Liberty Utilities

EXHIBIT

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DG 17-048

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 17-048

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

DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

DANIEL S. DANE

April 28, 2017

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ATTACHMENTS

Attachment	Title
Attachment DSD-1	Résumé of Daniel S. Dane
Attachment DBS/DSD-2	Revenue Requirement Schedules
Attachment DBS/DSD-3	Step Increase Revenue Requirement
Attachment DBS/DSD-4	Estimated Rate Case Expenses

I. INTRODUCTION

Q. Please state your names and business addresses.

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

My name is Daniel S. Dane. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts.

Q. By whom are you employed, and in what position?

A. (DBS) I am employed by Liberty Utilities Service Company ("Liberty"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth" or the "Company"). My title is Regulatory Lead Utility Analyst.

(DSD) I am a Vice President with Concentric Energy Advisors, Inc. ("Concentric"), and the Financial and Operations Principal of CE Capital, Inc., a FINRA-member subsidiary of Concentric.

Q. Mr. Simek, please describe your educational background and your business and professional experience.

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. In August of 2013, I joined Liberty as a Utility Analyst and I was promoted to a

Regulatory Lead Utility Analyst in December 2014. Prior to my employment at Liberty, 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.

Q. Mr. Dane, please describe Concentric.

A. Concentric is a management consulting and economic advisory firm focused on the North American energy and water industries. Concentric specializes in regulatory and litigation support, transaction-related financial advisory services, energy market strategies, market assessments, energy commodity contracting and procurement, economic feasibility studies, and capital market analyses and negotiations.

Q. What are your responsibilities in your current position?

A. As a consultant, my responsibilities include assisting clients in identifying and addressing business issues. My primary areas of focus have been regulatory, financial, and accounting related issues.

Q. Please describe your education and professional licenses.

A. I have a Master of Business Administration from Boston College in Chestnut Hill, Massachusetts, and a Bachelor of Arts in Economics from Colgate University in Hamilton, New York. I am a Certified Public Accountant and a licensed securities professional (FINRA series 7, 28, 63, 79, and 99 licenses). I have included my résumé as Attachment DSD-1.

Q. Have you previously presented expert testimony before any regulatory agency?

A. Yes. I have testified or presented evidence in proceedings before the Connecticut Public Utilities Regulatory Authority, the Illinois Commerce Commission, the Public Utility Commission of Texas, the South Dakota Public Utilities Commission, and the Ontario Energy Board.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of our testimony in this proceeding is to present the Company's overall revenue requirement for permanent base distribution rates and the Company's requested step increase. We are also filing separate testimony to present the Company's request for a temporary rate increase in this proceeding.

Q. Are you sponsoring any schedules as part of your filing?

A. Yes, we are sponsoring Attachment DBS/DSD-2, which includes the schedules listed below, in accordance with Puc 1604.07 and 1604.08. As described in Section II.C. of our testimony, the Company is proposing that the Keene Division ("Keene") be consolidated into EnergyNorth from a ratemaking and accounting perspective, and that Keene customers be charged the same distribution rates as EnergyNorth's other customers. While we present a combined revenue requirement analysis for EnergyNorth and Keene, we also provide separate detailed schedules for each entity.

• Schedule RR-1	Revenue Deficiency and Revenue Requirement
• Schedule RR-EN-2	Operating Income Statement – EnergyNorth
• Schedule RR-K-2	Operating Income Statement – Keene
• Schedule RR-EN-2-1	Operating Income Statement – Detail – EnergyNorth
• Schedule RR-K-2-1	Operating Income Statement – Detail – Keene
• Schedule RR-EN-3	Summary of Adjustments – EnergyNorth
• Schedule RR-EN-3-01 – 3-10	Detailed Adjustment Schedules - EnergyNorth
• Schedule RR-K-3	Summary of Adjustments – Keene
• Schedule RR-K-3-01 – 3-10	Detailed Adjustment Schedules - Keene
• Schedule RR-4	Weighted Average Cost of Capital
• Schedule RR-EN-5	Rate Base – EnergyNorth
• Schedule RR-EN-5-1	Rate Base Quarterly Balances – EnergyNorth
• Schedule RR-EN-5-2	Cash Working Capital – EnergyNorth
• Schedule RR-K-5	Rate Base – Keene
• Schedule RR-K-5-1	Rate Base Quarterly Balances – Keene
• Schedule RR-K-5-2	Cash Working Capital – Keene

