



**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
Regarding Temporary Rates

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ATTACHMENTS

Attachment	Title
DBS/KAS-TEMP-1	Schedule T – Temporary Rate Increase
DBS/KAS-TEMP-2	Bill Impacts – Temporary Rates
DBS/KAS-TEMP-3	Redlined Tariff Pages – Temporary Rates

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1 **I. INTRODUCTION**

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

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

5 My name is Kenneth A. Sosnick. My business address is 200 State Street, 9th Floor,
6 Boston, Massachusetts.

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

8 A. (DBS) I am employed by Liberty Utilities Service Company (“Liberty”), which provides
9 services to Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth” or “the
10 Company”). My title is Manager, Rates and Regulatory Affairs.

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

15 **Q. On whose behalf are you submitting this testimony?**

16 A. We are testifying in the proceeding before the New Hampshire Public Utilities
17 Commission (the “Commission”) on behalf of EnergyNorth.

1 **Q. Are you the same David B. Simek and Kenneth A. Sosnick who submitted other**
2 **direct testimony in this case?**

3 A. Yes. Our educational backgrounds and qualifications are set forth in the pre-filed direct
4 testimony we submitted in support of EnergyNorth's permanent rate filing.

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of our testimony is to provide the level of temporary rates sought by the
7 Company, the reasons for the request, and the impact of the temporary rates on
8 customers' bills.

9 **Q. Are you sponsoring any attachments and schedules?**

10 A. Yes. We are sponsoring the following attachments and schedules:

- 11 • Attachment DBS/KAS-TEMP-1, which includes the following schedule:
 - 12 ○ Schedule T – Temporary Rates Revenue Requirement and Revenue
 - 13 Deficiency (all schedule references in this testimony are to Schedule T);
- 14 • Attachment DBS/KAS-TEMP-2, which provides bill impact analysis for temporary
- 15 rates;
- 16 • Attachment DBS/KAS-TEMP-3, which provides redlined revised tariff pages
- 17 reflecting the proposed temporary rates.

1 **Q. Are the Company's current rates sufficient to allow it to earn a reasonable return**
2 **on rate base?**

3 A. No, they are not. For the test year ended June 30, 2019, the Company's earned return on
4 rate base for the distribution portion of its business was 5.14%, as shown on line 22 of
5 Schedule T. This is less than the return on rate base of 6.86%, computed using the
6 Company's last authorized return on equity of 9.3%, established by the Commission in
7 Order No. 26,122 (April 27, 2018), and its current cost of debt and capital structure
8 (Schedule T, lines 93–94).

9 **Q. What is the primary reason that the Company's earnings have been below the**
10 **allowed rate of return?**

11 A. The primary reason is related to capital investments the Company has made since its last
12 rate case, as discussed in the testimony of Shawn Furey, Brian Frost, and Heather
13 Tebbetts.

14 **Q. What level of temporary rate increase is the Company requesting?**

15 A. The Company requests temporary rates that would generate additional annual gross
16 distribution revenue of \$7,886,812 (Schedule T, line 2), which represents a 9.31%
17 increase in distribution revenue and a 5.06% increase in total revenue. The Company is
18 requesting that temporary rates take effect as of February 1, 2020, on a service-rendered
19 basis, and that they be applied by increasing all rates under the existing rate design by a
20 uniform percentage.

1 **Q. Is the Company proposing any rate design changes associated with temporary**
2 **rates?**

3 A. No. The Company recognizes that a temporary rate request generally does not provide a
4 sufficient opportunity for the Commission and other parties to review proposed revenue
5 allocation or rate design changes and, therefore, the Company is not proposing any such
6 changes in connection with the temporary rates.

7 **Q. Why is the Company requesting a rate increase?**

8 A. The Company is seeking a temporary rate increase because its return on rate base for the
9 historical test year ended June 30, 2019, as adjusted on Schedule T, was 5.14%. This is
10 significantly less than the rate of return on equity approved by the Commission in the
11 Company's last rate case filing (computed as described above). Without a temporary rate
12 increase, the Company will not have the opportunity to earn a reasonable return until a
13 permanent rate order becomes effective.

14 **Q. How does the request for temporary rates relate to the Company's request for a**
15 **permanent rate increase?**

16 A. The Company has requested a permanent rate increase of \$10,780,660; the temporary rate
17 increase is 73.16% of that amount, which demonstrates that the deficiency is driven
18 predominantly by test year results. Temporary rates are proposed to be in effect until the
19 establishment of permanent rates pursuant to the Commission's final order in this rate
20 case. The temporary rate increase will reduce regulatory lag while providing the
21 Commission and parties to the proceeding with sufficient opportunity to fully evaluate

1 the Company's permanent rate request. The temporary rate increase will also allow the
2 company to begin returning excess accumulated deferred income tax dollars to customers
3 before permanent rates go into effect. Temporary rates at 73.16% of the requested
4 permanent rate increase also provide a gradual transition to the permanent rates
5 ultimately approved by the Commission.

