are
11 you familiar with it?

12 A. (By Mr. Burlingame) I am familiar with it.
13 I was involved in the negotiation of the
14 settlement agreement on behalf of National
15 Grid.

16 Q. Thank you very much.

17 CHAIRMAN IGNATIUS: Ms. Fabrizio.

18 MS. FABRIZIO: Thank you.

19 DIRECT EXAMINATION

20 BY MS. FABRIZIO:

21 Q. Mr. Frink, could you please state your name
22 and business address for the record.

23 A. (By Mr. Frink) My name is Stephen Frink, and
24 my address is 21 South Fruit Street,

1 Concord, New Hampshire.

2 Q. And by whom are you employed and in what
3 capacity?

4 A. (By Mr. Frink) I am employed by the New
5 Hampshire Public Utilities Commission and am
6 the Assistant Director of the Gas & Water
7 Division.

8 Q. And what has been your involvement in this
9 proceeding?

10 A. (By Mr. Frink) I have filed testimony and
11 I've been involved in the settlement
12 discussions and discovery process.

13 Q. Now, you filed testimony on October 7, 2011;
14 is that correct?

15 A. (By Mr. Frink) That's correct.

16 Q. Was that testimony prepared by you and under
17 your direction?

18 A. (By Mr. Frink) Yes, it was.

19 MS. FABRIZIO: Chairman
20 Ignatius, I would like to request that the
21 October 7, 2011 direct testimony of Steven P.
22 Frink be filed -- marked for Exhibit 13.

23 CHAIRMAN IGNATIUS: So marked
24 for identification.

1 (Exhibit 13 marked for identification.)

2 Q. Mr. Frink, do you have any corrections or
3 changes you would like to make to your
4 testimony?

5 A. (By Mr. Frink) I do not.

6 Q. Is your testimony true and accurate, to the
7 best of your knowledge?

8 A. (By Mr. Frink) Yes, it is.

9 Q. Thank you.

10 Now, in your October prefiled
11 testimony, you expressed concern regarding
12 the cost to New Hampshire ratepayers of the
13 proposed transaction. Could you outline
14 those concerns for the benefit of the
15 Commissioners?

16 A. (By Mr. Frink) I was concerned with the lack
17 of experience and the expense of new systems
18 and the impact that might have on rates, the
19 operating costs, the transition costs.
20 There were -- the acquisition premium.
21 There were a lot of things that looked as
22 though they could have a negative impact on
23 rates. So, from a ratepayer's perspective,
24 that was a -- that was our major concern.

1 Q. And does the settlement agreement reached in
2 this proceeding address those concerns?

3 A. (By Mr. Frink) Yes, it does.

4 Q. What commitments and conditions in
5 particular address the concerns that you
6 have raised?

7 A. (By Mr. Frink) Well, in addition to the
8 terms of the settlement agreement, the
9 Company is much farther along in their
10 hiring of people. They've hired experienced
11 employees with utility and New Hampshire
12 regulatory experience. And we've also had
13 the benefit of G3's evaluation of the IT
14 systems, updated costs, updated IT plans and
15 IT mitigation plans. So, to that extent,
16 those are all positives. And then, on top
17 of that, there are conditions in the
18 settlement, of which there are quite a
19 number, and I'll go through the highlights
20 of those.

21 No. 1, there's no recovery of the
22 acquisition premium, any transaction costs,
23 any transition costs by limiting the
24 recovery -- by eliminating recovery

1 transition costs, that eliminates major
2 expenses to ratepayers. If those costs
3 should escalate, then, as we heard, the
4 Company -- the Liberty witnesses state that
5 will be a shareholder expense that won't
6 impact ratepayers.

7 And there's a limit on the IT
8 capitalization costs, and the OCA witness
9 stated that it was raised a little above
10 their expected IT capital expenses of 6.3
11 million. The settlement calls for a cap of
12 8.1. And I would just like to point out
13 that it was conceded as well that as part of
14 the settlement, there's a stay-out provision
15 for EnergyNorth ratepayers. And so that
16 8.1 million, when there is a rate case
17 following that stay-out, will be something
18 less. That 8.1 million cap is -- that 8.1
19 million gets recorded when those capital
20 investments are made, and depending on how
21 long it is before they come in for a rate
22 case, then they'll be depreciated
23 accordingly. So at the time of the rate
24 hearing, you would expect something less

1 than 8.1. So the analysis that shows a
2 comparison of the costs at 8.1 or 6.3,
3 probably 6.3 is a reasonable comparison.

