STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 19-161

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

DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

KENNETH A. SOSNICK

November 27, 2019

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ATTACHMENTS

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DBS/KAS-1	Schedules
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I. INTRODUCTION AND BACKGROUND

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

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

My name is Kenneth A. Sosnick. My business address is 200 State Street, 9th Floor, Boston, 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 Manager, Rates and Regulatory Affairs.

(KAS) I am employed by FTI Consulting ("FTI"), which is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. My title is Managing Director.

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 of Science in Finance from Walsh College in 2000. I also received a Master 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 2013, I joined Liberty as a Utility Analyst and I was promoted to

Manager, Rates and Regulatory Affairs in August 2017. 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. Sosnick, please describe FTI.

A. FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk, and resolve disputes: financial, legal, operational, political and regulatory, reputational and transactional. Individually, each practice is a leader in its specific field, staffed with experts recognized for the depth of their knowledge and a track record of making an impact. FTI Consulting's Power and Utility practice provides a wide array of advisory services that address the strategic, financial, reputational, and regulatory needs of energy and utility clients involved in the production and transmission of crude oil, natural gas, refined products, chemicals, coal, electric power, emerging technologies, and renewable energy.

Q. What are your responsibilities in your current position?

A. As a member of the FTI Power & Utility practice, my responsibilities include providing advisory services that address the strategic, financial, reputational, and regulatory needs of energy and utility clients. My primary areas of focus are regulatory advisory, accounting, civil litigation, and financial analysis.

Q. Please describe your education.

A. I have a Bachelor of Arts in Accounting from Indiana University of Pennsylvania in Indiana, Pennsylvania. A copy of my résumé is included as an attachment to the pre-filed direct testimony submitted in this proceeding on the topic of functional cost of service.

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/KAS-1, which includes the schedules listed below, in accordance with Puc 1604.07 and 1604.08. Per Order No. 26,122 (April 27, 2018) which approved permanent rates for EnergyNorth in Docket No. DG 17-048, the Company has consolidated its Keene Division ("Keene") into EnergyNorth from a ratemaking and accounting perspective, so that Keene customers can be charged the same distribution rates as EnergyNorth's other customers. Accordingly, we present a combined revenue requirement analysis for EnergyNorth and Keene, provided in the detailed schedules identified in Table 1, below:

Table 1. Revenue Requirements Schedules

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

Additionally, Attachment DBS/KAS-2 presents the requested step increase in Schedule Step. Finally, rate case expenses are presented in Attachment DBS/KAS-3 in 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 $10,780,660 based on a rate base of $334,577,902, which represents an 6.92% increase in total operating revenue for EnergyNorth. Attachment DBS/KAS-1, Schedules RR-1 and RR-EN-2 provide a summary of the different components of EnergyNorth'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 $3,030,911 for EnergyNorth. The Step Increase reflects additional revenue requirements based on anticipated incremental plant in service of $20,263,973 for the six-month period ending December 31, 2019. The

Step Increase will become effective upon implementation of permanent rates in this proceeding, anticipated to occur in the first or second quarter of 2020.

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

A. 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 shown in Attachment DBS/KAS-2, Schedule RR-EN-2, the Company's earned return on rate base for the Test Year was 4.53% for EnergyNorth. When known and measurable changes are reflected in the income statement, those returns change to 4.86%.

Both of these returns are significantly below the weighted average cost of capital of 7.21% recommended by Company Witness John Cochrane.

Q. How were the revenue requirement and revenue deficiency calculated?

A. The Company's revenue requirement and revenue deficiency were calculated based on the Company's financial results for the twelve months ended June 30, 2019, (i.e., the "Test Year"), excluding revenues and expenses related to the Cost of Gas and the Local Delivery Adjustment Charge ("LDAC"), and adjusted for known and measurable adjustments. The resulting Test Year net operating income reflects normalized revenues at current rates, expenses, and net operating income for ratemaking purposes, as summarized on Schedule RR-EN-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 7.21% 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/KAS-1, 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 June 30, 2019, 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; (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 June 30, 2019, to align with the calculation of revenues and return on rate base. The rate base components are summarized in Schedule RR-EN-5. As shown in those schedules, the Company's rate base was calculated to be $334,577,902.

Q. Were any adjustments made to plant in service as of June 30, 2019?

A. No. There were no Plant adjustments between June 30 and November 27, 2019, related to the Company's Cast Iron/Bare Steel ("CIBS") replacement program. Historically, CIBS plant additions were separately reflected in the revenue requirement analysis through an adjustment to Test Year revenues.

Q. What information is provided in Schedule RR-EN-5-1?

A. Schedule RR-EN-5-1 provides the five-quarter average in materials and supplies and customer deposits for EnergyNorth.

Q. What information is provided in Schedule RR-EN-5-2?

A. Schedule RR-EN-5-2 provides the calculation of cash working capital. In that schedule, we applied the cash working capital required days of 26.10 days to adjusted operations and maintenance expenses.[1] The Company's resulting cash working capital requirement was $3,123,094.

