STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 20-105

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

July 31, 2020

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I. <u>INTRODUCTION AND BACKGROUND</u>

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

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

(KS) 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. (DS) 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.

(KS) I am employed by FTI Consulting ("FTI"), which is a worldwide consulting firm dedicated to helping organizations manage change, mitigate risk, and resolve disputes. Our Power & Utilities practice brings these services to firms in regulated and competitive energy industries. The services we provide our utility clients include expert testimony, regulatory advice, support for strategic decision-making, and advice regarding investments and capital allocation. Our team is comprised of former utility executives, regulators, investors, and financial analysts that combine for hundreds of years of experience in the regulated energy space. 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, what are your responsibilities in your current position?

A. As a member of the FTI Power & Utilities 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 educational background and your business and professional experience.

A. I have a Bachelor of Arts in Accounting from Indiana University of Pennsylvania in Indiana, Pennsylvania. I have included my resumé as Attachment KAS-1.

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 increases. 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 direct testimony?

A. Yes, we are sponsoring Attachment DBS/KAS-1, which includes the schedules listed below, in accordance with PUC 1604.07 and 1604.08. In addition, as required by 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 will be charged the same distribution rates as EnergyNorth's other customers.[1] Accordingly, we present a combined revenue requirement analysis for EnergyNorth and Keene in Attachment DBS/KAS-1 that includes the detailed schedules identified in Table 1, below:

[1] In Docket No. DG 19-161, the Secretarial Letter dated February 28, 2020, stated that Liberty should "include in its next initial rate case filing . . . a reduction to Liberty's proposed revenue requirement by 50 percent of any revenue shortfall for the first phase of the Keene CNG/LNG conversion." The testimony of Company witness Steven E. Mullen explains that the conversion of the Keene system from propane/air to CNG and LNG has not reached a phase where the concept of a revenue shortfall would come into effect.

Table 1. Revenue Requirements Schedules

Schedule RR-EN-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 a requested step increase in Schedule Step for capital investments for calendar year 2020. Lastly, estimated 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 $13,497,250 based on a rate base of $356,411,727, which represents an 8.6% increase in total operating revenue for EnergyNorth, based on a test year of the twelve months ending December 31, 2019 (the "Test Year"). Attachment DBS/KAS-1, Schedules RR-1 and RR-2 provide a summary of the components of EnergyNorth's cost of service and revenue requirements. Schedule RR-EN-3 provides the proposed adjustments by EnergyNorth, Schedule 4 identifies its capital structure, and Schedule 5 provides its rate base.

Q. Is the Company also requesting approval of step adjustments?

A. Yes. In addition to recovery of the annual revenue deficiency, the Company seeks approval for step adjustments in 2021, 2022, and 2023 to recover the cost of non-growthrelated post-test year plant additions through 2022. For the twelve-month period ending December 31, 2020, the projected annual revenue requirement associated with plant additions placed in service during 2020 is $5,680,641 based on anticipated incremental plant in service of $37,628,371. The first annual step increase will begin upon implementation of permanent rates in this proceeding, anticipated to occur August 1, 2021.

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

A. The primary driver of the Company's revenue deficiency 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.[2] As shown in Attachment DBS/KAS-1, Schedule RR-EN-2, the Company's earned return on rate base for the Test Year was 4.46% for EnergyNorth. When known and measurable changes are reflected in the income statement, those returns change to 4.71%.

Both of these returns are significantly below the weighted average cost of capital of 7.47% recommended by Company witness John Cochrane.[3]

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 Test Year, excluding revenues and expenses

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[2] The test year in Docket No. DG 17-048 was the 12 months ending December 31, 2016.
[3] Cochrane Testimony, Exhibit No. JC-1

related to the Cost of Gas and the Local Delivery Adjustment Clause ("LDAC"), and adjusted for known and measurable changes. 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 7.47% 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-EN-1.

II. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT

A. Rate Base

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

A. The Company's rate base is comprised of: (1) utility plant in service as of December 31, 2019, including the amount in Federal Energy Regulatory Commission ("FERC") Account No. 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 and excess accumulated deferred income taxes. The rate base is measured as of December 31, 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 $356,411,727.