4 In addition, while I mentioned there's
5 a stay-out provision for EnergyNorth
6 customers, there's an escrow mechanism that
7 is designed to keep National Grid committed
8 and involved throughout the transition
9 process. There's a rate case expense limit,
10 which the -- by way of comparison in the
11 last National Grid rate case --
12 EnergyNorth's rate case, National Grid filed
13 for recovery of 1.5 million in rate case
14 expenses; ultimately, 1.1 million was
15 approved for recovery.

16 The rate case expense cap in the first
17 rate case has a limit of 600,000. So that's
18 a fairly substantial savings for ratepayers.
19 Again, when you're comparing rates, that
20 isn't necessarily reflected in the rates,
21 but that is a consideration as to why, under
22 this settlement, with the conditions
23 imposed, it's my belief that the customers
24 will not be harmed financially as a result

1 of this transaction.

2 And I have mentioned a couple of times
3 that a comparison of rate case expenses --
4 of rates under Liberty, compared to what
5 they would be under National Grid -- and as
6 part of the discovery process, we were
7 provided a handout by Liberty. This was a
8 handout of a November 9, 2011 technical
9 session we had, and it incorporates a lot of
10 the data responses raised through discovery
11 that actually compares rates as they would
12 be under National Grid versus Liberty, and
13 incorporates the rate base, operating costs
14 and the capital structure. And I would like
15 to admit that as an exhibit, just as a
16 comparison, because -- well, I'll wait until
17 it's distributed, if that's okay.

18 Q. And you're referring to the document
19 entitled, "Incremental Cost of Service
20 Analysis"?

21 A. (By Mr. Frink) That's correct.

22 MS. FABRIZIO: I'd like to mark
23 as Exhibit 16 the document so entitled.

24 CHAIRMAN IGNATIUS: How did we

1 get to 16?

2 MS. FABRIZIO: Steve Mullen's
3 testimony filled up 14 and 15.

4 CHAIRMAN IGNATIUS: Oh, okay.
5 I'm sorry. This was prepared by Mr. Frink?

6 MR. FRINK: (By Mr. Frink) This
7 was prepared by Liberty and was provided as a
8 handout at a technical session during the
9 discovery process.

10 MR. EICHLER: I authored the
11 document.

12 CHAIRMAN IGNATIUS: All right.
13 Thank you. So we'll mark this for
14 identification as Exhibit 16.

15 (Exhibit 16 marked for identification.)

16 A. (By Mr. Frink) And what this -- as I
17 previously stated, this is a comparison of
18 the National Grid revenue requirement absent
19 the acquisition and then what the revenue
20 requirement would be under Liberty Energy,
21 if Liberty Energy acquires the system. And
22 as you can see, again, it incorporates rate
23 base, O & M and the capital structure. And
24 when you get down to that bottom box that

1 says "Equal - Net Impact," you can see that
2 overall, under Liberty, there's a
3 0.1 percent increase in what the revenue
4 requirement would be under Liberty than if
5 National Grid were to retain ownership. And
6 given these are estimated costs, they
7 include National Grid's expected investment
8 in new IT systems --

9 (Court Reporter interjects.)

10 A. (By Mr. Frink) The costs for National Grid
11 reflect an investment in IT systems, an
12 upgrade in IT systems that they're planning
13 to make. And you can see that on Line 6
14 they were planning to invest -- that would
15 be charged to National Grid and EnergyNorth
16 and Granite State -- a total investment of
17 \$10.2 million for an IT upgrade; whereas,
18 Liberty -- well, here it's 6.4 million that
19 they had estimated their IT expenses were
20 going to be. Since that time, those costs
21 have risen. Those estimated costs now are
22 closer to 8.1 million, the actual cap. But
23 as stated earlier, with the stay-out
24 provision, it won't be 8.1 at the time they

1 come in for rates. But just as a rough
2 comparison, you can see that essentially
3 there's no difference in the revenue
4 requirement going forward under Liberty or
5 National Grid and -- based on estimates at
6 this time. And it doesn't reflect the
7 advantages of a stay-out for EnergyNorth or
8 the cap on the rate case expenses. So, with
9 those considerations, it's pretty much a
10 wash, one versus the other. So that is why
11 my concern of financial harm has been
12 alleviated to a great degree by the terms of
13 the settlement.

