STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DG 16-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Winter 2016/2017 Cost of Gas Filing

DIRECT TESTIMONY

OF

DAVID B. SIMEK

September 1, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

I. <u>INTRODUCTION</u>

Q. Please state your full name and business address.

A. My name is David B. Simek. My business address is 15 Buttrick Road, Londonderry, New Hampshire 03053.

Q. Please state by whom you are employed and your position.

A. I am a Lead Utility Analyst for Liberty Utilities Service Corp. ("Liberty") which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("EnergyNorth" or the "Company"). I am responsible for providing rate-related services for the Company.

Q. Please describe your educational background and training.

A. 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.

Q. What is your professional background?

A. In August 2013, I joined Liberty Utilities as a Utility Analyst and I was promoted to a Lead Utility Analyst in December 2014. Prior to my employment at Liberty Energy Utilities (New Hampshire) 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 previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission (the "Commission")?

A. Yes. I have testified on numerous occasions before the Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the Company's proposed firm sales cost of gas rates for the 2016/17 Winter (Peak) Period and the Company's proposed 2016/17 Local Distribution Adjustment Charge, both effective November 1, 2016. I also describe the Company's proposal to have one annual cost of gas filing that would contain information for both the winter and summer cost of gas rates.

II. COST OF GAS FACTOR

Q. What are the proposed firm sales and firm transportation cost of gas rates?

A. The Company proposes a firm sales cost of gas rate of $0.7068 per therm for residential customers, $0.7026 per therm for commercial/industrial high winter use customers, and $0.7210 per therm for commercial/industrial low winter use customers as shown on Proposed Tenth Revised Page 77. The Company proposes a firm transportation cost of gas rate of $0.0006 per therm as shown on Proposed Second Revised Page 79.

Q. Would you please explain tariff page Proposed Third Revised Page 76 and Proposed Tenth Revised Page 77?

A. Proposed Third Revised Page 76 and Proposed Tenth Revised Page 77 contain the calculation of the 2016/17 Winter Period Cost of Gas Rate and summarize the Company's forecast of firm gas costs and firm gas sales. As shown on Page 77, the proposed 2016/17 Average Cost of Gas of $0.7068 per therm is derived by adding the Direct Cost of Gas Rate of $0.6550 per therm to the Indirect Cost of Gas Rate of $0.0518 per therm. The estimated total Anticipated Direct Cost of gas, derived on Page 76 and repeated on Page 77, is $58,894,216. The estimated Indirect Cost of Gas, also derived on Page 76 and repeated on Page 77, is $4,661,664. The Direct Cost of Gas Rate of $0.6550 and the Indirect Cost of Gas Rate of $0.0518 are determined by dividing each of these total cost figures by the projected winter period firm sales volumes of 89,920,078 therms.

To calculate the total Anticipated Direct Cost of Gas, the Company adds a list of allowable adjustments from deferred gas cost accounts to the projected demand and commodity costs for the winter period supply portfolio. These allowable adjustments, shown on Page 76, total ($4,087,455). These adjustments are added to the Unadjusted Anticipated Cost of Gas of $62,981,672 to determine the Total Anticipated Direct Cost of Gas of $58,894,216.

Q. What are the components of the Unadjusted Anticipated Cost of Gas?

A. The Unadjusted Anticipated Cost of Gas shown on Proposed Third Revised Page 76 consists of the following components:

1.	Purchased Gas Demand Costs	$7,527,898
2.	Purchased Gas Commodity Costs	48,688,614
3.	Storage Demand and Capacity Costs	941,660
4.	Storage Commodity Costs	4,026,000
5.	Produced Gas Cost	1,797,499
	Total (does not add due to rounding)	$62,981,672

Q. What are the components of the allowable adjustments to the Cost of Gas?

A. The allowable adjustments to gas costs, listed on Proposed Third Revised Page 76 are as follows:

1.	Prior Period Under Collection	$2,690,610
2.	Interest	33,236
3.	Broker Revenues	(1,374,947)
4.	Transportation COG Revenue	(29,471)
5.	Capacity Release Margin	(5,448,856)
6.	Fixed Price Administrative Cost	41,972
	Total Adjustments (does not add due to rounding)	($4,087,455)

These allowable adjustments are standard adjustments made to the deferred gas cost balance through the operation of the Company's cost of gas adjustment clause. I will discuss the factors contributing to the prior period over collection later in this testimony.

