STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 15-___

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities Keene Division
Winter 2015-2016 Cost of Gas Filing

DIRECT TESTIMONY

OF

FRANCISO C. DAFONTE
DAVID B. SIMEK

September 16, 2015

I. INTRODUCTION

Q. Please state your full name, business address and positions.

A. My name is Francisco C. DaFonte. My business address is 15 Buttrick Road, Londonderry, New Hampshire 03053. My title is Vice President, Energy Procurement.

A. My name is David B. Simek. My business address is 15 Buttrick Road, Londonderry, New Hampshire 03053. My title is Regulatory Lead Utility Analyst.

Q. By whom are you employed?

A. We are employed by Liberty Utilities Service Corp., which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth" or "the Company") and Liberty Utilities (Granite State Electric) Corp.

Q. On whose behalf are you testifying?

A. We are testifying on behalf of EnergyNorth's Keene Division ("Keene Division").

Q. Please describe your educational background, and your business and professional experience.

A. Mr. DaFonte:

I attended the University of Massachusetts at Amherst where I majored in Mathematics with a concentration in Computer Science. In the summer of 1985 I was hired by Commonwealth Gas Company (now Eversource Energy), where I was employed primarily as a supervisor in gas dispatch and gas supply planning for nine years. In 1994, I joined Bay State Gas Company (now Columbia Gas of Massachusetts) where I held various positions including Director of Gas Control and Director of Energy Supply Services. At the end of October 2011, I was hired as the Director of Energy Procurement by Liberty Energy Utilities (New Hampshire) Corp. and promoted to Sr. Director in July 2013 and Vice President in July 2014. I now work for Liberty Utilities Service Corp. and in this capacity, I provide gas procurement services to EnergyNorth.

A. Mr. Simek:

I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I received a Master's of Science in Finance from Walsh College in 2000. I also received a Master's of Business Administration from Walsh College in 2001. In 2006, I earned a Graduate Certificate in Power Systems Management from Worcester Polytechnic Institute. In August of 2013, I joined Liberty Energy Utilities (New Hampshire) Corp.as a Utility Analyst and I was promoted to a Regulatory Lead Utility Analyst in December 2014. I now work for Liberty Utilities Service Corp. and in this capacity, I provide rate related services to EnergyNorth. Prior to my employment at Liberty Utilities Service Corp., I was employed by NSTAR Electric & Gas ("NSTAR") as a Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment Planning group from 2004 to 2008.

Q. Have you both previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission (the "Commission")?

A. Yes, we both have testified on numerous occasions before the Commission.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to explain the Company's proposed cost of gas rates for its Keene Division for the 2015-2016 Winter ("Peak") Period to be effective beginning November 1, 2015. Our testimony will also address bill comparisons and other items related to the winter period.

II. COST OF GAS FACTOR

Q. What is the proposed 2015-2016 winter firm cost of gas rate?

A. The Company proposes a firm cost of gas rate of $0.8788 per therm for the Keene Division as shown on Third Revised Tariff Page 18.

Q. Please explain the calculation of the Cost of Gas Rate on the proposed Third Revised Tariff Page 18.

A. The proposed Third Revised Tariff Page 18 contains the calculation of the Winter 2015-2016 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of the propane sendout from November 1, 2015 through April 30, 2016 is $973,667. The information presented on the tariff page is supported by Schedules A through J that will be described later in this testimony.

To derive the Total Anticipated Cost, the following adjustments have been made:

1) The prior period over-collection of ($92,082) is added to the anticipated cost of the propane sendout.
2) Interest of ($1,088) is added to the anticipated cost of the propane sendout. Schedule H shows this forecasted interest calculation for the period May 2015 through April 2016. Interest is accrued using the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates.

The Non-Fixed Price Option ("Non-FPO") cost of gas rate of $0.8788 per therm was calculated by dividing the Total Anticipated Cost of $973,667 by the Projected Gas Sales of 1,107,962 therms. The Fixed Price Option ("FPO") rate of $0.8988 per therm was established by adding a $0.02 per therm premium to the Non-FPO rate.

Q. Why does the Total Anticipated Cost include a prior period over-collection of $92,082 plus interest rather than the prior period under-collection of $3,810 calculated in Schedule G plus interest?

A. The Keene Division was acquired by the Company in January 2015. Prior to that acquisition, it was known as New Hampshire Gas Corp. ("NH Gas"). The $3,810 under-collection was calculated the same way that NH Gas had calculated (over)/under collections in the past. The $92,082 under-collection reflects EnergyNorth's accounting methodology, which includes an unbilled revenue calculation and expense accruals being applied directly to the Cost of Gas account. Unbilled revenue and expense accruals had not previously been incorporated into NH Gas reconciliation filings. In order to be consistent between all Liberty Companies, all future (over)/under collections will reflect EnergyNorth's accounting methodology.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 1,219,186 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $0.8805 per therm represents the weighted average cost per therm for the winter period sendout as detailed on Schedule F, Line 55.