14 BY MS. FABRIZIO:

15 Q. Thank you. Do you have any further comments
16 on the agreement itself?

17 A. (By Mr. Frink) I do not.

18 Q. Thank you. Mr. Mullen, could you please
19 state your name and business address for the
20 record.

21 A. (By Mr. Mullen) My name is Steve E. Mullen.
22 I'm at 21 South Fruit Street, Concord, New
23 Hampshire.

24 Q. By whom are you employed and in what

1 capacity?

2 A. (By Mr. Mullen) I'm employed by the New
3 Hampshire Public Utilities Commission as the
4 Assistant Director of the Electrician
5 Division.

6 Q. And what has been your involvement in this
7 proceeding?

8 A. (By Mr. Mullen) I've been involved in the
9 discovery process throughout. I was looking
10 at the electric side of the transaction, as
11 well as the financing on the transaction. I
12 provided testimony a couple of times, and I
13 was involved in negotiating the settlement.

14 Q. Thank you. And you filed testimony on
15 October 7th and April 10, 2012; is that
16 correct -- October 7, 2011 and April 10,
17 2012?

18 A. (By Mr. Mullen) Yes, that's correct.

19 Q. And was that testimony prepared by you or
20 under your direction?

21 A. (By Mr. Mullen) Yes.

22 Q. Thank you.

23 MS. FABRIZIO: I'd like to mark
24 for identification as Exhibits 14 and 15 the

1 October 7, 2011 direct testimony of Steven
2 Mullen and the April 10 direct testimony of
3 Steven Mullen -- April 10, 2012.

4 CHAIRMAN IGNATIUS: So marked.

5 (14 marked for identification.)

6 (15 marked for identification.)

7 Q. Mr. Mullen, in your October prefiled
8 testimony, you assessed various financing
9 aspects of the proposed transaction, as well
10 as operational budget implications. Could
11 you outline your conclusions with respect to
12 the financing proposals submitted to the
13 Commission for approval by the Company?

14 A. (By Mr. Mullen) Certainly. In my October
15 testimony, I looked not only at the proposed
16 plan for financing the stock transfers, but
17 I also looked at the availability of
18 short-term debt on an ongoing basis to
19 provide for operational needs going forward.
20 As stated in my October testimony, in terms
21 of the long-term debt financing, I found the
22 plan to be reasonable in structure, in terms
23 of providing for a 55-percent equity,
24 45-percent debt-to-capital structure of both

1 Granite State and EnergyNorth. I also found
2 the proposed interest rate and maturity to
3 be reasonable, subject to finding out closer
4 to the closing of this what the final terms
5 and conditions would be.

6 In relation to short-term debt, I did
7 have concerns in my October testimony about
8 the sufficiency of the debt, in terms of the
9 amounts that were available for Granite
10 State and EnergyNorth, in light of the fact
11 that Liberty has other operating affiliates
12 that could also draw upon the same proposed
13 facility. At the time of that testimony,
14 Liberty was planning to pursue a \$60 million
15 short-term credit facility. Since that
16 time, we've received additional information,
17 and that was updated in my April 10th
18 testimony this year.

19 CHAIRMAN IGNATIUS: Let's take a
20 break for a second.

21 (Pause in proceedings.)

22 A. (By Mr. Mullen) In my April 10th testimony,
23 I updated my observations and conclusions
24 related to both the long-term debt and the

1 short-term debt. The long-term debt, I was
2 of the same opinion as I was in October --
3 that is, the proposed interest rates and the
4 maturity and the proposed financing
5 structure and capital structure for Granite
6 State and EnergyNorth are essentially
7 unchanged from the plans that were discussed
8 with us back at the time of filing the
9 October testimony.