Q. How does the proposed average cost of gas rate in this filing compare to the average cost of gas rate approved by the Commission in Docket No. DG 15-353 for the 2015/16 Winter Period?

A. The average cost of gas rate proposed in this filing is $0.0448 per therm lower than the initial rate of $0.7516[1] approved by the Commission in Order No. 25,833 dated October 30, 2015, in Docket No. DG 15-353. The decrease in the rate reflects a decrease in the total cost of gas of approximately $909 thousand or 1.4% ($532 thousand decrease in total direct gas costs and a $377 thousand decrease in indirect gas costs).

Q. How does the proposed firm transportation winter cost of gas rate compare to the rate approved by the Commission for the 2016/17 winter period?

A. The proposed firm transportation winter cost of gas rate is $0.0006 per therm. The rate approved in Docket No. DG 15-353 was ($0.0007). The increase in the rate relates to an estimated $63,000 in transportation customer costs offset by the prior period over collection of $33,912.

1 For comparison purposes, by the end of the 2015/16 Winter Period, the residential cost of gas rate decreased to $0.4423 per therm through the operation of the monthly adjustment mechanism.

Q. In the calculation of its firm transportation winter cost of gas rate, has the Company updated the estimated percentage used for pressure support purposes?

A. No, it has not. The Company used, for pressure support purposes, a rate of 9.9% based on the marginal cost study used for the rate design approved in the Settlement Agreement in Docket No. DG 10-017.

Q. What was the actual weighted average firm sales cost of gas rate for the 2015/16 winter period?

A. The weighted average cost of gas rate was $0.5141 per therm. This was calculated by applying the actual monthly cost of gas rates for November 2015 through April 2016 to the monthly therm usage of an average residential heating customer using 763 therms per year, or 608 therms for the six winter period months.

III. PRIOR PERIOD UNDER COLLECTION

Q. Please explain the prior period under collection of $2,619,772.

A. The prior period under collection is also detailed in the 2015/16 Winter Period Reconciliation that was filed with the Commission on July 29, 2016. The $2,619,772 under collection is the sum of the deferred gas cost, bad debt, and working capital balance as of April 30, 2016, including Peak Period costs recovered in May 2016 based on billings for April consumption. The under-collection was driven mainly by the timing of monthly cost of gas rate adjustments as compared to changes in the underlying costs and accounting adjustments made between the Summer and Winter periods.

IV. FIXED PRICE OPTION

Q. Has the Company established a winter period fixed price pursuant to its Fixed Price Option Program?

A. Yes. Pursuant to Order No. 24,515 in Docket No. DG 05-127 the Fixed Price Option Program ("FPO") rates are set at $0.0200 per therm higher than the initial proposed COG rate. Proposed Second Revised Page 78 contains the FPO rate for the 2016/17 Winter period, which is $0.7268 per therm for residential customers. This compares to FPO rate approved for the 2015/16 winter period of $0.7716 per therm for residential customers. This represents a $0.0448 per therm, or 5.8% decrease in the residential FPO rate. The total bill impact on the winter period bills for an average FPO heating customer using 608 therms is a decrease of approximately $51 or 5.8% compared to last winter. The total bill impact reflects the implementation of the increases approved in Docket No. DG 16-449 effective July 1, 2016, relating to the cast iron/bare steel main replacement program. The estimated winter period bill for an average residential heating customer opting for the FPO would be approximately $12.16 (or 1.4%) higher than the bill under the proposed cost of gas rates, assuming no monthly adjustments to the COG rate during the course of the winter. Schedule 23 contains the historical results of the FPO program.

V. LOCAL DISTRIBUTION ADJUSTMENT CHARGE ("LDAC")

Q. What are the surcharges that will be billed under the LDAC?

A. As shown on Proposed Second Revised Page 82, the Company is submitting for approval an LDAC of $0.0553 per therm for the residential non-heating class and residential heating class, and $0.0370 per therm for the commercial/industrial bundled sales classes effective November 1, 2016. The surcharges proposed to be billed under the LDAC are the Energy Efficiency Charge, the Environmental Surcharge for Manufactured Gas Plant ("MGP") remediation, Rate Case Expense Recovery, and the Residential Low Income Assistance Program charge. The Company is also submitting for approval Proposed Third Revised Page 82 effective January 1, 2017, an LDAC of $0.0640 per therm for the residential non-heating class and residential heating class, and $0.0450 per therm for the commercial/industrial bundled sales classes. The surcharges proposed to be billed under the LDAC are the Energy Efficiency Charge, the Energy Efficiency Resource Standard Lost Revenue Adjustment Mechanism, the Environmental Surcharge for Manufactured Gas Plant ("MGP") remediation, and the Residential Low Income Assistance Program charge.