Q. What is Schedule B?

A. Schedule B presents the under/(over) collection calculation for the Winter 2015-2016 period based on the forecasted volumes, the cost of gas, and applicable interest amounts. The forecasted Total Sendout on Line 3 is the weather normalized 2014-2015 winter period firm sendout and company use. The forecasted Firm Sales on Line 9 represent weather normalized 2014-2015 winter period firm sales. The weather normalization calculations for Sendout and Sales are found in Schedules I and J, respectively.

Q. Are unaccounted-for gas volumes included in the filing?

A. Unaccounted-for gas is included in the Firm Sendout on Schedule B, Line 1, and is separately displayed on Line 4 of that schedule. The Company actively monitors its level of unaccounted-for volumes, which amounted to 1.95% for the twelve months ended June 30, 2015.

Q. Please describe Schedules C, D, and E.

A. Schedule C presents the calculation of the total forecasted cost of propane purchases in the Winter 2015-2016 period, segregated by Propane Purchasing Stabilization Plan (“PPSP”) purchases, available storage deliveries from EnergyNorth’s Amherst facility, spot purchases, and other items. Schedule D presents the structure of PPSP pre-purchases for the winter period, monthly average rates for the pre-purchases, and the resulting weighted average contract price for the winter period as used in Schedule C, Line 7. Schedule E presents the forecast of the unit cost for spot purchases as used in Schedule C, lines 16-23.

Q. Please describe the Propane Purchasing Stabilization Plan.

A. The PPSP, as approved in Order No. 24,617 in Docket DG 06-037, was again implemented for the winter 2015-2016. As shown on Schedule D, the Company pre-purchased 725,000 gallons of propane between April and September at a weighted average price of $0.9128 per gallon ($0.9976 per therm), inclusive of broker, pipeline, Propane Education & Research Council ("PERC") and trucking charges in effect at the time of the supplier's bid (April 2015).

Q. How was the cost of spot purchases determined?

A. The forecasted spot market prices of propane as shown on Schedule E, Column 1 are the Mont Belvieu propane futures quotations as of September 10, 2015. The forecasted delivered cost of these purchases is determined by adding projected broker fees, pipeline fees, PERC fees, supplier charges, and trucking charges.

Q. Please describe Schedule F.

A. Schedule F contains the calculation of the weighted average cost of propane in inventory for each month through April 2016. The unit cost of propane sent out each month utilizes this weighted average inventory cost inclusive of all PPSP purchases, spot purchases, and

Amherst storage withdrawals. Schedule F also shows the weighted average cost of inventory in the Amherst facility. The Amherst facility is re-filled each summer in advance of the winter period.

Q. What is Schedule G?

A. Schedule G shows the under-collected balance for the prior Winter 2014-2015 period, including interest calculated consistent with the way NH Gas did the calculation prior to the Energy North acquisition. The under-collected balance of $3,810 (Line 16) previously would have been included on Schedule H, line 1, Column 1. Schedule H, line 1, Column 1 now includes an over-collection of $92,082 based on the change in accounting methodology between NH Gas and Energy North. EnergyNorth includes expense accruals and an unbilled revenue calculation, which was never previously accounted for in the Cost of Gas under NH Gas. The suggested change was reviewed with the PUC Audit Staff on September 10, 2015. Details of the change are shown below:

Reconciliation (filed June 10, 2015) Under Collection Balance	$	3,810.28
Unbilled Commodity Costs - Jan 2015 thru Apr 2015	$	(1,191,919.85)
Unbilled Commodity Cost Reversals - Jan 2015 thru Apr 2015	$	1,048,468.92
Timing of Cost Differences (Accrual vs. Non-Accrual) - Jan 2015 thru Apr 2015	$	47,558.66
Adjusted Winter 2014-2015 Over Collection	$	(92,082.00)

Q. How is Schedule H represented in the cost of gas calculation?

A. Schedule H presents the interest calculation on (over)/under collected balances through April 2016. The prior period over-collection plus interest on that balance through October 31, 2015, is included on Schedule B, line 14 in the "Prior" column. The forecasted monthly interest for the Winter 2015-2016 period in Column 7 is included on Schedule B, line 13. The prior period over-collection plus the total interest amount is also included on the tariff page.

III. FIXED PRICE OPTION PROGRAM

Q. Will the Company offer an FPO program for the Winter 2015-2016 period?

A. Yes, the Company will offer the FPO program for the upcoming winter period to provide customers the opportunity to lock in their cost of gas rate. Enrollment in the program is limited to 50% of forecasted winter sales, with allotments made available to both residential and commercial customers on a first-come, first-served basis. The Company is forecasting that 30% of total sales volumes will enroll in the FPO program, a level somewhat lower than the 32.2% participation rate last winter yet higher than the 19% average for the previous four offerings.