B. Net Operating Income

Q. Please summarize the results of EnergyNorth'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 $10,780,660 based on an overall rate of return on a rate base of 7.21%. Schedules RR-EN-2 through RR-EN-5 provide the support for the items presented on Schedule RR-1, including Test

[1] See the joint testimony of David Simek and Adam Hall.

Year net operating income and rate base.

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

A. Schedule RR-EN-2 provides the revenues and expenses for 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.

Schedule RR-EN-2-1 provides a more detailed income statement by FERC account, and also provides 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 the 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 the details are provided:

Table 2. Schedules Containing Adjustments to Test Year Net Operating Income

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

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 Company Witness Matthew DeCourcey[2]; (2) adjustment to Remove Actual Test Year Unbilled Revenue; (3) adjustment to Remove Return on Fuel Inventory; (4) Non-recurring Test Year Adjustments to Revenue; (5) Adjustment for Normal Unbilled Revenue; and (6) weather normalization. The total adjustment to Test Year revenue is $1,304,094.

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

A. The salary and wage expense adjustment reflects the annual expense for the full employment of current EnergyNorth employees as of June 30, 2019, including wage increases, expected incentive compensation and overtime, and the addition of new

[2] DeCourcey Testimony, Exhibit No. MJD-1

employees. Since many employees provide services to both EnergyNorth and Liberty Utilities (Granite State Electric) Corp. ("Granite State"), an EnergyNorth affiliate, each employee's salary was allocated between EnergyNorth and Granite State 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. Finally, Schedule RR-EN-3-2 includes a calculation of the wage increase applicable to regional labor charged to EnergyNorth. Based on those calculations and allocations, the salary and wage adjustment is $371,723.

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

A. 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 the salary and wages expense. That adjustment aligned payroll taxes with gross payroll and resulted in a payroll tax adjustment of $38,867.

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

A. The pension and benefits expense adjustment reflects the full employment of current EnergyNorth employees as of June 30, 2019, as well as known and measurable changes to benefits expenses based on the latest health plan data. Specifically, the Company matches employees' 401K contributions at 6.14% of the test year portion of salaries charged to operation and maintenance expenses, so 6.14% was applied to salaries to derive the 401K matching expense. The total adjustment for EnergyNorth healthcare and 401K matching benefits was an increase of $22,831, before consideration of amounts that are capitalized. Pension and Other Post-Employment Benefits ("OPEB" or "PBOP") expense was adjusted to reflect the latest actuarial assumptions, resulting in a decrease of $1,124,401, also before capitalization of pension and OPEB expenses.

Q. What adjustments described as "other," did you make?

A. There are two expenses that have been labeled as "other" that need to be adjusted. These expenses are Employee pensions and benefits - 401k and ESPP Expense. Theses "other" adjustments result in a decrease of $193,982 before consideration of amounts that are capitalized.

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

A. The Company capitalizes a portion of pension and benefits expenses. The Company's current capitalization rate is 31.81%. When the capitalization rate of 31.81% is applied to the Company's OPEB total expense, it results in a decrease in pension and benefits expense of $357,672, that amount being capitalized.

Q. What adjustments were made to depreciation expense?

A. Depreciation and amortization rates for each FERC plant account were calculated using the depreciation rates that were approved in Docket No. DG 17-048. Included in total depreciation expense is the annual amortization of the depreciation reserve shortfall that was determined in DG 17-048 and is currently being amortized over a six-year period.

Depreciation expense was annualized to reflect a full year of depreciation on plant additions ending June 30, 2019 (including FERC account 106, Completed Construction not Classified), as well as to remove a full year of depreciation on plant retirements ending June 30, 2019. The adjustments, which total $182,574, are shown in Schedule RR-EN-3-5.

Q. Has the status of the amortization of the depreciation reserve shortfall been examined?

A. Yes. Consistent with the requirement in Order No. 26,122, the Company engaged Management Applications Consulting, Inc. to examine the status of the depreciation reserve imbalance and determine if any adjustments were necessary to the amortization. As explained in the testimony of Company witness Steven Mullen, at the time of this testimony that analysis had not yet been finalized and the final results will be incorporated into this case when they are available.

Q. What adjustments were made to amortization expense?

A. Four adjustments were made to historical Test Year amortization expense. First, a combined reduction of $354,768 related to the pro forma cost to achieve interest, the removal of costs to achieve (amortization ends), the removal of test year Amortization for Concord Steam, and the addition of New Concord Steam Amortization. Second, an increase of $1,657,796 related to the amortization of the depreciation reserve imbalance. Third, a decrease of $1,312,170 for the annual amortization of excess accumulated deferred income taxes. Fourth, similar to depreciation expense, amortization of intangible plant was updated to reflect a full year of amortization, using the amortization rates approved in DG 17-048. This results in a reduction to amortization expense of $139,462. The amortization adjustments result in a total decrease of $148,604 and are shown on Schedule RR-EN-3-6.

