Liberty Utilities

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 14-180

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

JOINT DIRECT TESTIMONY

OF

STEVEN E. MULLEN

AND

HOWARD S. GORMAN

August 1, 2014

Regarding Temporary Rates

THIS PAGE INTENTIONALLY LEFT BLANK

LIST OF ATTACHMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Q. Please state your names and business addresses.

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

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

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

A. (SM) I am employed by Liberty Energy Utilities (New Hampshire) Corp. as Manager, Rates and Regulatory.

A. (HG) I am the President of HSG Group, Inc.

Q. On whose behalf are you testifying today?

A. We are testifying on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("EnergyNorth" or the "Company").

Q. Are you the same Steven E. Mullen and Howard S. Gorman who submitted other direct testimony in this case?

A. Yes. Our educational backgrounds and qualifications are set forth in the prefiled direct testimony that we submitted in support of EnergyNorth's permanent rate filing.

Q. What is the purpose of your testimony?

A. Our testimony explains the level of temporary rates sought by the Company, the reasons for the request and the impact on customers' bills. The Company's current rates are insufficient to allow it to earn a reasonable return on rate base. For the test year ended March 31, 2014, the Company's earned return on rate base for the distribution portion of its business was 4.49% (Schedule T, line 23). This is less than the return on rate base of 7.31%, computed using the Company's last authorized return on equity of 9.67%, established by the Commission in Order No. 25,202, and its current cost of debt and capital structure (Schedule T, lines 118-121).

Q. Are you sponsoring any attachments and schedules?

A. We are sponsoring the following attachments and schedules:

- Attachment SEM/HSG-TEMP-1, which includes the following schedule:
    - Schedule T - Temporary Rates Revenue Requirement and Revenue Deficiency (All schedule references in this temporary rates testimony are to Schedule T);
- Attachment SEM/HSG-TEMP-2, which provides rate design and bill impact analysis for temporary rates;

- Attachment SEM/HSG-TEMP-3, clean revised tariff pages reflecting the proposed temporary rates; and
- Attachment SEM/HSG-TEMP-4, redlined revised tariff pages reflecting the proposed temporary rates.

Q. What is the primary reason that the Company's earnings have been below the allowed rate of return?

A. The primary reason relates to capital investments made by the Company since the last rate case. A large portion of those investments were for infrastructure replacement and, by their nature, did not produce additional revenue. A discussion of the capital investments made over the last few years is included in the testimony of Christian Brouillard.

Q. What is the level of the temporary rate increase that the Company is requesting?

A. The Company is requesting temporary rates that would generate additional annual gross distribution revenue of $8,379,060 (line 2), which represents a 14.7% increase in distribution revenue and a 5.3% increase in total revenue. The Company is requesting that temporary rates take effect as of September 1, 2014 on a service-rendered basis, and that they be applied by increasing all rates under the existing rate design by a uniform percentage. The Company recognizes that a temporary rate request generally does not provide a sufficient opportunity for the Commission and other parties to review proposed revenue allocation or rate design changes, and therefore the Company is not proposing any such changes in connection with the temporary rates.

Q. Why is the Company requesting a temporary rate increase?

A. The Company is seeking a temporary rate increase because its return on distribution in the historic test year ended March 31, 2014, as adjusted on Schedule T, was 4.49%, which is significantly less than the return on rate base of 7.31% (computed as described above). Without a temporary rate increase, the Company will not have the opportunity to earn a reasonable return until a permanent rate order becomes effective.

The Company has requested a permanent increase of $13,442,972; the temporary increase is 62.3% of that amount. Temporary rates are proposed to be in effect until the establishment of permanent rate pursuant to the Commission's final order in this case and should provide the Company with the opportunity to earn at least a portion of the return ultimately found by the Commission to be just and reasonable.

A temporary increase will mitigate the effect of regulatory lag, while providing the Commission and parties to the proceeding sufficient opportunity to consider in full the Company's permanent rate request. Implementation of temporary rates at the level requested by the Company will also create a more gradual, smoother transition to the permanent rates ultimately approved by the Commission in this case.

Q. How was the temporary increase of $8,379,060 calculated?

A. The temporary increase requested is the amount required to produce the 7.31% return on rate base (computed as described above).

Q. Have you made any adjustments in arriving at the recommended temporary rate increase?

A. Yes. We have adjusted for several items which are corrections and/or normalizations to the historic test year data shown in the left-hand column on Schedule T.

1. Remove revenue related to Cost of Gas and the Local Distribution Adjustment Charge (LDAC) (line 2). This adjustment required first separating total revenue into distribution revenue (line 30) and Cost of Gas / LDAC revenue (line 34), then removing the Cost of Gas / LDAC revenue (line 38). The pro forma distribution revenue (line 2) agrees with the separately computed amount presented in Attachment RATES-1, page 2, line 15 to Mr. Hall’s and Mr. Simpson’s testimony.