10 In terms of short-term debt, Liberty
11 has entered into an \$80 million short-term
12 credit facility. That was in January of
13 2012. That provides -- right now, there's
14 \$25 million in there. And upon the closing
15 of this transaction, an additional
16 \$55 million would be provided. The
17 settlement agreement specifically has a
18 provision that provides certain amounts of
19 short-term debt that would be available from
20 that facility. That would be just for the
21 use of EnergyNorth and Granite State; so,
22 other Liberty affiliates could not draw upon
23 that money. So that addressed my concern
24 about the availability of funds in the event

1 that other Liberty affiliates were drawing
2 upon the facility.

3 And I also noted in my April 10th
4 testimony that, at the end of March there
5 was another amendment to that short-term
6 facility that would increase the amount
7 available to a total of \$100 million upon
8 the closing of an acquisition to acquire
9 some of the Atmos gas utilities out in the
10 Midwest. So, again, that, if anything,
11 could have a positive effect because it
12 would allow for more short-term debt to
13 potentially be available for the use of both
14 Granite State and EnergyNorth.

15 Q. Thank you. Do you have any other further
16 financial issues that you had raised in your
17 earlier testimony?

18 A. (By Mr. Mullen) There were certain things in
19 my original testimony, such as cost
20 allocations. One of the concerns that I had
21 there was that there'd be no -- Liberty did
22 not request any particular approval of its
23 costs allocation methodology now. And that
24 is something that is going to be reviewed

1 prior to it filing its first rate case for
2 Granite State Electric. There's a provision
3 that they would come in, meet with Staff and
4 OCA to discuss the methodology, because part
5 of my concern was, with additional
6 acquisitions in the pipeline, they use a
7 four-factor-allocation methodology. As the
8 Company -- as there becomes more companies
9 and the number of customers and amount of
10 plants and those sort of things change,
11 that's going to be a continually -- it's
12 going to be something that's going to have
13 to be looked at, because what may be true
14 now in terms of allocations will probably
15 change in the future with the changing size
16 of the Liberty Utilities family.

17 Also, and this was discussed earlier by
18 Mr. Rubin, there's no -- there will be no
19 ratemaking impact from the specific section
20 of 338(h)(10) election attached provision
21 related to the retirement plans of Granite
22 State and EnergyNorth.

23 Q. Thank you. And you also raised some
24 concerns in your earlier testimony regarding

1 operational costs that Liberty would
2 undertake going forward, including the VMP
3 and REP programs, for example, and energy
4 efficiency and integrated resource planning.
5 Would you care to comment on those concerns?

6 A. (By Mr. Mullen) Sure. In my October
7 testimony, I provided analysis of Granite
8 State's current earnings at the time. And
9 it was shown that -- and I just looked at a
10 recent one and it has not improved --
11 Granite State was earning significantly
12 below its authorized rate of return. And as
13 was discussed earlier, there is an existing
14 five-year rate plan that was from an earlier
15 docket, and that's DG 06-107. That
16 five-year rate plan ends at the end of 2012.
17 After that time, Granite State is free to
18 come in and request a rate increase for its
19 distribution rates. No matter if National
20 Grid or Liberty were to be the owner at that
21 time, based on the earnings, I fully expect
22 that we would have a rate case.

23 As part of that earlier settlement, we
24 also implemented a VMP, which is a

1 Vegetation Management Program, and an REP, a
2 Reliability Enhancement Program. That is,
3 again, a five-year program currently in
4 place, and that will continue to be in place
5 through the end of the year. The provisions
6 of that REP and VMP will continue to apply
7 to Liberty upon closing of this transaction.
8 In the upcoming rate case, that will be a
9 time for -- we will look at all the existing
10 programs, including the REP and VMP, and see
11 if those need to be revised, further
12 evaluated, either some programs added to
13 them or programs deleted from them. That
14 will provide a perfect opportunity to fully
15 reassess them and say going forward, you
16 know, whether certain reliability projects
17 that were included in the original program
18 have already been taken care of and maybe we
19 should revise the program somehow.

