STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 14-041

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Fiscal Year 2014 (April 1, 2013 – March 31, 2014)
Cast Iron/Bare Steel Replacement Program Filing

DIRECT TESTIMONY

OF

MARK G. SAVOIE

May 15, 2014

I. INTRODUCTION

Q. Mr. Savoie, please state your full name and business address.

A. My name is Mark G. Savoie. My business address is 15 Buttrick Rd., Londonderry, New Hampshire 03053.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Energy Utilities (New Hampshire) Corp. as a Utility Analyst. My primary duties include preparing the gas cost recovery projections for Liberty and related reconciliations, administering the Company's tariff, calculating the achieved rate of return, and appearing as a witness on rate matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Accounting in 1980 and a Master of Business Administration in 1995, both at Southern New Hampshire University (formerly, New Hampshire College). I have worked for regulated public utilities or a related company for a total of approximately 22 years. From 2006 to 2012, I was employed by Pennichuck Corporation as Manager of Financial Reporting, Business Planning and Analysis. My duties included primarily Securities and Exchange Commission ("SEC") reporting, tax compliance and various treasury functions. From 1985 to 1986, I was the Accounting Manager for Concord Natural Gas, a wholly-owned subsidiary of EnergyNorth, Inc. From 1986 to 2006, I was the Tax/SEC Accountant for EnergyNorth, Inc. My primary duties as Tax/SEC Accountant included SEC reporting and tax compliance. From 1996 to 2000, I was a Rate Analyst and was subsequently promoted to Manager of Regulatory Affairs for EnergyNorth. My primary duties as Rate Analyst and Manager of Regulatory Affairs included determining and administering rates, including calculating the cost of gas charge, analysis of rate of return, working capital calculations, and developing, monitoring and evaluating risk management policies and procedures. I also worked for approximately ten years for various public accounting firms, primarily as an auditor.

Q. Do you have any professional licenses?

A. Yes, I am licensed in the State of New Hampshire as a Certified Public Accountant.

Q. Have you previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission (the "Commission")?

A. Yes, I have testified in many proceedings at the Commission, including most recently, Docket No. DG 14-076.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the Company's revenue requirement calculation associated with the CIBS main replacement program for the fiscal year starting April 1, 2013, and ending March 31, 2014, ("FY 2014") and the degradation fees imposed by the Cities of Concord and Manchester.

III. REVENUE REQUIREMENT CALCULATION

Q. Please describe the revenue requirement calculation and the proposed recovery period.

A. The revenue requirement calculation includes the CIBS program spending through FY 2014. The Company proposes to recover this revenue requirement beginning July 1, 2014, through an increase in its base distribution rates.

Q. What amounts are included in the CIBS revenue requirement?

A. The revenue requirement for FY 2014 is calculated in Attachment MGS-1 and is based on actual spending related to projects set forth in the final FY 2014 CIBS plan submitted to Staff in 2013. It also includes, for illustrative purposes, a projection of the estimated revenue requirement including CIBS-eligible expenses that the Company expects to incur in FY 2015. Pursuant to a Staff request in a prior year technical session, the Company has also included in Attachment MGS-2, for information purposes only, a calculation of the total revenue requirement associated with the CIBS program from its inception in FY 2009. This calculation includes CIBS investment amounts through June 30, 2009, that became part of the permanent rate base established in the Company's last distribution rate case, Docket No. DG 10-017.

Q. Please explain how the CIBS revenue requirement is calculated.

A. As shown in Attachment MGS-1, eligible CIBS investments are split into the categories of mains and services. Recoverable book depreciation expense is calculated based on these investment amounts using the depreciation rates established in the Company's last depreciation study (which was filed in Docket No. DG 08-009). The depreciation expense amount is used to calculate the deferred tax reserve associated with the effects of the timing difference between book and tax depreciation. The deferred tax reserve, along with accumulated book depreciation, reduces the rate base upon which the Company is eligible to earn a return. The adjusted rate base is multiplied by the pre-tax rate of return of 11.5 percent (8.33% ROR approved in Docket No. DG 10-017 adjusted for current federal and state income tax rates of 34% and 8.5%, respectively) to arrive at the return on rate base and taxes. Added to the return and taxes are the actual calculated depreciation expense and property taxes. The property tax rate is calculated annually and is based on prior calendar year municipal property tax expense as a percentage of the average of the prior two calendar year's net plant in service.