Q. Will a premium be applied to the FPO rate?

A. Yes. As approved in Order No. 24,516, Docket DG 05-144, the Company has added a $0.02 per therm premium to the Non-FPO cost of gas rate to derive the FPO rate. The

Company is not seeking an increase in the premium because participation, based on prior customer behavior, is expected to remain well below the 50% threshold.

Q. How will customers be notified of the availability of the FPO program?

A. A letter will to be mailed to all customers on October 1 advising them of the program and the procedure to enroll.

IV. <u>COST OF GAS RATE AND BILL COMPARISONS</u>

Q. How does the proposed Winter 2015-2016 cost of gas rate compare with the previous winter's rate?

A. The proposed Non-FPO COG rate of $0.8788 per therm is a decrease of $0.5485 or 38.4% from the Winter 2014-2015 average rate of $1.4273. The proposed FPO rate is $0.8988 per therm, representing a decrease of $0.8281 per therm or 48.0% from last winter's fixed rate of $1.7269.

Q. What are the primary reasons for the change in rates?

A. The principal reason for the lower Non-FPO rate is the lower cost of propane as compared to last year for the same period. This lower cost is true for the PPSP contract rate as well as expected future spot purchases. In addition, the Keene customers are benefitting from the purchase and storage of approximately 300,000 gallons of propane at the Amherst facility. These stored volumes were purchased in the summer period at an average rate of $0.5722 per therm and will be withdrawn during the winter period to offset the typically higher winter price for propane.

The proposed FPO rate is likewise much lower due to falling propane prices and benefit of storing propane in Amherst at low summer prices.

Q. Has there been any impact from pipeline, PERC, supplier or trucking fees on the COG rate?

A. The pipeline tariff rate increased by 4.6%, the PERC fee and estimated supplier charge are unchanged, and the trucking fee is forecasted to decrease by 9.7% due to a lower diesel fuel surcharge.

Q. What is the impact of the Winter 2015-2016 COG rate on the typical residential heat and hot water customer participating in the FPO program?

A. As shown on Schedule K-1, column 7, lines 32 and 33, the typical residential heat and hot water FPO customer would experience a decrease of $445.53 or 48.0% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and elimination of the deferred revenue surcharge are factored into the analysis, the typical customer would see a total bill decrease of $445.53 or 28.2%, as shown on lines 35 and 36.

Q. What is the impact of the Winter 2015-2016 COG rate on the typical residential heat and hot water customer choosing the Non-FPO program?

A. As shown on Schedule K-2, column 7, lines 32 and 33, the typical residential heat and hot water Non-FPO customer is projected to see a decrease of $292.50 or 38.2% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and elimination of the deferred revenue surcharge are factored into the analysis, the typical customer would see a total bill decrease of $292.50 or 20.6%.

Q. Please explain the derivation of the typical residential heating usage per customer of 538 therms for the winter period.

A. The typical usage was determined by defining a residential heating customer as one that uses 60% or more of annual usage in the five winter months, and uses at least 100 therms in that period. This typical usage level is lower than regional norms due to a) the Company’s residential customer base containing many apartment units, b) significant use of alternate heating sources to supplement propane-fired furnaces, and c) the tendency of larger homes on larger lots to install propane tanks.

Q. Please describe the impact of the Winter 2015-2016 COG rate on the typical commercial customer compared to the prior winter period.

A. Schedule L-1 illustrates that the typical commercial FPO customer would see a $1,616.44 (48.0%) decrease in the gas component of their bill and a 30.5% decrease in their total bill. Schedule L-2 shows that the typical commercial non-FPO customer would see decreases of $1,070.58590 (38.4%) in the gas component of their bill and a 22.7% in their total bill.

V. <u>OTHER ITEMS</u>

Q. Please describe how the Company will meet its 7-day on-site storage requirement.

A. The Company has net storage capacity at its plant in Keene for approximately 75,000 gallons of propane. Additionally, as result of its purchase by Liberty Utilities in January 2015, the Company now has approximately 300,000 gallons of propane at the Amherst storage facility located approximately 50 miles from the Keene plant. This storage facility is shared with EnergyNorth, which also stores approximately 300,000 gallons of propane for potential use during the winter period. In addition, the Company will arrange its standard trucking commitment with Northern Gas Transport, Inc. for transportation from this storage facility to the plant.

Q. Is the Company requesting a waiver of N.H. Code Admin. Rule Puc 1203.05, which requires rate changes to be implemented on a service-rendered basis?

A. Yes, the Company is requesting a waiver of N.H. Code Admin. Rule Puc 1203.05 as was granted in previous cost of gas and delivery rate proceedings. First, the Company's customers are accustomed to rate changes on a bills-rendered basis and an alteration in policy may result in customer confusion. Second, the Company's billing system is not designed to accommodate a change to billing on a service-rendered basis, and such a change would necessitate the modification or replacement of the system at a substantial cost.

Q. Does this conclude your testimony?

A. Yes, it does.

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