20 Anyhow, in any instance, what I'm
21 saying is that, in terms of the ongoing
22 operations, the upcoming rate case is going
23 to provide a good opportunity to fully
24 evaluate the entire operations.

1 Q. Are there any other concerns that you'd like
2 to mention?

3 A. (By Mr. Mullen) You did mention the
4 energy-efficiency programs, and I neglected
5 that. Again, Granite State has had a good
6 record of providing its programs in a manner
7 that provides the level of savings that are
8 expected and staying within its budgets, and
9 we fully expect that to continue with the
10 continued National Grid involvement -- the
11 prior National Grid employees being involved
12 and providing those programs going forward.

13 An additional provision I'd like to
14 mention, and this is more of a housekeeping
15 matter, deals with a docket that is
16 currently open that involves Granite State
17 Electric's Least Cost Integrated Resource
18 Plan, which is part of DE 10-142. That
19 docket was opened. And while that
20 proceeding was open, this stock-transfer
21 transaction was filed. And considering that
22 that's a going-forward planning docket, it
23 made sense to hold off on that to see where
24 this docket was going to go. And as part of

1 the settlement, the parties have agreed that
2 upon -- if the Commission were to approve
3 this and issue an order, within six months
4 of that Liberty would file its own least
5 cost planning document, and the current
6 docket would have been closed upon the
7 Commission's order.

8 Q. Thank you. You've mentioned a number of
9 conditions that have been integrated into
10 the settlement agreement filed in this
11 proceeding. Does that settlement agreement
12 alleviate the concerns that you have raised
13 in your testimony?

14 A. (By Mr. Mullen) Yes. And I put in my
15 April 10th testimony a bulleted list of the
16 various provisions that have addressed the
17 concerns raised by Staff and other parties
18 as an earlier part of the proceeding.

19 MS. FABRIZIO: And that is at
20 Page 8 of his April 10th, 2012 testimony.

21 BY MS. FABRIZIO:

22 Q. Do you have any further comments you'd like
23 to share with the Commission on the
24 agreements, Mr. Mullen?

1 A. (By Mr. Mullen) No, I do not.

2 MS. FABRIZIO: Thank you. That
3 concludes my questions.

4 CHAIRMAN IGNATIUS: Mr.
5 Camerino, you had some questions of the two
6 Staff witnesses. And is it essentially direct
7 of them before we move on?

8 MR. CAMERINO: It's just to Mr.
9 Frink. And my thought was, in terms of just
10 order of presentation, that it probably would
11 be appropriate for the companies to ask those
12 questions first, to allow other parties to
13 respond to them. So if I may?

14 CHAIRMAN IGNATIUS: That's fine.

15 MR. CAMERINO: Thank you.

16 DIRECT EXAMINATION

17 BY MR. CAMERINO:

18 Q. Mr. Frink, these questions are all for you.

19 You indicate in the biographical
20 information that you attached to your
21 testimony that you joined the Commission in
22 1990; is that correct?

23 A. (By Mr. Frink) That's correct.

24 Q. And approximately what time, what date,

1 year, did you begin working with New
2 Hampshire's two natural gas utilities?

3 A. (By Mr. Frink) Well, I started as one of the
4 Staff auditors, which meant we audited all
5 the utilities on a regular basis. So, right
6 from the very beginning I was doing audits
7 on EnergyNorth.

8 Q. Okay. And so you've had involvement
9 regulating EnergyNorth for approximately 22
10 years then?

11 A. (By Mr. Frink) Approximately.

12 Q. And is it fair to say that that involvement
13 has been quite extensive for most of that
14 period of time?

15 A. (By Mr. Frink) It certainly is.

16 Q. And is it fair to say that you have a high
17 level of familiarity with the personnel of
18 the former EnergyNorth, as well as the
19 people involved with the Company since it
20 was acquired by KeySpan and, later, National
21 Grid?

22 A. (By Mr. Frink) I do. And three of them are
23 even on Staff. So...

24 Q. And you also have a high level of

1 familiarity with people who have worked for
2 the other natural gas utility in New
3 Hampshire, Northern Utilities, as well?