Q. Please explain the Energy Efficiency Charge.

A. The Energy Efficiency Charge is designed to recover the projected expenses associated with the Company's energy efficiency programs for Calendar Year 2017 that will be filed with the Commission in the near future. In the calculation of the Energy Efficiency Charge, the Company has also included the projected prior period under recovery of the Company's Residential and Commercial energy efficiency programs as of October 2016. As shown on Schedule 19 Energy Efficiency, the proposed Energy Efficiency charge is $0.0402 per therm for Residential customers and $0.0219 per therm for Commercial and Industrial customers.

Q. Please explain the Energy Efficiency Resource Standard Lost Revenue Adjustment Mechanism ("LRAM").

A. As shown on Schedule 19 LRAM, the proposed LRAM charge is $0.0016 per therm for Residential customers and $0.0009 per therm for Commercial and Industrial customers. It is designed to recover lost revenues associated with energy efficiency measures installed under the CORE programs. In accordance with Order No. 25,932 in Docket No. DE 15-137 the Company shall implement its Lost Revenue Adjustment Mechanism effective January 1, 2017. Therefore, the LDAC will increase on January 1, 2017, by the amount of the LRAM charge. Included in this filing is Proposed Third Revised Tariff page 82 effective January 1, 2017, which includes the LRAM factor.

Q. What is the proposed Residential Low Income Assistance Program ("RLIAP") charge?

A. As shown on Schedule 19 RLIAP, the proposed RLIAP charge is $0.0067 per therm. It is designed to recover administrative costs, revenue shortfall, and the prior period reconciliation adjustment relating to this program. For the 2016/17 Winter Period the Company is providing a 60% base rate discount, consistent with the settlement agreement approved by the Commission in Order No. 24,669 in Docket No. DG 06-120. The current RLIAP charge is designed to recover $1,253,515, of which $1,584,540 is for the revenue shortfall resulting from 5,003 customers receiving a 60% discount off their base rates, and ($331,025) (an over recovery) is for the prior year reconciling adjustment.

Q. In Order No. 24,824 in Docket No. DG 06-122 relating to short-term debt issues, the Company agreed to adjust its short-term debt limits each year as part of the Company's Winter Period Cost Of Gas filing. Did the Company calculate the short-term debt limit for fuel and non-fuel purposes in accordance with this settlement?

A. Yes, the Company included in Schedule 24 the short-term debt limit for fuel and non-fuel purposes for the 2016/17 period. As shown, the short-term debt limit for fuel inventory financing for the period November 1, 2016, through October 31, 2017, is calculated to be $19,066,764, and the limit for non-fuel purposes is calculated to be $69,611,416.

Q. Has the Company updated the Environmental Surcharge (Tariff Page 80)?

A. Yes, it has. The costs submitted for recovery through the MGP remediation cost recovery mechanism as well as the third party recoveries are included in the Environmental Cost Summary in Schedule 20 of this filing. The environmental investigation and remediation costs that underlie these expenses are the result of efforts by the Company to respond to its legal obligations with regard to these sites, as described by Ms. Casey in her pre-filed direct testimony in this proceeding and as set forth in the MGP site summaries included in this filing under Schedule 20. The Summary included in Schedule 20 shows the remediation cost pools for the Concord, Manchester, Nashua, Dover, Laconia, and Keene sites and a General Pool for costs that cannot be directly assigned to a specific site.

A summary sheet and detailed backup spreadsheets that support the 2016/17 costs are provided in Schedule 20 of this filing. Consistent with past practice, the Company met with the Commission Staff and OCA in August of this year to update them on the status of environmental matters. Ms. Casey's testimony describes the Company's activities with regard to all six sites.