In addition, Attachment DBS/DSD-3 presents the requested step increase:

• Schedule Step-EN	Step Increase – EnergyNorth
• Schedule Step-K	Step Increase – Keene

Finally, rate case expenses are presented in Attachment DBS/DSD-4:

- Schedule RC — Rate Case Expense

Q. Please summarize the rate relief EnergyNorth is seeking in this proceeding.

A. The Company is seeking to recover an annual revenue deficiency of $13,749,361 based on a combined rate base of $252,028,685, which represents an 11.21% increase in total operating revenue for EnergyNorth and Keene combined. Attachment DBS/DSD-2, Schedules RR-1, RR-EN-2, and RR-K-2 provide a summary of the different components of EnergyNorth's and Keene's cost of service and revenue requirements.

In addition to the annual revenue deficiency, the Company also seeks approval for a step increase to recover an annual revenue deficiency of $6,071,562 combined for EnergyNorth and Keene. The step increase reflects additional revenue requirements based on anticipated incremental plant in service of $42,182,907 for the twelve-month period ending December 31, 2017. The step increase will become effective upon implementation of permanent rates in this proceeding, anticipated to occur in the first or second quarter of 2018.

Q. What is the primary driver of the Company's need for an increase in base distribution rates?

A. As shown in Attachment DBS/DSD-2, Schedules RR-EN-2 and RR-K-2, the Company's earned return on rate base for the Test Year was 4.44% for EnergyNorth and (8.78)% for Keene. When known and measurable changes are reflected in the income statement, those returns change to 4.20% and (12.69)% for EnergyNorth and Keene, respectively. Both those returns are significantly below the Company's requested weighted average cost of capital of 7.36%. The primary driver of the Company's rate of return and resulting need for an increase in base distribution rates is the amount of capital the Company has invested since the end of the test year in the Company's last rate case as discussed in Mr. Brouillard's testimony.

Q. What approach did you use to determine the revenue requirement and revenue deficiency?

A. The Company's revenue requirement and revenue deficiency were calculated based on the Company's financial results for the calendar year ended December 31, 2016 (*i.e.*, the "Test Year"), excluding revenues and expenses related to the Cost of Gas and Local Distribution Adjustment Clause ("LDAC"), and adjusted for known and measurable adjustments. The resulting Test Year *pro forma* net operating income reflects normalized revenues at current rates, expenses, and net operating income for ratemaking purposes, as summarized on Schedules RR-EN-2 and RR-K-2.

Pro forma net operating income was then compared to the Company's operating income requirement, which is the net operating income required to achieve a return of 7.36% on the Company's Test Year rate base. The difference between *pro forma* net operating income and the required net operating income is equal to the after-tax net operating income deficiency. The net operating income deficiency was then grossed-up for Federal and state income taxes to determine the revenue deficiency, as shown on Attachment DBS/DSD-2, Schedule RR-1.

II. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT

A. Rate Base

Q. What are the components of the Company's rate base in this case?

A. The Company's rate base is comprised of: (1) utility plant in service as of December 31, 2016, including the amount in Federal Energy Regulatory Commission ("FERC") account 106, Completed Construction not Classified, net of accumulated depreciation; (2) the five-quarter average balance in materials and supplies and prepayments; (3) a deduction for the five-quarter average balance of customer deposits; (4) cash working capital; and (5) a deduction for accumulated deferred income taxes. The rate base is measured as of December 31, 2016, to align with the calculation of revenues and return on rate base. The rate base components are summarized in Schedules RR-EN-5 and RR-K-5. As shown in those schedules, the rate base was calculated to be $249,876,373 for EnergyNorth and $2,152,312 for Keene.

Q. Were any adjustments made to plant in service as of December 31, 2016?

A. Yes. Plant additions between April 1 and December 31, 2016 related to the Company's cast iron/bare steel ("CIBS") replacement program were removed from plant in service, as was a property tax allowance for that spending. CIBS plant additions through March 31, 2016 were separately reflected in the revenue requirement analysis through an adjustment to Test Year revenues.

Q. What information is provided in Schedules RR-EN-5-1 and RR-K-5-1?

A. Schedules RR-EN-5-1 and RR-K-5-1 provide the five-quarter average in materials and supplies, prepayments, and customer deposits for EnergyNorth and Keene, respectively.