2. Remove the associated expenses associated with Cost of Gas and LDAC revenue from the Historic Test Year accounts (line 7, computation on line 44).

3. Adjust depreciation expense and rate base to reflect a settlement agreement in a prior rate case, Docket No. DG 08-009. As part of that settlement, there was agreement to amortize a depreciation reserve surplus of $12,401,522 at an annual rate of $933,588. As it was a surplus, the $933,588 is an annual reduction to depreciation expense. The Company discovered that the monthly amortization was not recorded subsequent to the acquisition of EnergyNorth in July 2012. As a result, we have adjusted test year depreciation expense by ($933,588) (line 12, computation on line 52) and increased rate base by $1,633,779 to correct accumulated depreciation (line 75, computation on line 59). This item is also presented in the attachments to our permanent rates testimony on Schedules RR-5-2 and RR-3-11.

4. Record amortization of a pension and benefits valuation allowance that arose with the acquisition of EnergyNorth. As provided for in the settlement agreement in that proceeding, Docket No. DG 11-040, the Company was allowed to record a regulatory asset to reflect the fair value of its pension and benefits obligations, as required by generally accepted accounting principles (GAAP). Consistent with GAAP, the regulatory asset is being amortized over the employees' average remaining service lives, or

10.8 years. The regulatory asset was established at a balance of $21,625,753, resulting in annual amortization expense of $2,002,385 that should have been recorded since the acquisition. However, the amortization expense was not previously recorded. Therefore, we have adjusted the test year to include the annual amortization expense (line 11, computation on line 49). This item is also presented in the attachments to our permanent rates testimony on Schedule RR-3-03.

5. Adjust amortization of Costs to Achieve ("CTA") associated with EnergyNorth's prior acquisition by National Grid through National Grid's merger with KeySpan Corporation. Pursuant to Commission Order No. 24,777 in Docket No. DG 06-107, EnergyNorth is permitted to amortize and to include in the revenue requirement its prudently incurred costs to achieve certain savings. The initial approved amortization amount was $409,203 per year, resulting in monthly amortization of $34,100. Order No. 25,370 in Docket No. DG 11-040, regarding the acquisition of EnergyNorth by Liberty Energy NH, did not change the prior Order with regard to this amortization. This adjustment corrects the amortization expense recorded in the historic test year (line 13, computation on line 65). This item is also presented in the attachments to our permanent rates testimony on Schedule RR-3-07.

6. Adjust property tax expense, which was overstated in the historic test year

due to the inclusion of some prior period amounts. An adjustment was made to reflect the correct expense in the Pro Forma Test Year (line 14, computation on line 70). This item is also presented in the attachments to our permanent rates testimony on Schedule RR-3-14.

7. The final adjustment is to compute income tax expense for the adjusted information, based on statutory rates and synchronized interest expense (line 15, computation on line 107).

Q. Are those proposed adjustments consistent with the statute governing temporary rates?

A. Yes. As provided in RSA 378:27, temporary rates should be based on "…the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports." As these adjustments are corrections to the test year to recognize previously approved items that were omitted from the Company's books, they are appropriate for inclusion in the calculation of temporary rates.

Q. What percentage increase in customers' bills does the Company's temporary rate request represent?

A. The annual bill impacts (as a percentage of the total bill) to various classes of customers are as follows:

- For a residential heating customer (Rate R-3) using 797 therms per year, the increase is $64.28, or 5.16%;
- For a low annual use, high winter use commercial/industrial customer (Rate G-41) using 2,073 therms per year, the increase is $154.78, or 4.75%;
- For a medium annual use, high winter use commercial/industrial customer (Rate G-42) using 15,270 therms per year, the increase is $820.80, or 3.84%; and
- For a medium annual use, low winter use commercial/industrial customer (Rate G-52) using 16,365 therms per year, the increase is $568.22, or 3.04%

Additional information showing bill impacts by rate class is provided in Attachment SEM/HSG-TEMP-2. The rates derived on SEM/HSG-TEMP-2, were used to prepare the tariff pages included as Attachments SEM/HSG-TEMP-3 and SEM/HSG-TEMP-4.

Q. Do the proposed temporary rates provide not more than a reasonable return on the cost of the property used and useful for the public service less accrued depreciation, as shown by the reports of the Company filed with the Commission?

A. Yes. With the proposed temporary rates, the Company will earn no more than a reasonable return on its investment calculated based on the books and records on file with the Commission. As demonstrated in Attachment SEM/HSG-TEMP-1, Schedule T, the Company's requested level of temporary rates yields a rate of return equal to 7.31%, which is based on the return on equity granted in the Company's last rate case and is less than the 7.63% overall rate of return being requested for permanent rates.

Q. Are customers protected from being overcharged by temporary rates if the final rate case decision is less than the level of temporary rates?

A. Yes, customers are protected because of the reconciling nature of temporary rates once permanent rates are established by the Commission.

Q. Does this conclude your testimony regarding temporary rates?

A. Yes.