Q. What is the CIBS revenue requirement for fiscal year 2014?

A. As shown on Attachment MGS-1, page 1, the cumulative CIBS revenue requirement for FY 2014 is $1,543,832 (line 35(f)), which corresponds to a $320,245 revenue deficiency, as provided on line 39(f).

Q. Please explain how you calculated the FY 2014 revenue requirement.

A. Page 1 of Attachment MGS-1 provides detail as to how the Company derived the FY 2014 revenue requirement. Lines 1(f) and 2(f) represent the FY 2014 CIBS program investment related to mains and services, respectively. These current year amounts are added together and reduced by the CIBS Base Amount of $500,000. For FY 2014, the net incremental amount of CIBS additions, after the CIBS Base Amount, is $2,651,795, as shown on line 6(f). This amount is then added to the cumulative incremental CIBS program additions from July 1, 2009, to March 31, 2013, of $11,184,518, as shown on line 7(e), to derive the cumulative incremental CIBS program additions through March 31, 2014, of $13,836,312 as reported on line 7(f).

On lines 10(f) through 20(f) of page 1, the Company shows the calculations for book and tax depreciation, and the resulting deferred tax reserve. Because the CIBS program spending is expected to be 100 percent tax deductible, as discussed later in my testimony, the cumulative tax depreciation on line 11(f) is equal to the cumulative incremental CIBS program spending of $13,836,312 from line 7(f). When compared to the accumulated depreciation of $1,047,490 on line 14(f), the resulting timing difference between book and tax depreciation is $12,788,822, as shown on line 17(f). This amount is then multiplied by the Company’s current effective tax rate and the deferred tax reserve of $5,161,741 is shown on line 20(f). On lines 23(f) through 27(f), the Company calculates rate base by reducing the amount of cumulative incremental CIBS spending of

$13,836,312 by $1,047,490 for accumulated depreciation and $5,161,741 for deferred tax reserves, resulting in a year end rate base of $7,627,082 (line 27(f)). The Company then multiplied the rate base amount times the pre-tax ROR of 11.5 percent, which resulted in the return and taxes amount of $887,114 on line 32(f). On lines 33(f) and 34(f), the Company added book depreciation of $307,352 and property taxes of $359,366. The resulting FY 2014 cumulative revenue requirement is $1,543,832, as shown on line 35(f). From this amount, the Company deducted the prior year revenue requirement of $1,213,587, as shown on line 37(f), to arrive at a revenue deficiency of $330,245 on line 39(f).

Q. Please explain the rate design the Company intends to use to recover the proposed increase in the revenue requirement.

A. The Company will design rates that will result in an increase in annual revenues of $330,245. Specifically, the cumulative revenue requirement for fiscal year 2014 amounts to $1,543,832, or $330,245 more than the $1,213,587 which is currently being billed, and as shown on Attachment MGS-1, page 1, line 35(e). Consistent with past adjustments, the Company will increase all rate components on an equal basis. Consistent with last year, the Company will file proposed revised tariff pages by May 31, 2014.

Q. How was the statutory tax rate of 39.61% on Attachment MGS-1, page 1, line 18, column f, calculated?

A. The statutory rate of 39.61% was calculated by using a 34% federal tax rate and an 8.5% tax rate for the State of New Hampshire (.34 + .085 – (.34 x .085) = .3961).

Q. How was the common equity pre-tax rate of 8.006% on Attachment MGS-1, line 56(e) calculated?

A. The common equity pre-tax rate of 8.006% was calculated by dividing the 9.67% rate of return on common equity authorized in DG 10-017 by .6039 (1 – .3961 [statutory tax rate – see previous question]) and multiplied by 50% (ratio of debt to equity in DG 10-017) [.0967 / .6039 x .50 = .08006].

Q. Can you explain the repairs tax deduction as it applies to projects completed under the CIBS program?

A. In 2009, the Internal Revenue Service issued guidance, under Internal Revenue Code ("IRC") Section 162, regarding the eligibility of certain repair and maintenance expenses for an immediate deduction for income tax purposes, but capitalized by the Company for book purposes. This tax deduction has the effect of increasing deferred taxes and lowering the revenue requirement that customers will pay under the CIBS program. Based on IRC §263(a) and §162, repairs resulting in the replacement of less than 20 percent of an original unit of property qualify for a repairs tax deduction. A gas company's gas subsystem is considered a "unit of property" for the purposes of the repairs tax deduction. Replacement pipe cannot be more than 2 additional inches in diameter from the original pipe, and to the extent that a length of replacement pipe is longer than the pipe being retired, the increase in length must be no more than 5 percent of the subsystem for it to be eligible for the repairs tax deduction.