Q. What information is provided in Schedules RR-EN-5-2 and RR-K-5-2?

A. Schedules RR-EN-5-2 and RR-K-5-2 provide the calculation of cash working capital. In that schedule, we applied the cash working capital required days of 26.53 days (see the testimony of David B. Simek) to adjusted operations and maintenance expenses. The resulting cash working capital requirement was $2,635,735 for EnergyNorth and $90,125 for Keene.

B. Net Operating Income

Q. Please summarize the results of EnergyNorth's and Keene's distribution revenue requirement, as presented in Schedule RR-1.

A. Schedule RR-1 provides the requested distribution revenue increase and distribution revenue requirement. As shown in that schedule, the revenue deficiency is $13,749,361 based on an overall rate of return on a rate base of 7.36%. Schedules RR-EN-2 through RR-EN-5 and RR-K-2 through RR-K-5 provide the support for the items presented on Schedule RR-1, including *pro forma* Test Year net operating income and rate base.

Q. What information is provided in Schedules RR-EN-2, RR-EN-2-1, RR-K-2, and RR-K-2-1?

A. Schedules RR-EN-2 and RR-K-2 provide details of the revenues and expenses of EnergyNorth, including: (1) Test Year amounts; (2) amounts that are excluded from the base distribution revenue requirements such as Cost of Gas and LDAC revenues and expenses; (3) known and measurable adjustments; and (4) the proposed revenue increase, including income tax effects. Schedules RR-EN-2-1 and RR-K-2-1 provide a more detailed income statement by FERC account, and also provide information regarding labor amounts in each FERC account.

Q. What known and measurable adjustments were made to EnergyNorth Test Year revenues and expenses to arrive at *pro forma* Test Year net operating income?

A. The following is a list of the adjustments for "known and measurable" changes in revenue and expenses for EnergyNorth, along with the schedules in which details are provided:

- Schedule RR-EN-3-1 — Revenue adjustments – EnergyNorth
- Schedule RR-EN-3-2 — Salary and wage expense – EnergyNorth
- Schedule RR-EN-3-3 — Payroll tax expense – EnergyNorth
- Schedule RR-EN-3-4 — Pension and benefits expense – EnergyNorth
- Schedule RR-EN-3-5 — Depreciation – EnergyNorth
- Schedule RR-EN-3-6 — Amortization – EnergyNorth
- Schedule RR-EN-3-7 — Property taxes – EnergyNorth
- Schedule RR-EN-3-8 — Income tax expense – historical Test Year – EnergyNorth
- Schedule RR-EN-3-9 — Income tax expense – pro forma adjustments – EnergyNorth
- Schedule RR-EN-3-10 — Other adjustments – EnergyNorth

Q. What adjustments were made to revenues in Schedule RR-EN-3-1?

A. EnergyNorth's Historical Test Year revenues (less Cost of Gas and LDAC revenues) were adjusted: (1) to match the calculated operating revenue presented in the testimony of David Simek and Gregg Therrien, Table 1, (2) for weather normalization, and (3) for an annualization adjustment for the updated CIBS rate that went into effect July 1, 2016. In addition, revenues were adjusted to reflect additional revenues that are expected from former Concord Steam Corporation ("Concord Steam") customers that convert to natural gas service, as discussed further below. Revenues were also adjusted for known and measurable changes related to iNATGAS and special contracts revenues. The iNATGAS adjustment involved two components. First, Test Year revenue was adjusted upwards to reflect an annual minimum "take-or-pay" amount under the contract with iNATGAS that was in effect December 31, 2016. Second, iNATGAS-related rental income was annualized to reflect the fact that the historical Test Year only reflected four months of iNATGAS rental income. Special contract revenue was adjusted to annualize the annual rate change to the Company's special contract with AES Londonderry that occurred October 1, 2016. Lastly, revenues were adjusted upwards for minor correcting entries to miscellaneous service revenues. The total adjustment to Test Year revenue was $377,713.

