



**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
KENNETH A. SOSNICK**

July 31, 2020

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND 1

II. SCOPE OF TESTIMONY 2

III. FUNCTIONAL COST OF SERVICE STUDY 3

IV. RESULTS AND CONCLUSIONS 7

ATTACHMENTS

Attachment	Title
KAS-2	Summary of the Functional Cost Study
KAS-3	Functional Cost Study – Account Level Detail

1 **I. INTRODUCTION AND BACKGROUND**

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

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

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

6 A. I am employed by FTI Consulting (“FTI”) as Managing Director.

7 **Q. Please describe FTI’s Power and Utilities practice.**

8 A. FTI is a worldwide consulting firm dedicated to helping organizations manage change,
9 mitigate risk, and resolve disputes. Our Power & Utilities practice brings these services
10 to firms in regulated and competitive energy industries. The services we provide our
11 utility clients include expert testimony, regulatory advice, support for strategic decision-
12 making, and advice regarding investments and capital allocation. Our team is comprised
13 of former utility executives, regulators, investors, and financial analysts that combine for
14 hundreds of years of experience in the regulated energy space.

15 FTI is an independent global business advisory firm dedicated to helping organizations
16 manage change, mitigate risk, and resolve disputes: financial, legal, operational, political
17 and regulatory, reputational and transactional. Individually, each practice is a leader in
18 its specific field, staffed with experts recognized for the depth of their knowledge and a
19 track record of making an impact. FTI’s Power and Utilities practice provides a wide
20 array of advisory services that address the strategic, financial, reputational and regulatory
21 needs of energy and utility clients involved in the production and transmission of crude

1 oil, natural gas, refined products, chemicals, coal, electric power, emerging technologies,
2 and renewable energy.

3 **Q. What are your responsibilities in your current position?**

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

8 **Q. Please describe your education.**

9 A. I have a Bachelor of Arts in Accounting from Indiana University of Pennsylvania in
10 Indiana, Pennsylvania. A copy of my resume is included as Attachment KAS-1 to the
11 joint testimony that I am co-sponsoring with Company witness David Simek in this
12 proceeding on the topic of revenue requirement.

13 **Q. On whose behalf are you submitting testimony in this proceeding?**

14 A. I am testifying on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp.
15 (“EnergyNorth” or “the Company”).

16 **II. SCOPE OF TESTIMONY**

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

18 A. The purpose of my testimony is to discuss the functional cost of service study performed
19 by FTI and used as support for the rates proposed by EnergyNorth in this proceeding.

1 **Q. Are you sponsoring any exhibits to support your testimony?**

2 A. Yes, two attachments are provided with my testimony. Attachment KAS-2 is a summary
3 of the functional cost of service study. Attachment KAS-3 provides the detailed study at
4 the individual account level.

5 **III. FUNCTIONAL COST OF SERVICE STUDY**

6 **Q. What is a functional cost of service study and why was such a study performed for**
7 **this case?**

8 A. A cost of service study provides a measure of the cost responsibility based on cost
9 causation principles of a company's respective functions and various rate classes. A
10 functional cost study is necessary to arrive at the cost responsibility for each of the
11 functions because many of a company's costs are common, or indirect, and incurred to
12 provide service to all customers. In general, costs are first identified based on the
13 function for which they are incurred, then those costs are classified, typically as demand,
14 customer, and commodity, and finally directly assigned or allocated to the various
15 functions.

16 The functional cost of service study separates EnergyNorth's revenue requirement into
17 four functions: delivery, direct gas cost, Liquefied Petroleum Gas ("LPG") and Liquefied
18 Natural Gas ("LNG") costs, and miscellaneous indirect costs. The direct costs of
19 purchasing gas, including LPG and LNG costs, as well as related indirect costs,
20 collectively referred to as production costs, are recovered through the Cost of Gas

1 (“COG”) mechanism rather than through base distribution rates. The costs of delivering
2 gas are recovered through base distribution rates.

3 Therefore, the purpose of a functional cost study is to ensure that there is neither
4 duplication of cost recovery through both distribution rates and the COG mechanism nor
5 stranded costs that are not recovered by either.