4 A. (By Mr. Frink) Yes, I do.

5 Q. Okay. One thing I'd like to ask you is,
6 there was an organizational chart of the New
7 Hampshire organization for Liberty Energy
8 that was provided before, Exhibit No. 6.
9 And I can give you a copy. But there are
10 just a few people on there I want to ask you
11 about very quickly. Mr. Dafonte, Mr. Saad,
12 Mr. MacDonald, who's listed there as the
13 head of gas operations, are those people
14 that are known to you through that
15 experience?

16 A. (By Mr. Frink) Yes, they are.

17 Q. And would you say that -- is it your view
18 that they are highly qualified to fill these
19 roles?

20 A. (By Mr. Frink) I never really worked with
21 Mr. Saad. I am familiar with him through
22 this process. I am much more familiar with
23 Chico Dafonte and also Richard MacDonald.
24 They are certainly very qualified at their

1 jobs and their positions that they hold
2 here.

3 Q. So you are familiar with the period of time
4 prior to KeySpan's acquisition of
5 EnergyNorth, when EnergyNorth operated as a
6 stand-alone company; is that correct?

7 A. (By Mr. Frink) That's correct.

8 Q. Do you recall how many employees, let's call
9 them management-level employees, those
10 positions, went away when EnergyNorth was
11 acquired by KeySpan?

12 A. (By Mr. Frink) Yes, I do. In my testimony
13 in that proceeding, 09-193, there was 62
14 positions that were eliminated.

15 Q. That number is actually quite similar to the
16 number of positions that Liberty Energy
17 proposes to bring back to New Hampshire in
18 this transaction; is that correct?

19 A. (By Mr. Frink) Yes. Liberty had cited 60
20 positions being added.

21 Q. How would you describe the quality of
22 service that EnergyNorth Natural Gas
23 delivered when it was a stand-alone company?

24 A. (By Mr. Frink) It wasn't a perfect utility.

1 We haven't found one of those yet. But it
2 was a -- it seemed to be a very well-run
3 company. They worked very well with Staff.
4 They seemed to have New Hampshire's best
5 interests at heart. It was a little
6 different time, and the price of gas was
7 maybe a little higher than the price of oil,
8 so they were very cost-conscious. And
9 overall, it was a -- I feel it was a
10 well-run utility.

11 Q. Their rates were reasonable?

12 A. (By Mr. Frink) Their rates were reasonable,
13 yes.

14 Q. So in your view, they were able to operate
15 efficiently, even though they were on a
16 stand-alone basis?

17 A. (By Mr. Frink) Yes, they did.

18 Q. How were their regulatory relations and
19 their compliance with Commission rules?

20 A. (By Mr. Frink) Overall, the regulatory
21 relationship was very good. I won't say
22 there weren't some personalities on both
23 sides maybe had some conflicts. But
24 overall, it was very good.

1 Q. So the fact that they were a stand-alone
2 company without a larger organization didn't
3 get in the way of their ability to comply
4 with the Commission's regulations and
5 requirements.

6 A. (By Mr. Frink) Certainly not.

7 Q. Okay. Thank you.

8 CHAIRMAN IGNATIUS: All right.
9 Mr. Linder, do you have questions?

10 MR. LINDER: Yes, but I don't
11 know if the questions should be addressed to
12 this current panel or to the next panel. The
13 questions are simply directing one or more
14 panelists to three or four pages in the
15 settlement agreement that pertain to the
16 low-income provisions and energy-efficiency
17 provisions. And I was hoping that one of the
18 panelists on one of the panels would generally
19 make the Commission aware of what those
20 provisions are. So if there's a member of
21 this panel that could respond to that, I would
22 direct that question to that panelist. If, on
23 the other hand, the other panel would be more
24 appropriate, then I would defer to the second

1 panel.

2 CHAIRMAN IGNATIUS: And it may
3 be split between the two.

4 Ms. Fabrizio, what's your
5 advice on that?

6 MS. FABRIZIO: I recommend the
7 question be deferred until Thursday's panel
8 because the members of that panel will be able
9 to address it directly.