Q. Please describe the adjustment for salary and wage expense shown in Schedule RR-EN-3-2.

A. Salary and wage expense was adjusted to reflect the annual expense for the full complement of employees as of December 31, 2017, including wage increases, expected incentive compensation and overtime, and the addition of new employees. Since many employees provide services to both EnergyNorth and Granite State Electric, each employee's salary was allocated between EnergyNorth and Granite State Electric per the portion of their time spent dedicated to each company. In addition, each employee's salary was allocated to operations and maintenance ("O&M") expense to exclude the portion of their salary that is capitalized. Based on those calculations and allocations, the *pro forma* salary and wage adjustment was $696,058.

Q. Please describe the adjustment for payroll tax expense shown in Schedule RR-EN-3-3.

A. *Pro forma* payroll taxes were determined in Schedule RR-EN-3-3 by calculating the ratio of payroll taxes to gross payroll for the unadjusted historical Test Year, and then applying that ratio to *pro forma* salary and wages expense. That adjustment aligned payroll taxes with payroll, and resulted in a *pro forma* payroll tax adjustment of $76,430.

Q. Please describe the adjustment for pension and benefits expense shown in Schedule RR-EN-3-4.

A. Benefits expense was adjusted to reflect the full complement of employees as of December 31, 2017, as well as known and measurable changes to benefits expenses based on the latest health plan data. The Company matches employees' 401K contributions at 4% of salaries, so 4% was applied to *pro forma* salaries to derive the *pro forma* 401K matching expense. The total adjustment for EnergyNorth healthcare and 401K matching benefits was $553,259 (line 31), before consideration of amounts that are capitalized. Pension and Other Post-Employment Benefits ("OPEB") expense was adjusted to reflect the latest actuarial assumptions, resulting in a decrease of $771,965 (line 34), also before capitalization of pension and OPEB expenses. In addition, pension and benefits expense was adjusted to include the amortization of a regulatory asset related to pension and OPEB expenses, as well as to reflect the conclusion of the amortization of another pension and OPEB-related regulatory asset in 2017.

Q. Please further describe the adjustments to pension and benefits expense related to regulatory asset amortization.

A. Consistent with the settlement agreement in Docket No. DG 14-080, the Company will begin amortization of a regulatory asset related to the value of Liberty's postretirement benefits other than pensions (less the capitalized portion), over an asset life of 10.52 years.[1] In addition, amortization expense was adjusted downward to reflect the conclusion of the amortization of deferred OPEB costs arising from the prior acquisition of EnergyNorth.

Q. What adjustment did you make to pension and benefits expense to reflect the capitalization of pension and benefits?

A. To reflect the fact that the Company capitalizes a portion of pension and benefits expenses, a further adjustment was made to reflect a decrease in pension and benefits expense of $523,546 (line 57) for capitalization.

[1] Order No. 25,797 at 7 (June 26, 2015).

Q. What adjustments were made to depreciation expense?

A. Depreciation factors for each FERC plant account were updated to reflect the depreciation factors developed in the depreciation study performed by Paul Normand of Management Applications Consulting, Inc. In addition, depreciation expense was annualized to reflect a full year of depreciation on plant additions in 2016 (including FERC account 106, Completed Construction not Classified), as well as to remove a full year of depreciation on plant retirements in 2016. Adjusted depreciation expense also was lower due to the removal from rate base of CIBS-related capital projects placed in service after April 1, 2016. In addition, depreciation expense was reduced by $933,588 of amortization of the accumulated depreciation reserve surplus, in accordance with the settlement approved in Docket No. DG 08-009. Those adjustments, which total $644,820, are shown in Schedule RR-EN-3-5.

Q. What adjustments were made to amortization expense?

A. Four adjustments were made to historical Test Year amortization expense. First, similar to depreciation expense, amortization of intangible plant was updated to reflect a full year of amortization, as well as the amortization rates from Mr. Normand's depreciation study. Second, amortization of the regulatory asset related to the "costs to achieve" the National Grid – Keyspan merger was adjusted downwards for consistency with Order No. 25,797, at 7. Third, the Company proposes to begin amortization over three years of a regulatory asset related to compressors that were temporarily brought in by the Company to maintain pressure in the Tilton area before the Hi-Line was upgraded. Lastly, amortization was adjusted to reflect amortization of the Company's regulatory asset related to the acquisition of Concord Steam. Those amortization adjustments, which total $3,881,711, are shown in Schedule RR-EN-3-6.

Q. Please further describe the adjustment made for amortization of the Company's regulatory asset related to the acquisition of Concord Steam.