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. This results in a reduction to the Test Year property taxes of $100,772, as shown in Schedule RR-EN-3-7.

Q. Please describe the adjustments to EnergyNorth's income tax expense.

A. First, income tax expense was reduced in Schedule RR-EN-3-8 by $66,815 to reflect the difference between the income taxes recorded by EnergyNorth and what is calculated under the statutory federal income tax rate of 21% and New Hampshire state tax rate of 7.70%. Second, an increase of $440,839 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. An adjustment was made for the Public Utilities Assessment ("PUC Assessment"). The Test Year expense related to the PUC Annual Assessment and the PUC Gas Pipeline Safety Assessment was adjusted downward by $28,271 by utilizing the Fiscal Year 2020 PUC Assessment.

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

A. Yes. First, we made an adjustment to remove Keene production costs of $180,679. Second, we made an adjustment to recognize a credit to the Concord Rental Expense of $9,523. Third, we adjusted EnergyNorth's revenue requirement for non-recurring items. The non-recurring items are Liberty Consulting audit costs, injuries and damages settlements, and FAS 112 Adjustment in the amount of $488,747.

Q. Did you adjust corporate allocations expense?

A. No. The amount of corporate allocations to EnergyNorth will likely change in 2020 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 and are material.

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

A. On October 1, 2019, Algonquin Power & Utilities Corp ("APUC") announced that its subsidiary Liberty Utilities (Canada) LP, APUC's wholly-owned regulated utility business in Canada, had successfully completed its acquisition of Enbridge Gas New Brunswick Limited Partnership along with its general partner ("New Brunswick Gas"), a subsidiary of Enbridge Inc. (TSX: ENB) (the "Transaction"). New Brunswick Gas is a regulated utility that provides natural gas to approximately 12,000 customers in 12 communities across New Brunswick and operates approximately 1,200 km of natural gas distribution pipeline. In addition, Liberty Utilities has closed on the acquisition of St. Lawrence Gas Company, a natural gas distribution utility serving approximately 16,000 customers in upstate New York, on November 1, 2019. Those acquisitions could cause a change to the allocation factors used to allocate corporate overhead costs to EnergyNorth. More information about changes to allocation factors and the resulting changes to costs will be provided during the pendency of this proceeding.

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

A. No. We propose to maintain a separate Cost of Gas mechanism for Keene Division customers. Other than the Cost of Gas, all Keene customers will continue to pay the same distribution and LDAC rates as all other EnergyNorth customers.

C. 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 7.21% percent, reflecting a capital structure comprised of 50.0% debt and 50.0% equity, a 4.417% cost of debt, and a 10.00% requested return on equity, as described in Mr. Cochrane's testimony.[3]

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 June 30, 2020. The Step Increase is structured to recover

[3] Cochrane Testimony, Exhibit No. JC-1

an incremental revenue requirement of $3,030,911 for EnergyNorth, which are the incremental revenue requirements based on non-revenue producing capital additions of $20,263,973 for EnergyNorth for the period July 1 to December 31, 2019. 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/KAS-3.

Q. What is the purpose of the Step Increase?

A. The Company will be making capital investments during the pendency of this case. Thus, the Company is seeking a Step Increase for the identified capital investments due in part that, without that increase, the Company would not have a reasonable opportunity to earn its allowed return on equity immediately upon the conclusion of the case. In addition, it is known and measurable that these assets will be utilized in providing service to the Company's customers at the conclusion of the case or very soon thereafter.

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

A. The revenue requirement for the Step Increase capital consists of: (1) return on rate base; (2) depreciation expense; (3) property taxes; and (4) property insurance.

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

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

Q. How did you calculate the Step Increase depreciation expense?

A. The Step Increase depreciation expense was calculated by applying the depreciation rates approved in DG 17-048 to the Step Increase capital expenditures by FERC account.

Q. How did you calculate Step Increase property taxes?

A. First, we calculated the ratio of property taxes to the total plant in service, excluding Step Increase capital. We then applied that ratio to the Step Increase capital expenditures.

Q. How did you calculate Step Increase property insurance?

A. As we did for property taxes, we calculated the ratio of property insurance to the total plant in service, excluding Step Increase capital. We then applied that ratio to the Step Increase capital expenditures.

IV. <u>RATE CASE EXPENSES</u>

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 consistent with the existing Company tariff provisions.

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

A. The costs incurred for the rate cases are incremental, external costs that are primarily for services such as outside consulting services and legal services to assist with the preparation and presentation of this rate case. This includes 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, among other costs. A list of these outside services and their estimated costs are shown in Attachment DBS/KAS-3, 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 February 1, 2020. However, we anticipate that the Commission will suspend the rates for investigation, so we are proposing temporary rates effective February 1, 2020, 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. At the end of the discovery period, schedules will be updated to reflect any new or updated information that becomes available and will include any changes that are identified throughout the discovery process.

VII. <u>CONCLUSION</u>

Q. Does that conclude your testimony?

A. Yes.

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