Q. Please describe how the Company calculated the Environmental Surcharge included in this filing.

A. The proposed Manufactured Gas Plant Remediation surcharge for the period beginning November 1, 2016, and ending October 31, 2017, is $0.0155 per therm. This surcharge will recover a total of $2,893,504 in amortized remediation costs. The total amortized remediation costs of $2,893,504 include a correction to a prior year formulaic error in the spreadsheet, which had been in place since the acquisition of EnergyNorth by Liberty Utilities. The formula correction reduced the recoverable amortized remediation costs by approximately $790,000. The costs submitted for recovery are shown in the Environmental Cost Summary included in Schedule 20 of this filing.

Q. Did the Company include a Rate Case Expense (RCE) surcharge in this filing?

A. Yes. Consistent with the Settlement Agreement in Docket No. DG 14-180 and as shown on Schedule 19 RCE, the Company is proposing to refund $247,451 in estimated over collected rate case and recoupment expense through December 2016. The RCE rate of ($0.0071) per therm is determined by dividing the $247,451 by the estimated November 2016 through December 2016 sales volumes of 34,894,997 therms. The proposed RCE surcharge terminates December 31, 2016. Proposed Third Revised Tariff page 82 effective January 1, 2017, reflects the termination of the RCE surcharge.

Q. Has the Company also updated its Company Allowance percentage for the period November 2016 through October 2017 in accordance with Section 8 of the Company's Delivery Terms and Condition?

A. Yes, in Schedule 25 the Company has recalculated its Company Allowance for the period November 2016 through October 2017. The Company calculated the Company Allowance of 2.48% based on sendout and throughput data for the twelve-month period ending June 2016. This recalculated Company Allowance is proposed to be applied to all supplier deliveries beginning in November 2016.

VI. CUSTOMER BILL IMPACTS

Q. What is the estimated impact of the proposed firm sales cost of gas rate and proposed LDAC surcharges on an average heating customer's seasonal bill as compared to the rates in effect last year?

A. The bill impact analysis is presented in Schedule 8 of this filing. These bill impacts reflect the implementation of the increases approved in Docket No DG 16-449 effective July 1, 2016, relating to permanent distribution rate increases and the cast iron/bare steel main replacement program. The total bill impact over the winter period for an average residential heating customer is an increase of approximately $94, or 13.2%. The total bill impact for an average commercial/industrial G-41 customer is an increase of approximately $309, or 17.5%. Schedule 8 of this filing provides more detail of the impact of the proposed rate adjustments on heating customers.

VII. <u>OTHER TARIFF CHANGES</u>

Q. Is the Company updating its Delivery Terms and Conditions in the filing?

A. Yes. The Company is submitting Proposed Second Revised Page 143 relating to Supplier Balancing and Peaking Demand Charges and Proposed Second Revised Page 144 relating to Capacity Allocation.

Q. Please describe the changes to tariff Page 143.

A. In Proposed Second Revised Page 143, the Company is updating the Peaking Demand Charge from $12.89 per MMBtu of Peak MDQ to $11.39 per MMBtu of Peak MDQ, a $1.50 decrease. This calculation is also presented in Schedule 21.

Q. Please describe the changes to tariff Page 144.

A. Proposed Second Revised Page 144 updates the Capacity Allocator percentages used to allocate pipeline, storage, and local peaking capacity to high and low load factor customers under the mandatory capacity assignment requirement for firm transportation service. Schedule 22 contains the six-page worksheet that backs up the calculations for the updated allocators.

Q. Is the Company proposing to have one annual cost of gas filing?

A. Yes, the Company is proposing to have one annual cost of gas filing beginning with this winter 2016/2017 filing. The Company is proposing that during the winter cost of gas filing the Company incorporates a summer cost of gas filing that includes indicative summer cost of gas rates.

Q. Is the Company requesting the Commission to approve the summer cost of gas rate during the winter cost of gas proceeding?

A. No, the Company is not proposing to have the summer cost of gas rate approved during the winter cost of gas proceeding. The Company is requesting that the Commission approve the process used to calculate the beginning summer cost of gas rate. If the Commission approves this process, there will be no need for a hearing or an order approving the summer cost of gas rate. Rather, the actual summer cost of gas rate will be the rate calculated in April of each year under the process described below.