6 **Q. What is the relationship between this functional cost study and the marginal cost**
7 **study that is being filed with this case?**

8 A. The marginal cost study provides the basis for determining the level of distribution
9 revenues to be recovered from the various rate classes as well as the components that are
10 used to design rates. In contrast, this functional cost study divides the Company’s total
11 revenue requirement into the costs to be recovered through base rates and those that are
12 recovered through the COG mechanism.

13 **Q. What is included in each of the categories of costs?**

14 A. Purchased gas costs include supplier, storage, and pipeline demand and commodity costs,
15 as well as commodity costs for LPG and LNG, all of which are considered direct costs.
16 Indirect gas costs include the LPG and LNG facility costs and expenses required to
17 provide the supply service. The costs associated with supplying the gas commodity to
18 customers that are not included in direct gas costs are indirect costs. Indirect costs
19 consist of the bad debt expense related to the supply function, working capital related to
20 the supply function, and other operations and maintenance expenses including gas

1 acquisition, dispatching, and administrative and general expenses related to the supply
2 function but not included in direct gas costs.

3 **Q. How are costs allocated in the functional cost of service study?**

4 A. Cost are directly assigned to the greatest extent possible or allocated based on certain
5 factors. Allocation factors can be developed using external factors or internal factors.
6 External factors, such as the number of customers or sales and transportation revenues,
7 are based on data from a separate independent analysis. An internal factor is calculated
8 within the functional cost study based on the combination of previously allocated costs.

9 **Q. How are facilities costs treated in the functional study?**

10 A. The Company's LPG and LNG facilities provide a dual service, gas supply and pressure
11 support for the distribution system. Company witness Matthew DeCoursey examined
12 this dual functionality and determined that 8.7% of the Tilton LNG facility is required for
13 the pressure support and the remaining 91.3% of the LPG and LNG is utilized for gas
14 supply for the system. These percentages are used to allocate the LPG and LNG facilities
15 costs between pressure support and supply service. All distribution facility costs, which
16 are identified on page 1 of Attachment KAS-2, are directly assigned to delivery service.
17 Intangible and general facility costs, which are set forth on page 1 of Attachment KAS-2,
18 are allocated to the functions based on labor, an indirect allocation factor.

1 **Q. How are other rate base items treated in the functional study?**

2 A. Materials and supplies and accumulated deferred income taxes are allocated to the
3 functions based on plant. Cash working capital is allocated on Operation and
4 Maintenance (“O&M”) expenses, excluding gas costs and bad debt.

5 **Q. How are O&M expenses treated in the functional study?**

6 A. Production expenses related to gas acquisition are directly assigned to the supply function
7 and the remaining expenses are allocated between supply and delivery services. All
8 distribution, customer account, customer service, and sales expenses are directly assigned
9 to delivery service. Uncollectible expense is allocated between delivery and production
10 on a revenue basis.

11 **Q. How are Administrative and General expenses treated in the functional study?**

12 A. Administrative and General (“A&G”) expenses are allocated on labor except for
13 transferred costs and regulatory commission expense. Regulatory commission expenses
14 are allocated between delivery and production on a revenue basis, and the transferred
15 costs are allocated based on all other A&G costs.

16 **Q. How are depreciation and taxes other than income expenses treated in the
17 functional study?**

18 A. Depreciation expenses are directly assigned to the functions based on the specific plant
19 accounts for each function. General and intangible depreciation expense follows
20 intangible and general facility costs. Taxes other than income are allocated based on
21 specific plant or specific labor factors.

1 **IV. RESULTS AND CONCLUSIONS**

2 **Q. Please describe the results of the functional study.**

3 A. Attachment KAS-2, page 1, presents a summary of the results of the functional study, at
4 current rates, and shows the earned return for each function. Pages 2 and 3 present a
5 more detailed summary of the production costs, separating the costs into LPG and LNG
6 costs, miscellaneous production costs, and bad debt costs at current and proposed rates of
7 return. The net result of the analysis is that a revenue requirement of \$2,009,237
8 associated with the supply function should be recovered through the COG mechanism.
9 Attachment KAS-3 provides a detailed view of the allocation of the revenue requirement
10 by each account and the external and internal allocation factors used in the study.

11 **Q. Does this complete your testimony?**

12 A. Yes.

THIS PAGE INTENTIONALLY LEFT BLANK