STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 20-105

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty
2021 Depreciation Study

DIRECT TESTIMONY

OF

CATHERINE A. McNAMARA

AND

ERICA L. MENARD

April 29, 2022

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I. INTRODUCTION

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

A. (CM) My name is Catherine A. McNamara. My business address is 15 Buttrick Road, Londonderry, New Hampshire. My title is Rates Analyst II, Rates and Regulatory Affairs.

(EM) My name is Erica L. Menard. My business address is 15 Buttrick Road, Londonderry, New Hampshire. My title is Director, Rates and Regulatory Affairs.

Q. By whom are you employed?

A. We are employed by Liberty Utilities Service Corp. ("LUSC"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty ("Liberty" or "the Company") and Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty.

Q. On whose behalf are you testifying?

A. We are testifying on behalf of the Company.

Q. Ms. McNamara, please describe your educational background, and your business and professional experience.

A. I graduated from the University of Massachusetts, Boston, in 1993 with a Bachelor of Science in Management with a concentration in Accounting. In November 2017, I joined LUSC as an Analyst in Rates and Regulatory Affairs. Prior to my employment at LUSC, I was employed by Eversource as a Senior Analyst in the Investment Planning group from 2015 to 2017. From 2008 to 2015, I was a Supervisor in the Plant Accounting department. Prior to my position in Plant Accounting, I was a Financial Analyst/General Ledger System Administrator within the Accounting group from 2000 to 2008.

Q. Ms. Menard, please describe your educational background, and your business and professional experience.

A. I joined LUSC in March 2022. Prior to joining LUSC, I held various positions at Eversource Energy from 2003 to 2022. Most recently, I was the Manager of Revenue Requirements for New Hampshire responsible for the rate and regulatory filings presented to this Commission. I also held various positions at Eversource responsible for financial planning and analysis of operational and capital expenditures, business planning functions, sales forecasting, and performance management. Prior to my employment at Eversource, I was employed by ICF Consulting in Fairfax, Virginia, from 1997 to 2003 with responsibilities for implementing load profiling and load settlement software for various utilities worldwide. I hold a Bachelor of Arts in Economics and Business Administration from the University of Maine and a Master of Business Administration from the University of New Hampshire.

Q. Ms. McNamara, and Ms. Menard, have you previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission (the "Commission")?

A. Yes, we have.

Q. What is the purpose of your updated testimony?

A. The purpose of our testimony is to present the full depreciation study performed by Management Applications Consulting, Inc. ("MAC") and to adjust the step 2 calculation filed on April 8, 2022, to reflect the findings of the study.

II. <u>DEPRECIATION STUDY</u>

Q. Please explain why the Company is submitting a depreciation study.

A. The Company is required to conduct a full depreciation study as defined in Section 3.2 of the Settlement Agreement in Docket No. DG 20-105.

> The Company shall also obtain a new full depreciation study based on 2021 end of year plant balances, which study shall review and incorporate the results of the cost of removal study. The depreciation study shall be used to assess and update the depreciation reserve imbalance by making the necessary adjustments to the annual amortization amount of $1,657,796. The determination of the depreciation lives and rates applicable to various plant accounts shall adjust the annual depreciation expense amounts. Liberty shall file the updated depreciation study along with a report on its findings by May 1, 2022, for review by Staff and the OCA as part of the second step adjustment review. Any adjustments based on the updated depreciation study shall be reflected in the second step increase to take effect on August 1, 2022.

The Company contracted with MAC, and a full depreciation study was performed and is provided in Attachment CAM/ELM-1.

Q. Did the Company perform a Cost of Removal study during calendar year 2021 based on a sampling of different sized mains and services capital projects to determine the cost of removal percentages that should be applied to mains and services?

A. Yes, a Cost of Removal study was conducted using a selection of 2021 mains and services projects. The Company calculated a cost of removal of 4.7% based on that analysis, as compared to the current rate of 10%.

Q. Were results of the cost of removal study provided to MAC?

A. Yes, the results of the Company's cost of removal study were provided to MAC, the consultants contracted to perform the depreciation study for the Company.

Q. Please provide a summary of MAC's findings in the depreciation study.

A. As shown in Attachment CAM/ELM-1, Schedule B, MAC recommends changes to the depreciation rates for certain FERC accounts as shown in Table 1 below.

TABLE 1. COMPARISON OF PROPOSED VS CURRENT WHOLE LIFE DEPRECIATION ACCRUAL RATES @12/31/2021

FERC ACCOUNT NUMBER	DESCRIPTION	CURRENT ASL	PROPOSED ASL	CURRENT ANNUAL ACCRUAL ACCRUAL RATES %	PROPOSED WHOLE LIFE DEPREC. ACCRUAL RATES	DIFFERENCE BETWEEN PROPOSED AND CURRENT WHOLE LIFE ANNUAL ACCRUAL
		(1)	(2)	(3)	(4)	(5)
	PRODUCTION PLANT					
319.00	GAS MIXING EQUIPMENT	35.0	20.0	2.86	5.00	14,805
	DISTRIBUTION PLANT					
380.00	SERVICES	45.0	50.0	3.55	3.20	-696,385
381.00	METERS	32.0	30.0	3.13	3.33	39,985
381.10	METERS-INSTRUMENT	32.0	30.0	3.13	3.33	509
382.00	METER INSTALLATIONS	32.0	30.0	3.13	3.33	54,141
	GENERAL PLANT					
390.00	STRUCTURES AND IMPROVEMENTS	35.0	40.0	2.86	2.50	-93,113
391.00	OFFICE FURNITURE AND EQUIP.	18.0	15.0	5.28	6.34	19,842
	TOTAL DEPREC. GAS PLANT	46.3	47.6	2.68	2.58	-660,216