A. Concord Steam is a New Hampshire corporation and a regulated utility that provides district steam and heating service in Concord, New Hampshire. On July 1, 2016, EnergyNorth and Concord Steam entered into an Asset Purchase Agreement ("APA") under which EnergyNorth will acquire certain Concord Steam assets for $1.9 million, which will be paid on May 31, 2017. EnergyNorth and Concord Steam filed a petition for the approval of the APA in Docket No. DG 16-770, and subsequently entered into a settlement agreement with Commission Staff that included the ratemaking treatment for the Concord Steam acquisition price. The settlement agreement provided that, for rate recovery purposes, EnergyNorth would create a regulatory asset for the acquisition price when paid to Concord Steam that would be amortized and recovered through EnergyNorth's distribution rates over five years, including accrued interest, beginning as of the effective date of permanent rates following the conclusion of EnergyNorth's next distribution rate case (*i.e.*, the instant case).[2] On November 10, 2016, the Commission issued Order No. 25,965 approving the APA and the settlement between EnergyNorth,

[2] Per the settlement agreement, carrying costs will accrue on the regulatory asset at the cost of capital applicable to CIBS investments. Once amortization of the regulatory asset plus accrued carrying charges begins, carrying charges on the unamortized balance will accrue at EnergyNorth's authorized cost of capital. If permanent distribution rates change as a result of a subsequent rate case, carrying charges on the unamortized balance will also change to the extent that there is a change to the cost of capital authorized in that subsequent rate case.

Concord Steam, and Commission Staff regarding the ratemaking treatment of the acquisition. In accordance with the ratemaking treatment described above, the Company has calculated the required monthly amortization amount to recover the Concord Steam purchase price and accrued interest over five years. The revenue requirement adjustment reflects a full years' amortization.

Q. What adjustments were made to property taxes?

A. Property taxes were adjusted to reflect the most recent property tax bills received by EnergyNorth for each parcel of land on which it is taxed. That adjustment, which totals $581,870, is shown in Schedule RR-EN-3-7. As discussed previously, property taxes were adjusted downwards to reflect a property tax allowance paid on CIBS-related capital projects placed in service after April 1, 2016.

Q. Please described the adjustments to income taxes in Schedule RR-EN-3-8 and Schedule RR-EN-3-9.

A. Two adjustments were made to Test Year income taxes. First, income taxes were adjusted in Schedule RR-EN-3-8 by $(1,660,930) to reflect changes to historical Test Year taxable income related to the removal of Cost of Gas and LDAC revenue and expenses, as well as to synchronize interest expense with the debt ratio and cost of debt proposed in this case. Second, an adjustment of $(2,331,623) was made in Schedule RR-EN-3-9 for the income tax effect of the known and measurable adjustments made to revenue and O&M expenses.

Q. Please describe the adjustment for other items.

A. Schedule RR-EN-3-10 provides adjustments for the following miscellaneous items:

- Concord office lease – the Company has leased new office space in Concord, New Hampshire that has a monthly lease expense of $6,075, 70% of which is allocated to EnergyNorth. Because that lease expense begins in 2017, an adjustment of $51,030 (i.e., $6,075 per month multiplied by 12 months multiplied by 70%) was made to Test Year expenses.
- PUC assessment – the Test Year expense related to the PUC Annual Assessment and the PUC Gas Pipeline Safety Assessment was adjusted upwards by $59,068 by annualizing the most recently available quarterly costs.
- JD Power – the Test Year expense related to the Company's customer satisfaction survey vendor was adjusted upwards by $20,807 to reflect of the costs of the Company's new vendor, JD Power, that are to be allocated to EnergyNorth.
- Concord Training Center – an adjustment was made to recognize the annualization of the revenue received from Granite State Electric's use of the Training Center located in Concord, New Hampshire. The Training Center is owned by EnergyNorth, and Granite State Electric is charged its proportionate share of the ownership and operation costs of the facility pursuant to a lease agreement that was effective as of May 1, 2016, and will be updated on May 1, 2017. EnergyNorth recognizes Granite State Electric's portion of the lease expense as a credit to rental expense. Because the lease began in May 2016,

adjustments totaling $(1,776) were made to update the lease expense credit for the change that will occur May 1, 2017, and also to annualize the credit related to Granite State Electric's portion of the expense.

