



Liberty Utilities



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 17-048

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

DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

DANIEL S. DANE

April 28, 2017

Regarding Temporary Rates

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ATTACHMENTS

Attachment	Title
DBS/DSD-TEMP-1	Schedule T – Temporary Rate Increase
DBS/DSD-TEMP-2	Bill Impacts – Temporary Rates
DBS/DSD-TEMP-3	Clean Tariff Pages – Temporary Rates
DBS/DSD-TEMP-4	Redlined Tariff Pages – Temporary Rates

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1 **I. INTRODUCTION**

2 **Q. Please state your names and business addresses.**

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

5 My name is Daniel S. Dane. My business address is 293 Boston Post Road West, Suite
6 500, Marlborough, 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 Regulatory Lead Utility Analyst.

11 (DSD) I am a Vice President with Concentric Energy Advisors, Inc. (“Concentric”), and
12 the Financial and Operations Principal of CE Capital, Inc., a FINRA-member subsidiary
13 of Concentric.

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

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

1 **Q. Are you the same David B. Simek and Daniel S. Dane who submitted other direct**
2 **testimony in this case?**

3 A. Yes. Our educational backgrounds and qualifications are set forth in the prefiled 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. Is the Company proposing temporary rates for its Keene Division?**

10 A. No. As will be discussed in the permanent rates portion of this proceeding, the Company
11 is seeking to consolidate the Keene and EnergyNorth distribution tariffs. Any rate
12 implications for customers of the Keene Division will be as part of the determination of
13 permanent rates.

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

15 A. We are sponsoring the following attachments and schedules:

- 16 • Attachment DBS-DSD-TEMP-1, which includes the following schedule:
- 17 ○ Schedule T - Temporary Rates Revenue Requirement and Revenue
18 Deficiency (all schedule references in this temporary rates testimony are to
19 Schedule T);

- 1 • Attachment DBS-DSD-TEMP-2, which provides bill impact analysis for
2 temporary rates;
- 3 • Attachment DBS-DSD-TEMP-3, which provides clean revised tariff pages
4 reflecting the proposed temporary rates; and
- 5 • Attachment DBS-DSD-TEMP-4, which provides redlined revised tariff pages
6 reflecting the proposed temporary rates.

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

9 A. No, they are not. For the test year ended December 31, 2016, the Company's earned
10 return on rate base for the distribution portion of its business was 5.17%, as shown on
11 Schedule T, line 22. This is less than the return on rate base of 7.05%, computed using
12 the Company's last authorized return on equity of 9.67%, established by the Commission
13 in Order No. 25,202 (Mar. 10, 2011), and its current cost of debt and capital structure
14 (Schedule T, lines 90-93).

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

17 A. The primary reason relates to capital investments the Company has made since its last
18 rate case, as discussed in the testimony of Christian Brouillard.

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

2 A. The Company is requesting temporary rates that would generate additional annual gross
3 distribution revenue of \$7,778,497 (Schedule T, line 2), which represents an 11.51%
4 increase in distribution revenue and a 6.48% increase in total revenue. The Company is
5 requesting that temporary rates take effect as of July 1, 2017 on a service-rendered basis,
6 and that they be applied by increasing all rates under the existing rate design by a uniform
7 percentage.

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

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

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

14 A. The Company is seeking a temporary rate increase because its return on rate base in the
15 historical test year ended December 31, 2016, as adjusted on Schedule T, was 5.17%,
16 which is significantly less than the return on rate base of 7.05% (computed as described
17 above). Without a temporary rate increase, the Company will not have the opportunity to
18 earn a reasonable return until a permanent rate order becomes effective.

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

3 A. The Company has requested a permanent rate increase of \$13,749,361; the temporary
4 increase is 56.57% of that amount. Temporary rates are proposed to be in effect until the
5 establishment of permanent rate pursuant to the Commission's final order in this case.
6 The temporary rate increase will reduce regulatory lag, while providing the Commission
7 and parties to the proceeding sufficient opportunity to fully evaluate the Company's
8 permanent rate request. Temporary rates, at 56.57% of the requested permanent rate
9 increase, also provide a more gradual, smoother transition to the permanent rates
10 ultimately approved by the Commission in this case.