6 **Q. How did you calculate the requested temporary rate increase of \$7,886,812?**

7 A. We calculated the requested temporary rate increase by multiplying the 6.86% rate of
8 return on rate base (described above) by rate base as of June 30, 2019, and then
9 subtracting from that product the Company's actual return for the test year, with certain
10 adjustments described below.

11 **Q. What adjustments did you make?**

12 A. We made the following adjustments to normalize the test year actual return, as shown on
13 Schedule T:

- 14 1) Removed revenue related to the cost of gas and the Local Delivery Adjustment
15 Clause ("LDAC") (Schedule T, line 2).
- 16 2) Removed the associated expenses associated with the cost of gas and LDAC
17 revenues from the historical test year (Schedule T, line 7).
- 18 3) Adjusted distribution revenue (Schedule T, line 2) to agree with the separately-
19 computed cycle operating revenue presented in Table 1 of the testimony of
20 Matthew DeCoursey.

- 1 4) Adjusted the amortization of certain ongoing regulatory assets including Costs to
2 Achieve (“CTA”), Concord Steam, and the Depreciation Reserve Imbalance to
3 their going forward levels. This item is also discussed in our direct testimony
4 regarding the revenue requirement for permanent rates, as well as Schedule RR-
5 EN-3-6 to that testimony.
- 6 5) Inclusion of the excess accumulated deferred income tax liability amortization as
7 a credit to amortization expense. This amortization is reflective of the regulatory
8 liability grossed-up for income taxes, as calculated using the Reverse South
9 Georgia method. This item is also discussed in our direct testimony regarding the
10 revenue requirement for permanent rates, as well as Schedule RR-EN-3-6 to that
11 testimony.
- 12 6) Consistent with commitments made in the proceeding in Docket No. DG 11-040
13 in which EnergyNorth was acquired by Liberty Utilities, the Company has
14 included an adjustment, for ratemaking purposes only, related to certain
15 transition-related assets. (see line 15, Schedule T)
- 16 7) The final adjustment was to compute income tax expense for the adjusted
17 information, based on statutory rates and synchronized interest expense (line 14,
18 with the calculation provided on lines 34–36, Schedule T)

19 **Q. Are those proposed adjustments consistent with the statute governing temporary**
20 **rates?**

21 **A.** Yes. Pursuant to RSA 378.27, temporary rates should be based on “...the reports of the
22 utility filed with the Commission, unless there appears to be reasonable ground for

1 questioning the figures in such reports.” The adjustments described above are items that
2 are necessary to reflect the results of distribution operations from a regulatory
3 perspective; thus, they are appropriate for inclusion in the calculation of temporary rates.

4 **Q. What percentage increase in customers’ bills does the Company’s temporary rate**
5 **request represent?**

6 A. The annual bill impacts (as a percentage of the total bill) to various classes of customers
7 are as follows:

- 8 • For a residential heating customer (Rate R-3) using 811 therms per year, the
9 annual increase is \$64.87, or 5.48% on a total bill basis.
- 10 • For a low annual use, high winter use commercial/industrial customer (Rate G-41)
11 using 2,261 therms per year, the annual increase is \$128.93, or 4.17% on a total
12 bill basis.
- 13 • For a medium annual use, high winter use commercial/industrial customer (Rate
14 G-42) using 18,075 therms per year, the annual increase is \$839.76, or 4.03% on a
15 total bill basis; and
- 16 • For medium annual use, low winter use commercial/industrial customer (Rate G-
17 52) using 17,937 therms per year, the annual increase is \$546.74, or 3.11% on a
18 total bill basis.
- 19 • Additional information showing the bill impacts by rate class is provided in
20 Attachment DBS/KAS-TEMP-2. The rates derived on DBS/KAS-TEMP-2 were
21 used to prepare the tariff pages included as Attachments DBS/KAS-TEMP-3.

1 **Q. Do the proposed temporary rates provide no more than a reasonable return on**
2 **equity on the cost of property, used and useful, for the public service less accrued**
3 **depreciation, as shown by the reports of the Company filed with the Commission?**

4 A. Yes. With the proposed temporary rates, the Company will earn no more than a
5 reasonable return on its investment calculated on the books and records on file with the
6 Commission. As demonstrated in Attachment DBS/KAS-TEMP-1, Schedule T, the
7 Company's required level of temporary rates yields a rate of return equal to 6.89%, which
8 is based on the return on equity granted to EnergyNorth in the Company's last rate case
9 and is less than the 9.07% overall rate of return being requested for permanent rates.

10 **Q. Are customers protected from being overcharged by temporary rates if the final**
11 **rate decision is less than the temporary rates?**

12 A. Yes, customers are protected because of the reconciling nature of temporary rates once
13 permanent rates are established by the Commission.

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.