Q. Did you make any other adjustments to EnergyNorth's revenue requirement?

A. Yes. Consistent with commitments made in the DG 11-040 proceeding in which EnergyNorth was acquired by Liberty Utilities, the Company has included an adjustment for ratemaking purposes only related to the cost of certain transition-related assets.

Q. Did you adjust corporate allocations expense?

A. No. The amount of corporate allocations to EnergyNorth will likely change in 2017 due to changes in the allocation factors to EnergyNorth. However, those changes are not yet known and measurable. The Company will update its proposed revenue requirement during the pendency of this case if such changes become known and measurable.

Q. What organizational changes have occurred that may lead to changes to the allocation factors used to charge costs to EnergyNorth?

A. On January 1, 2017, Algonquin Power & Utilities Corp ("APUC") announced the closing of its acquisition of The Empire District Electric Company by APUC's subsidiary Liberty Utilities Co. That acquisition will cause a change to the allocation factors used to allocate corporate overhead costs to EnergyNorth. In addition, effective in 2017, Liberty Utilities has adopted a regional structure whereby there are three regions across the company: East, Central, and West. The New Hampshire utilities are part of the East region, and some employees have regional responsibilities. More information about changes to allocation factors and the resulting changes to costs will be provided during the pendency of this proceeding.

C. Keene Division

Q. Please provide a description of the Company's proposal for ratemaking and accounting treatment of the Keene Division.

A. The Company is proposing that the Keene Division be consolidated into EnergyNorth from a ratemaking and accounting perspective, and that Keene Division customers be charged the same distribution rates as EnergyNorth's other customers.

Q. Please describe the background that resulted in the Keene Division being treated separately from a ratemaking and accounting perspective.

A. EnergyNorth acquired the Keene Division on January 2, 2015, following approval of the acquisition by the Commission in Order No. 25,736 (Nov. 21, 2014) in Docket No. DG 14-155. In that order, the Commission approved a settlement agreement that requires the Company to maintain separate accounting records and file separate annual reports for the Keene Division, unless and until the Commission approves a rate consolidation plan in a future proceeding. EnergyNorth is now seeking such approval from the Commission.

Q. Why is the Company seeking consolidation of the Keene Division into EnergyNorth?

A. The primary reason for the Company's request is that the Keene Division is not currently profitable. As discussed below, the revenue requirement analysis for the Keene Division shows a distribution revenue deficiency of $712,403. Thus, EnergyNorth must either file a separate rate case for the Keene Division, or consolidate the Keene Division into

EnergyNorth's distribution rates and incorporate the revenue deficiency into the overall revenue deficiency. As a practical matter, filing a distribution rate case for just the Keene Division is not only very costly (in view of the small number of customers served in Keene), but also would result in a dramatic increase in customers' bills if the increase were recovered exclusively from the approximately 1,200 customers in the Keene Division.

Beyond this, there is a significant administrative burden (and therefore associated costs) with continuing to treat the Keene Division as a separate entity. EnergyNorth is maintaining separate books of account for the Keene Division, and the Company files several compliance filings that pertain exclusively to the Keene Division. While we have not quantified the cost associated with such burden, it should be clear that a significant amount of administrative effort is required for a small number of customers.

Finally, with respect to distribution service, there is no material difference to the services provided to Keene customers versus EnergyNorth customers who reside in other communities. Thus, it makes sense for customers in Keene to pay the same distribution rates as other EnergyNorth customers.

Q. Are you proposing that the Keene Division be billed under all of the same rates as EnergyNorth's other customers?

A. No, we are not. We propose maintaining a separate Cost of Gas mechanism for Keene Division customers. As the Company has discussed with Commission Staff, the Company is embarking on a project to modify the nature of service to the Keene Division to serve those customers with compressed natural gas ("CNG") in the short-term or a combination of CNG and liquefied natural gas ("LNG") in the longer term. All of the costs associated with the transition to CNG and LNG will be recovered through a Cost of Gas rate that is charged exclusively to customers served by the Keene Division. Converting the Keene customers to natural gas will allow the Company to cease the use of the propane air system. This, combined with the consolidation of customers to EnergyNorth's distribution rates, will also allow the Company to pursue opportunities to grow the system in the future.