11 **Q. How did you calculate the requested temporary rate increase of \$7,778,497?**

12 A. We calculated the requested temporary rate increase by multiplying the 7.05% return on
13 rate base (described above) by rate base as of December 31, 2016, and then subtracting
14 from that product the Company's actual return for the test year, with certain adjustments
15 described below.

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

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

19 1. Removed revenue related to the cost of gas and the Local Distribution Adjustment
20 Clause ("LDAC") (line 2 of Schedule T).

- 1 2. Removed the associated expenses associated with cost of gas and LDAC revenues
2 from the historical test year (line 7 of Schedule T).
- 3 3. Adjusted distribution revenue (line 2 of Schedule T) to agree with the separately-
4 computed cycle operating revenue presented in Table 1 of the testimony of David
5 Simek and Gregg Therrien.
- 6 4. Adjusted the amortization of Costs to Achieve (“CTA”) associated with
7 EnergyNorth’s prior acquisition by National Grid through National Grid’s merger
8 with KeySpan Corporation, consistent with Order 25,797 (June 26, 2015). That
9 item is also discussed in our direct testimony regarding the revenue requirement
10 for permanent rates, as well as Schedule RR-3-EN-06 to that testimony.
- 11 5. Made minor correcting entries to miscellaneous service revenues, as also
12 discussed in our direct testimony regarding the revenue requirement for
13 permanent rates.
- 14 6. Consistent with commitments made in the proceeding in Docket No. DG 11-040
15 in which EnergyNorth was acquired by Liberty Utilities, the Company has
16 included an adjustment for ratemaking purposes only related to the cost of certain
17 transition-related assets. (see line 15 of Schedule T).
- 18 7. The final adjustment was to compute income tax expense for the adjusted
19 information, based on statutory rates and synchronized interest expense (line 14,
20 with the calculation provided on lines 59-78).

1 **Q. Are those proposed adjustments consistent with the statute governing temporary**
2 **rates?**

3 A. Yes. Per RSA 378:27, temporary rates should be based on "...the reports of the utility
4 filed with the commission, unless there appears to be reasonable ground for questioning
5 the figures in such reports." The adjustments described above are items that are
6 necessary to reflect the results of distribution operations from a regulatory perspective;
7 thus, they are appropriate for inclusion in the calculation of temporary rates.

8 **Q. What percentage increase in customers' bills does the Company's temporary rate**
9 **request represent?**

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

- 12 • For a residential heating customer (Rate R-3) using 760 therms per year, the
13 annual increase is \$60.22, or 6.05% on a total bill basis;
- 14 • For a low annual use, high winter use commercial/industrial customer (Rate G-41)
15 using 2,075 therms per year, the annual increase is \$141.19, or 5.70% on a total
16 bill basis;
- 17 • For a medium annual use, high winter use commercial/industrial customer (Rate
18 G-42) using 14,362 therms per year, the annual increase is \$707.41, or 4.81% on a
19 total bill basis; and

- 1 • For a medium annual use, low winter use commercial/industrial customer (Rate
2 G-52) using 14,690 therms per year, the annual increase is \$484.75, or 3.75% on a
3 total bill basis.

4 Additional information showing bill impacts by rate class is provided in Attachment
5 DBS/DSD-TEMP-2. The rates derived on DBS/DSD-TEMP-2 were used to prepare the
6 tariff pages included as Attachments DBS/DSD-TEMP-3 and DBS/DSD-TEMP-4.

7 **Q. Do the proposed temporary rates provide not more than a reasonable return on the**
8 **cost of the property used and useful for the public service less accrued depreciation,**
9 **as shown by the reports of the Company filed with the Commission?**

10 A. Yes. With the proposed temporary rates, the Company will earn no more than a
11 reasonable return on its investment calculated based on the books and records on file with
12 the Commission. As demonstrated in Attachment DBS/DSD-TEMP-1, Schedule T, the
13 Company's requested level of temporary rates yields a rate of return equal to 7.05%,
14 which is based on the return on equity granted in the Company's last rate case and is less
15 than the 7.36% overall rate of return being requested for permanent rates.

16 **Q. Are customers protected from being overcharged by temporary rates if the final rate**
17 **case decision is less than the level of temporary rates?**

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

1 **Q. Does this conclude your testimony regarding temporary rates?**

2 **A. Yes.**

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