10 CHAIRMAN IGNATIUS: So it sounds
11 like Thursday's panel will better respond to
12 your concerns on low-income programs and
13 low-income issues, even as they relate to
14 energy-efficiency programs. Is that correct?

15 MS. FABRIZIO: Yes.

16 MR. LINDER: Then I will defer.
17 Thank you.

18 CHAIRMAN IGNATIUS: Mr.
19 Sullivan, any questions?

20 MR. SULLIVAN: Local 12012 has
21 no questions of these gentlemen. Thank you.

22 CHAIRMAN IGNATIUS: Thank you.
23 Ms. Hollenberg.

24 MS. HOLLENBERG: Yeah. Yes, I

1 do actually have a question. One moment,
2 please.

3 CROSS-EXAMINATION

4 BY MS. HOLLENBERG:

5 Q. Good afternoon. Mr. Mullen, you talked
6 briefly about the tax election provision.
7 Could you direct me to that part of the
8 settlement agreement, what paragraph that
9 is?

10 A. (By Mr. Mullen) Just give me a second.

11 Q. Sure. Section 338(h)(10) election.

12 A. (By Mr. Mullen) Yes. It's on Page 16 of the
13 settlement agreement.

14 Q. And is it Paragraph D.1.c?

15 A. (By Mr. Mullen) Yes, it is.

16 Q. Okay. Thank you. And you agree that --

17 CHAIRMAN IGNATIUS: Before we go
18 on, just because we'll hear it from
19 Commissioner Harrington, we do have multiple
20 numbers. Are you -- let's just stick with
21 one. Is it the Bates Stamp in the corner that
22 we should work with? Is it the one in the
23 center we should work with? What do people --

24 MR. EICHLER: Sixteen is the one

1 in the center.

2 CHAIRMAN IGNATIUS: All right.
3 How about, just for the sake, because we're
4 going to be using other numbers, if we can
5 just use the right-hand corner Bates-stamped
6 number for everything. Thank you.

7 A. (By Mr. Mullen) Then I correct my answer to
8 Page 19.

9 CHAIRMAN IGNATIUS: Thank you.

10 Q. Thank you. And this paragraph states,
11 "Granite State commits there will be no rate
12 impacts from any Internal Revenue Code
13 Section 338(h)(10) election made in
14 connection with the acquisition of Granite
15 State by Liberty New Hampshire, assignee of
16 Liberty Energy." Do you agree with that?

17 A. (By Mr. Mullen) Yes.

18 Q. Okay. Thank you. Are you familiar, or did
19 you participate in the merger involving
20 Unitil and Northern in 2008?

21 A. (By Mr. Mullen) I did participate in that
22 proceeding.

23 Q. And I would just like to show you Mr.
24 Rubin's testimony which has been marked as

1 Exhibit 10. And on Page 19, which is the
2 only page number on that page, starting with
3 Line 3, I'm just going to ask you to read
4 Line 3 to Line 19, please.

5 A. (By Mr. Mullen) Would you like me to read
6 the introductory question to that answer?

7 Q. Sure. Thank you. And actually, I'm
8 actually going to ask you to follow along
9 because I'll have the same questions for you
10 as well. Thank you.

11 A. (By Mr. Mullen) Starting on Line 1 of
12 Page 19, the question reads: "Has the
13 Commission dealt with the effects of the
14 Section 338(h)(10) election in any other
15 cases?"

16 And the answer: "Yes, I am advised by
17 counsel that in 2008, the Commission
18 approved a settlement involving the
19 acquisition of Northern Utilities, Inc. by
20 Unitil Corp. One of the settlement
21 provisions approved by the Commission states
22 as follows:

23 Accumulated deferred income tax: In
24 regard to Unitil's Section 338(h)(10)

1 election in accounting for the acquisition
2 of the common stock of Northern, until
3 commits to hold Northern's customers
4 harmless for the elimination of the
5 historical accumulated deferred income tax,
6 (ADIT) liabilities resulting from such
7 election by maintaining pro forma accounting
8 for regulatory purposes to continue to
9 provide ratepayers with the ratemaking
10 benefit of Northern's ADIT balances existing
11 prior to the proposed transaction, until
12 such time as Northern's actual ADIT, related
13 to the historical utility plant assets
14 acquired, equals or exceeds the levels that
15 Northern's pro forma ADIT would have been
16 absent the proposed transaction. The ADIT
17 balances related to capital additions after
18 the closing date are not affected by the
19 Section 338(h)(10) election, and the
20 treatment of these balances will not change
21 for accounting and ratemaking purposes."