Q. Was the Keene revenue requirement developed similarly to the EnergyNorth revenue requirement?

A. Yes. Like the EnergyNorth revenue requirement, we began with the historical financial statements of Keene, and made adjustments to (1) remove gas cost revenues and expenses, and (2) reflect known and measurable changes to Keene revenues and expenses. In addition, Keene's rate base was developed as of December 31, 2016.

Q. What known and measurable adjustment were made to Keene Test Year revenues and expenses to arrive at *pro forma* Test Year net operating income?

A. The following is a list of the adjustments for "known and measurable" changes in revenue and expenses, along with the schedules in which details are provided:

- Schedule RR-K-3-1 — Salary and wage expense – Keene
- Schedule RR-K-3-2 — Payroll tax expense – Keene
- Schedule RR-K-3-3 — Benefits expense – Keene

- Schedule RR-K-3-4 Depreciation – Keene
- Schedule RR-K-3-5 Amortization – Keene
- Schedule RR-K-3-6 Property taxes – Keene
- Schedule RR-K-3-7 Uncollectibles accounts – Keene
- Schedule RR-K-3-8 Income tax expense – historical Test Year – Keene
- Schedule RR-K-3-9 Income tax expense – *pro forma* adjustments – Keene
- Schedule RR-K-3-10 Other adjustments – Keene

Q. Please describe the adjustment for salary and wage expense shown in Schedule RR-K-3-1 and RR-K-3-2.

A. Salary and wage expense and *pro forma* payroll taxes for Keene were adjusted in a similar manner to those for EnergyNorth to reflect the full complement of employees as of December 31, 2017. Those adjustments were $111,175, and $10,542, respectively.

Q. Please describe the adjustment for benefits expense shown in Schedule RR-K-3-3.

A. Benefits expense was also adjusted in a similar manner as EnergyNorth to reflect the full complement of employees as of December 31, 2017, and known and measurable changes to benefits expenses based on the latest health plan data. The total adjustment for Keene benefits expense was a reduction of $123,522.

Q. What adjustments were made to Keene's depreciation expense?

A. Depreciation expense for each FERC plant account was adjusted by $40,043 to annualize for a full year of depreciation on plant additions in 2016, as well as to remove a full year of depreciation on plant retirements in 2016. Those adjustments are shown in Schedule RR-K-3-4.

Q. What adjustments were made to Keene's amortization expense?

A. Two adjustments were made to Keene's amortization expense. The first was to reflect the amortization of costs incurred by Keene in December 2015 related to an issue experienced at the Keene propane production plant that affected the propane/air mixture flowing into the distribution system. Those costs are proposed to be amortized over three years. The second adjustment reflects the amortization, also over three years, of production costs that were formerly recognized in the Cost of Gas, but that the Company now proposes to include in base rates. Those adjustments, which total $116,470, are shown in Schedule RR-K-3-5.

Q. What adjustments were made to Keene's property taxes?

A. Property taxes were adjusted to reflect the most recent property tax bills received by Keene for each parcel of land on which the Company is taxed. That adjustment of $(11,252) is shown in Schedule RR-K-3-6.

Q. Please describe the adjustment to uncollectibles expenses made in RR-K-7.

A. Keene's uncollectibles expense was adjusted to remove an entry made to that account in the Test Year to reflect the Company's current estimation of uncollectibles expense. That adjustment equaled $35,914.

Q. Did you adjust Test Year income taxes for Keene in a similar manner to that adjustment for EnergyNorth?

A. Yes. As with EnergyNorth, two adjustments were made to Test Year income taxes to: (1) reflect changes to historical Test Year taxable income related to the removal of Cost of Gas revenue and expenses, as well as to synchronize interest expense with the proposed debt ratio and cost of debt proposed in this case; and (2) reflect an adjustment for the income tax effect of the known and measurable adjustments made to revenue and O&M expenses. Those adjustments are provided in Schedules RR-K-3-8 (an adjustment of $(97,708)) and RR-K-3-9 (an adjustment of $(118,396)).

Q. What other adjustments were made to Keene's Test Year revenues and expenses?

A. Three other adjustments totaling $121,035 were made to Keene's Test Year revenues and expenses. First, Test Year revenues were adjusted by $(90,771) to match the calculated operating revenue presented in the testimony of David Simek and Gregg Therrien, Table 1. Second, expenses were adjusted by $30,000 to reflect incremental costs the Company will incur related to newly established Federal requirements to install excess flow valves at residences when requested to do so. The third adjustment of $264 reflects the most recent PUC Assessment, consistent with the adjustment made to EnergyNorth Test Year expenses. Those three adjustments are shown in Schedule RR-K-3-10.