Q. Were any adjustments made to plant in service as of December 31, 2019?

A. Yes. The amount of $185,436 of gross plant in service was removed from Account No. 303.1 for decoupling IT capital charges over $50,000. *See* Order No. 26,187 at 12-13 (Nov. 2, 2018). Additionally, $41,208 of associated accumulated depreciation related to the decoupling IT plant over $50,000 was also removed from rate base. There were no plant adjustments related to the Company's Cast Iron/Bare Steel ("CIBS") replacement program. 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 25.72 days to adjusted operations and maintenance expenses.[4] The Company's resulting cash working capital requirement was $3,004,115.

[4] See the joint testimony of David Simek and Catherine McNamara.

B. Net Operating Income

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

A. Schedule RR-EN-1 provides the requested distribution revenue increase and distribution revenue requirement. As shown in that schedule, the revenue deficiency is $13,497,250 based on an overall rate of return on a rate base of 7.47%. Schedules RR-EN-2 through RR-EN-5 provide the support for the items presented on Schedule RR-1, including Test 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's 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 Local Delivery Adjustment Charge ("LDAC") revenues) were adjusted: (1) to match the calculated operating revenue presented in the testimony of Company Witness Matthew DeCourcey;[5] (2) for historical customer count as required by Commission Order No. 26,122; (3) Pelham Risk Sharing as supported by Company Witness Steven Mullen;[6] (4) an annualization adjustment for the updated CIBS rate that went into effect July 1, 2019; (5) to remove revenues associated with the Granite Ridge and iNATGAS Special Contracts; and (6) for calendar year and weather normalization billing unit adjustments. Additionally, other non-recurring correcting entries related to Concord Steam and the Lost Revenue Adjustment Mechanism were removed. The total adjustment to Test Year revenue is $1,427,588.

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

[6] Mullen Testimony, Exhibit No. SEM-2.

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 annualized expense for the employment of EnergyNorth employees as of December 31, 2019, including wage increases, expected incentive compensation and overtime, and reflect historical vacancies. If the Company had made any severance payments during 2019, which it did not, they would be reflected here as well. Once the annualized salaries and wages for 2019 was calculated, a 3% cost of living adjustment for 2020 was applied. Because many employees provide services to both EnergyNorth and Liberty Utilities (Granite State Electric) Corp. ("Granite State"), 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 $315,945.

Q. Please describe the adjustment for historical vacancies.

A. Commission Order No. 26,122 required EnergyNorth to consider in its payroll calculation a representative level of vacancies. EnergyNorth averaged historical vacancies for calendar years 2017–2019 and then adjusted the 2019 labor directly charged to EnergyNorth downward by the difference between the average historical vacancies and the amount of vacancies in 2019. This adjustment resulted in a removal of $211,691 of labor from the 2019 test year.

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 $382,609.

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 December 31, 2019, as well as known and measurable changes to benefits expense based on the latest health plan data. Specifically, the Company matches employee 401(k) contributions at 5.38% of the test year portion of salaries charged to operation and maintenance expenses, so 5.38% was applied to salaries to derive the 401(k)-matching expense. The total adjustment for EnergyNorth healthcare and 401(k) matching benefits was an increase of $17,010, 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 $680,094, also before capitalization of pension and OPEB expenses.

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

A. There are three expenses that have been labeled as "other" that need to be adjusted. These expenses are Employee pensions and benefits – 401(k), ESPP Expense, and Pension Plan Expenses. Theses "other" adjustments result in a decrease of $64,108 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 34.40%. When the capitalization rate of 34.40% is applied to the Company's OPEB total expense, it results in a decrease in pension and benefits expense of $233,952, 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 Account No. 403 portion 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 December 31, 2019 (including FERC account 106, Completed Construction not Classified), as well as to remove a full year of depreciation on plant retirements ending December 31, 2019. The adjustments, which total $1,836,152, are shown in Schedule RR-EN-3-5.