22 Q. Thank you for reading that.

23 With respect to the paragraph -- or the
24 provision in the pending settlement

1 agreement in this docket, Paragraph D.1.c.
2 on Page 19, is it Staff's understanding that
3 the intention of that paragraph is the same
4 as the intention was in the Unitil/Northern
5 case?

6 A. (By Mr. Mullen) Yes.

7 Q. And would Staff object to the Commission
8 including in its order this type of language
9 to clarify how the election will be handled
10 in the coming rate cases?

11 A. (By Mr. Mullen) No.

12 Q. Thank you.

13 And Mr. Eichler, can you answer the
14 same questions as well? Is the intention of
15 the -- of Liberty reflected or the same as
16 that language that you just heard Mr. Mullen
17 read into the record?

18 A. (By Mr. Eichler) Yes, it is.

19 Q. And would Liberty have any objection to the
20 Commission including language similar or the
21 same to this language that was in the
22 Northern/Unitil case in the order, to the
23 extent that they approve the settlement in
24 this case?

1 A. (By Mr. Eichler) We don't object to that.

2 MS. HOLLENBERG: Thank you very
3 much. I don't have other questions. Thank
4 you.

5 CHAIRMAN IGNATIUS: All right.
6 I think we're going to wrap it up for the day.
7 We've got a number of questions from the
8 Bench. And we've got other commitments that
9 are going to be starting up quickly, so I
10 think it's probably best to stop now. We'll
11 reconvene Thursday at 9:00 here with the
12 continuation of this panel.

13 And one question I did have,
14 Mr. Sullivan, is Mr. Spottiswood planning on
15 testifying? We have his prefiled testimony.

16 MR. SULLIVAN: Yes, he is.

17 CHAIRMAN IGNATIUS: All right.
18 If you would want to be able to take the stand
19 right now, Mr. Spottiswood, and assuming it
20 won't be long, and not have to come back on
21 Thursday, we could accommodate that if that's
22 okay with the parties.

23 MR. SULLIVAN: Well, we planned
24 on being here, anyway. And I've had

1 discussions with the parties about where they
2 would like us to be, so we'll defer to that.

3 CHAIRMAN IGNATIUS: We're happy
4 to have you on Thursday, Mr. Spottiswood.
5 That's fine. We'll hold off then.

6 All right. Is there anything
7 else before we adjourn for the day? Mr.
8 Camerino.

9 MR. CAMERINO: Clarification and
10 potentially a correction. Just for
11 Commissioner Harrington's benefit, there were
12 some questions to Mr. Robertson about the
13 "push-down accounting" for the debt. And in
14 that discussion, Mr. Robertson was identifying
15 who the borrower and the lenders were. And I
16 just want to note that the technical
17 statements that were submitted that are
18 Exhibit 4 describe those loans. And I just
19 want to direct the Commission's attention to
20 that, because as counsel heard those answers,
21 there may have been some confusion where the
22 name Liberty Utilities was thrown in and which
23 was the proper lender. So I'm not sure
24 whether we heard that right or wrong, but

1 those statements have the information.

2 CMSR. HARRINGTON: Thank you.

3 MR. CAMERINO: Just in case that
4 creates a follow-up question.

5 CHAIRMAN IGNATIUS: So, to the
6 extent, there's a conflict between what's in
7 the technical statement and what Mr. Robertson
8 testified to, you're saying the technical
9 statements should be relied on?

10 MR. CAMERINO: That's correct.

11 CHAIRMAN IGNATIUS: Thank you.
12 All right. If there's nothing further, we'll
13 stand adjourned for the afternoon and see you
14 Thursday morning.

15 (Whereupon the AFTERNOON SESSION was
16 adjourned at 4:25 p.m..)

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C E R T I F I C A T E

I, Susan J. Robidas, a Licensed
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