



Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities

DG 17-048
Distribution Service Rate Case

Staff Data Requests – Set 7

Date Request Received: 9/21/17
Request No. Staff 7-9

Date of Response: 10/5/17
Respondent: Paul Normand

REQUEST:

Reference testimony of Paul M. Normand, attachment PMN-2, Bates page 445: Given that average life, net salvage, and similar curve are being used for this account in the current and most recent depreciation study:

- a. In your expert opinion, what are the possible reasons for the very large swings in reserve variances?
- b. Does the Company's proposed level reserve variance amortization address the account level variances?
- c. What are your recommendations to minimize such swings in reserve variances at the account level?

RESPONSE:

- a. The large swing in the reserve variance is primarily from two accounts: Mains (367.00) and Services (380.00) since the Company's last study. The large deviation is a direct result of the very large plant dollar increases for these accounts (Mains \$98M, Services \$66M) driven primarily by the mandated replacement program (CIBS) which is expected to continue for some period of time. As a result, we expect that this behavior will continue to be exhibited in a similar fashion as has been experienced but at a lower level since the recent amortization from the last study will be terminated.
- b. The Company's proposed amortization factors consider many additional aspects that go well beyond a typical depreciation study to consider. The depreciation study itself continues to recommend a two cycle amortization of the variances without any consideration for the impact to the reserve variances from the last ten years.
- c. As I mentioned in response part a. above, the Company's continued replacement program is impacting primarily two accounts which will continue to require large plant investment well into the foreseeable future. The current results and variances will continue to be exhibited, but a reduced level for the immediate future with the following options capable of minimizing future variances:

- 1) Change the current depreciation model from a Whole Life (WL) to a Remaining Life (RL) model which is well recognized in the industry and regulators alike. This calculation incorporates the existing reserve levels for each account in deriving the accrual rate for each account. In this manner, the RL approach is self-correcting over time.
- 2) If maintaining the WL approach is required, then consider establishing a collar or a threshold band width for the variance such that no amortization would occur unless the variance is in excess of 5 or 10% of the theoretical level.
- 3) More frequent studies for selected accounts to evaluate the variance levels. This would control the costs somewhat while providing additional information to regulators with respect to the larger and faster growing plant accounts, especially where mandated requirements are in effect.