Q. Have you quantified the impact of consolidating the Keene Division into EnergyNorth on the distribution rate level requested in this docket?

A. Yes, we have. The consolidation of Keene Division into EnergyNorth's distribution rates increases EnergyNorth's revenue deficiency by approximately $712,403 annually, or about 1.01% of EnergyNorth's total distribution operating revenue.

D. Weighted Average Cost of Capital

Q. What is the Company's proposed rate of return for ratemaking purposes?

A. EnergyNorth's weighted average cost of capital is 7.36% percent, reflecting a capital structure comprised of 50% debt and 50% equity, a 4.425% cost of debt, and a 10.30% required return on equity. That information is presented in the testimony of Mr. Robert Hevert.

III. STEP INCREASE

Q. Is the Company proposing a Step Increase as part of this filing?

A. Yes. The Company is requesting that the Commission approve a Step Increase to reflect additions to rate base through December 31, 2017. The Step Increase is structured to recover an incremental revenue requirement of $5,920,512 for EnergyNorth and $151,050 for Keene, which are the incremental revenue requirements based on capital additions of $41,437,907 for EnergyNorth and $745,000 for Keene for the period January 1, 2017, to December 31, 2017. The resulting rates from the Step Increase would go into effect concurrent with the permanent increase. The projects and associated estimated costs are shown in Attachment DBS/DSD-3.

Q. What is the purpose of the Step Increase?

A. The Company will be making significant capital investments during the pendency of this case. Thus, the Company is seeking a Step Increase for these capital investments because, without that increase, the Company would not have a reasonable opportunity to earn its allowed return immediately upon the conclusion of the case.

Q. What are the components of the Step Increase revenue requirement?

A. The revenue requirement for Step Increase-related capital consists of (1) depreciation expense, (2) property taxes, (3) property insurance, and (4) a return on rate base.

Q. How did you calculate Step Increase-related depreciation expense?

A. Step Increase-related depreciation expense was calculated by applying the depreciation rates developed by Mr. Normand to the Step Increase capital expenditures by FERC account.

Q. How did you calculate Step Increase-related property taxes and property insurance?

A. First, we calculated the ratio of *pro forma* property taxes and property insurance to total plant in service, excluding Step Increase-related capital. We then applied that ratio to the Step Increase capital expenditures.

Q. How did you determine Step Increase rate base and return on rate base?

A. Step Increase rate base was calculated as the total amount of capital expenditures less accumulated depreciation and accumulated deferred income taxes. We then applied a pre-tax cost of capital to Step Increase rate base to develop a pre-tax return on rate base.

IV. RATE CASE EXPENSES

Q. How does the Company propose to recover rate case expenses incurred in this proceeding?

A. The Company proposes to recover the total cost associated with this rate case through the existing LDAC component that covers expenses related to rate cases and in a manner consistent with the existing tariff provisions.

Q. Please describe the nature of the rate case expenses.

A. The costs to be incurred for the rate case are incremental, external costs that are primarily for services such as outside consulting services and legal expense to assist with the preparation and presentation of this rate case, including the development of studies on various matters required to establish appropriate rates for the Company's customers. The Company obtained competitive bids for these services consistent with the Puc 1900 rules. Also included will be copying expense, the cost of legal notices, and the cost of the court reporter. A list of these outside services and their estimated costs are shown in Attachment DBS/DSD-4, Schedule RC.

Q. How does the Company account for rate case expenses?

A. The Company defers for future recovery all costs associated with the case as they are incurred during the proceeding.

V. EFFECTIVE DATE

Q. What is the Company's proposal for the effective date of rates in this proceeding?

A. Consistent with the Commission's rules on the implementation of rate changes, the Company is proposing that rate changes be made effective for usage on and after July 1, 2017. However, we anticipate that the Commission will suspend the rates for investigation, so we are proposing temporary rates effective July 1, 2017, as described in our separate testimony.

VI. UPDATED SCHEDULES

Q. Does the Company intend to update its schedules during the course of this proceeding?

A. Yes. The schedules will be updated at the end of the discovery period to reflect any new or updated information that becomes available, and to include any changes that are identified throughout the discovery process.

VII. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does.

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