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

A. Yes. As directed in Docket No. DG 19-161[7] and 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 to determine if any adjustments were necessary to the amortization. As explained in the testimony of Company witness Steven Mullen, the results of the review were that the reserve deficiency had actually grown since the last rate case, from approximately $10 million to $16.4 million. The consultant identified several factors that contributed to this result and recommended steps to address the reserve imbalance going forward. The Company is not requesting any adjustment to the depreciation reserve deficiency amortization having determined that the best course of action is to follow the recommendations of its consultant and perform additional analysis to determine if any internal policies need to be changed.

Q. What adjustments were made to amortization expense?

A. Four adjustments were made to historical Test Year amortization expense: first, a combined reduction of $162,343 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 $349,196 related to the proposed three-year amortization of the NHDAS Special Contract amount of $1,047,589 and discussed by Company witnesses William J.

[7] The Secretarial Letter dated February 28, 2020 in Docket No. DG 19-161 stated that consistent with Order No. 26,122, "Liberty must also include in its next initial rate case filing . . . an analysis of Liberty's depreciation reserve imbalance (Order No. 26, 122 at 18)."

Clark and Mark R. Stevens;[8] third, a decrease of $1,297,126 for the annual amortization of excess accumulated deferred income taxes; and 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 as adjusted for the Account No. 405 portion of the depreciation reserve imbalance adjustment previously discussed. This results in a reduction to amortization expense of $128,313. The amortization adjustments result in a total decrease of $1,238,585 and are shown on Schedule RR-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 an increase to the Test Year property taxes of $443,281, 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 $522,835 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 $128,718 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.

[8] Clark and Stevens Testimony, Attachment WJC/MRS-2.

Q. Please describe the adjustment for other items.

A. An adjustment was made for the Commission's annual assessment ("PUC Annual Assessment"). The Test Year expense related to the PUC Annual Assessment and the PUC Gas Pipeline Safety Assessment was adjusted downward by $36,883 by utilizing the Fiscal Year 2020 PUC Assessment.

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

A. Yes. We made an adjustment to recognize a credit to the Concord Rental Expense of $42,637. Next, we adjusted EnergyNorth's revenue requirement to remove Keene production costs in the amount of $214,380. The sum of all other adjustments is a reduction of $293,900 from the test year expenses.

C. <u>Weighted Average Cost of Capital</u>

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

A. EnergyNorth's weighted average cost of capital is 7.47% percent, reflecting a capital structure comprised of 49.85% debt and 50.15% equity, a 4.42% cost of debt, and a 10.51% requested return on equity, as described in Mr. Cochrane's testimony.

III. <u>STEP INCREASES</u>

Q. Please explain the Step Increase that relates to 2020 capital investments?

A. The Company is requesting that the Commission approve a first Step Increase to reflect additions to rate base through December 31, 2020. This Step Increase is structured to recover an incremental revenue requirement of $5,680,641 for EnergyNorth, which are the incremental revenue requirements based on non-revenue producing capital additions of $37,628,371 for EnergyNorth for the period January 1 through December 31, 2020. 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-2.

Q. What is the purpose of Step Increases?

A. The Company will continue to make capital investments each calendar year. Thus, the Company is seeking multi-year Step Increases for the identified capital investments in 2020, 2021, and 2022. Without those increases, the Company would not have a reasonable opportunity to earn its allowed return on equity. 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 each calendar year.

Q. What are the components of a 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 do you determine Step Increase rate base and return on rate base?

A. The Step Increase rate base is calculated as the total amount of capital expenditures less accumulated depreciation and less accumulated deferred income taxes. A pre-tax cost of capital is then calculated to apply to the Step Increase rate base to develop a pre-tax return on rate base as shown in Exhibit DBS/KBS-2, page 1 line 40.

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

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

Q. How do you calculate Step Increase property taxes?

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

Q. How do you calculate Step Increase property insurance?

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

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, 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 August 1, 2021. However, we anticipate that the Commission will suspend the rates for investigation, so we are proposing temporary rates effective October 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. CONCLUSION

Q. Does that conclude your testimony?

A. Yes.

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