Based on these criteria, the projects included in the CIBS program are considered repairs by the Company and are expected to be fully deducted from the tax return for the year that they occur. Therefore, in computing the revenue requirement, the Company is currently reflecting tax deductibility of 100 percent for all CIBS jobs. This tax deductibility results in a greater deferred tax reserve which reduces the rate base and resulting revenue requirement charged to customers.

Q. How are book depreciation expense and property tax expense calculated?

A. Book depreciation expense is calculated on page 2 of Attachment MGS-1. The actual spending for mains and services is referenced on page 1, lines 1 and 2, respectively. These amounts are reduced on a pro rata basis by the CIBS Base Amount. The net amounts for mains and services are shown on lines 3 and 23 and are used to calculate book depreciation expense for each vintage year. Lines 5 through 16 and 25 through 36 show the calculation of book depreciation expense using the depreciation rates set in the Company's last approved depreciation study. FY 2014 book depreciation expense of

$227,170 and $80,182 for mains and services is shown on lines 13(f) and 33(f), respectively. These amounts, when combined, equal $307,352 as shown on line 40(f), which is carried forward to page 1, line 13(f). Cumulative book depreciation expense of $755,982 and $291,508 for mains and services are shown on lines 16(f) and 36(f), respectively. Line 42(f) is the sum of these two lines, amounting to $1,047,490, which is then used on page 1, line 14(f).

Property taxes are calculated on page 3 of Attachment MGS-1. Net plant is calculated using plant in service as reported on the Company's Annual Report (Form F-16G) less the reserve for accumulated depreciation and amortization. An average of the most recent two years of net plant is then calculated on lines 6 through 8. Line 10(i) shows the property tax expense for the prior calendar year. The property tax expense rate of 2.81% shown on line 12(i) is calculated by dividing line 10(i) by the average net plant shown on line 8(i). This property tax rate is then carried forward to page 1, line 34 and is multiplied by net plant in service found on page 1, line 25(f), resulting in the property tax amount of $359,366 on page 1, line 34(f).

Q. What is the average bill impact of this year's CIBS revenue requirement?

A. Page 4 of Attachment MGS-1 shows the average bill impacts of the CIBS program. The annual CIBS-related increase for FY 2014 for an average Residential Heating customer using a total of 797 therms per year is $1.64, as shown on line 22(f).

Q. How will the Company address any refunded road degradation fees if it prevails in its litigation against the Cities of Concord and Manchester?

A. During fiscal years 2011 through 2014, the Company included a total of $813,168 in degradation fees as part of the costs of the CIBS program as shown in the table below.

Period	City of Concord	City of Manchester		Total
Fiscal 2011	$19,856	$275,035		$294,891
Fiscal 2012	37,960	39,885		77,845
Fiscal 2013	9,747	382,335		392,082
Fiscal 2014	48,350	-0-	(1)	48,350
Total	$115,913	$697,255		$813,168

(1) Excludes FY 2014 accrued Manchester degradation fees in the amount of $246,449 from the calculation of the revenue requirement.

If the Company prevails in the litigation, the Company will reflect the refunds it receives from Concord and the accrual reversal for Manchester in the revenue requirement calculation in the fiscal year (or years) in which those refunds are received. Customers will receive the benefit of those refunds through a reduction to rate base (and corresponding decrease in return and taxes) and a reduction in ongoing depreciation expense and property tax expense in the same year that the Company is reimbursed by the communities. Attachment MGS-3 shows the illustrative calculation of the estimated impact on the revenue requirement of such a refund. Based on degradation fees paid to date and included in the cumulative CIBS investment, the impact on the revenue requirement in the year such fees are refunded to the Company is estimated at approximately $89,000 as shown on page 1, line 32(b) of Attachment MGS-3. It is estimated that the Concord and Manchester degradation fees to be incurred during the FY 2015 construction season will be $109,500 and 277,379, respectively.

IV DEGRADATION FEES

Q. How has the Company addressed the degradation fees imposed by the Cities of Concord and Manchester?

A. The Company has challenged the degradation fees assessed by the Cities of Concord and Manchester in Superior Court. The Concord and Manchester cases were consolidated in 2013 and are pending in Merrimack County Superior Court. A trial is scheduled for March 2015.

Q. Does this conclude your testimony?

A. Yes it does.