Q. What is the process proposed to calculate the summer cost of gas rates?

A. The winter cost of gas filing will include an indicative summer cost of gas filing with all relevant schedules updated. For each of the months of December through April, the Company will include a summer cost of gas adjustment calculation along with the winter monthly cost of gas adjustment calculation already being filed. Therefore, the Commission will be kept apprised of any changes to the projected summer cost of gas adjustment through these monthly updates. The monthly summer cost of gas adjustment calculation will only include three changes from the indicative summer cost of gas filing made in the winter: updated NYMEX rates, updated basis differentials, and updated accounting over/under balances. The actual summer cost of gas rates effective May 1 will be the rates calculated in the April summer cost of gas adjustment calculation, which is due to the Commission no later than five business days prior to May 1. The cost of gas rates calculated in the April summer cost of gas adjustment calculation will be the approved cost of gas rates used to calculate the 25% threshold of cumulative rate adjustments upward. All reconciliation and accounting processes remain the same.

Q. What are the proposed indicative 2017 summer firm sales cost of gas rates?

A. The Company proposes an indicative firm sales cost of gas rate of $0.3338 per therm for residential customers, $0.3545 per therm for commercial/industrial low winter use customers, and $0.3177 per therm for commercial/industrial high winter use customers as shown on Proposed Revised Eleventh Page 77.

Q. Would you please explain tariff pages Proposed Fourth Revised Page 76 and Proposed Eleventh Revised Page 77?

A. Proposed Fourth Revised Page 76 and Proposed Eleventh Revised Page 77 contain the calculation of the 2017 Summer Period Cost of Gas Rate and summarize the Company's forecast of firm gas sales, firm gas sendout, and gas costs. On Proposed Eleventh Revised Page 77, the 2017 Average Cost of Gas of $0.3338 per therm is derived by adding the Direct Cost of Gas Rate of $0.3208 per therm to the Indirect Cost of Gas Rate of $0.0130 per therm. The estimated total Anticipated Direct Cost of gas is $7,127,374 and the estimated Indirect Cost of Gas is $288,148. The Direct Cost of Gas Rate and the Indirect Cost of Gas Rates are determined by dividing each of these total cost figures by the projected firm sales volumes of 22,215,128 therms. Proposed Eleventh Revised Page 77 further shows that the Residential Cost of Gas Rate of $0.3338 per therm is equal to the Average Cost of Gas for all firm sales customers. It also shows the calculation of the

Commercial/Industrial Low Winter Use Cost of Gas Rate of $0.3545 per therm and the Commercial/Industrial High Winter Use Cost of Gas Rate of $0.3177 per therm.

The calculation of the Anticipated Direct Cost of Gas is shown on Proposed Fourth Revised Page 76. To derive the total Anticipated Direct Cost of Gas of $7,127,374, the Company starts with the Unadjusted Anticipated Cost of Gas of $7,876,444 and adds the Net Adjustment totaling ($749,070) (an over collection).

Q. What are the components of the Unadjusted Anticipated Cost of Gas?

A. The Unadjusted Anticipated Cost of Gas consists of the following:

1. Purchased Gas Demand Costs	$4,376,173
2. Purchased Gas Supply Costs	3,410,974
3. Produced Gas Costs	89,297
Total Unadjusted Anticipated Cost of Gas	**$7,876,444**

Q. What are the components of the adjustments to the cost of gas?

A. The adjustments to gas costs, listed on Proposed Fourth Revised Page 76, are as follows:

1. Prior Period (Over)/Under Collection	($727,882)
2. Interest	(21,188)
Total Adjustments	**($749,070)**

Q. How does the proposed average cost of gas rate in this filing compare to the initial cost of gas rate approved by the Commission for the 2016 Summer Period?

A. The cost of gas rate proposed in this filing is $0.0779 per therm lower than the initial rate approved by the Commission for the 2016 Summer Period ($0.3338 vs. $0.4117). This decrease is primarily due to the $1,746,091 difference between the current over collection and interest balance of ($749,070) and the 2015 Summer Period under collection and interest balance of $997,021.

Q. Does this conclude your testimony?

A. Yes, it does.

Q. How does the proposed average cost of gas rate in this filing compare to the initial cost of gas rate approved by the Commission for the 2016 Summer Period?

A. The cost of gas rate proposed in this filing is $0.0779 per therm lower than the initial rate approved by the Commission for the 2016 Summer Period ($0.3338 vs. $0.4117). This decrease is primarily due to the $1,746,091 difference between the current over collection and interest balance of ($749,070) and the 2015 Summer Period under collection and interest balance of $997,021.

Q. Does this conclude your testimony?

A. Yes, it does.