As a result of the depreciation study, the overall Average Service Life ("ASL") for all depreciable Company plant changes from an existing 46.3 years to 47.6 years as described on page 9 of the depreciation study, resulting in a reduction to annual depreciation accrual expense of $660,216.

Q. Based on the findings in the study, what are the recommendations from MAC?

A. A summary of MAC's recommendations on page 12 of Attachment CAM/ELM-1 are described below:

1. Continue to amortize approved levels until completion (4/30/2024) to mitigate the remaining reserve variance levels.
2. Continue to evaluate actual removal costs for at least two additional years to establish a reasonable three-year average for all applicable accounts as a one year cost of removal ("COR") result does not in itself determine a definitive level to establish a firm COR percentage going forward. However, it does present information as to the necessity to reduce the current 10% level.
3. Implement a stepwise reduction to the COR rate going forward from the current 10% level to a 7.5% midpoint or approximately 50% of the current level (10%) to the recent one-year calculation of 4.74%. Continue to utilize the 7.5% step until the next review and analysis of COR which would present a three-year average level.
4. Perform a future depreciation study with the following metrics integrated into the analysis:
    a. The new three-year COR threshold
    b. Depreciation study in approximately five years
    c. Update the cost of removal levels that are currently approved to more complete recovery levels for mains and services
    d. Update depreciation parameters, where appropriate, for all accounts
5. The Company should request approval of the accrual rates shown in column (8) of the accrual rate Schedule A included in Attachment CAM/ELM-1.

6. The Company should stop depreciating after January 2022 for plant account (391.20 Office Furniture & Equipment – Laptop Computers) which is almost fully depreciated, unless new dollars are added to the account.
7. Every effort should be undertaken to book retirements on a timely basis as this impacts the resulting depreciation parameters.

Q. Did MAC review and incorporate the results of the cost of removal study?

A. Yes, MAC reviewed the Company's cost of removal study. The results have been incorporated into the recommendations on page 12 of Attachment CAM/ELM-1.

Q. Will the Company be revising the cost of removal rate ("COR") on a forward going basis?

A. Yes, based on recommendations and consultation with MAC, the Company is planning to change the COR rate from 10% to 7.5%. This change will occur at the same time the depreciation rates are approved and implemented.

Q. Based on the results of the depreciation study, are any adjustments necessary to the $1,657,796 annual amortization of the depreciation reserve deficiency that was determined in Docket No. DG 17-048?

A. No, based on recommendations and consultation with MAC, the Company does not recommend any changes to the amount currently being amortized. The current amortization began on May 1, 2018, and will be fully amortized by April 30, 2024. The recommendation is to allow the amortization to continue through the end of the amortization period. This is to further assist with reducing the amount of the depreciation reserve deficiency in combination with actions such as reducing the COR percentage.

Q. Have the proposed depreciation rates been factored into the Company's second step?

A. Yes, the Company revised the initial revenue requirement calculation to factor in the proposed depreciation rates. Please see Attachment CAM/ELM-2 for an illustrative revenue requirement from the second step adjustment originally filed on April 8, 2022, factoring in the proposed changes to the depreciation rates. The proposed changes to depreciation rates impact the step adjustment calculation in two ways. First, the proposed changes to depreciation rates have been applied to the plant additions in the step adjustment, where applicable. Second, the $660,216 annual reduction to depreciation expense applicable to the existing plant has been included in the calculation. Through the Settlement Agreement in this docket, the Company was allowed to recover up to $3,200,000 for plant in service during 2021. The resulting change in the overall revenue requirement with the inclusion of the depreciation expense reduction is a decrease of $660,216 as compared to the original step adjustment filing for a total revenue requirement of $2,539,784. This is a reduction to the revenue requirement of approximately 21 percent from the original step adjustment request. Revised tariff rates associated with the change in depreciation rates and expenses will be provided at a later time after the depreciation changes are approved.

Q. Does the Company need Commission approval of the proposed depreciation rates to change the current depreciation rates?

A. Yes, the Company needs the Commission to approve the revised depreciation rates before they can be applied. The Settlement Agreement requires a review of the depreciation study by the DOE and the OCA. The Company intends to hold a technical session with the DOE and the OCA to review the study and answer any questions. If the depreciation rates are approved, the Company's step adjustment request would be revised as presented in Attachment CAM/ELM-2.

Q. Does this conclude your testimony?

A. Yes, it does.