



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

Docket No. DG 14-180

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

DIRECT TESTIMONY

OF

**STEVEN E. MULLEN
AND
HOWARD S. GORMAN**

August 1, 2014

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LIST OF ATTACHMENTS

Attachment SEM/HSG-1:	Resume of Howard Gorman
Attachment SEM/HSG-2:	Revenue Requirement Schedules
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Attachment SEM/HSG-4:	Estimated Rate Case Expenses

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1 **I. INTRODUCTION**

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

3 A. My name is Steven E. Mullen. My business address is 15 Buttrick Road,
4 Londonderry, NH 03053.

5

6 A. My name is Howard S. Gorman. I am the President of HSG Group, Inc. My
7 business address is 45 Hill Park Avenue, Great Neck, NY 11021.

8

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

10 A. (SM) I am employed by Liberty Energy Utilities (New Hampshire) Corp. (“Liberty
11 Energy NH”) as Manager, Rates and Regulatory. I am responsible for rates and
12 regulatory affairs for Liberty Utilities (EnergyNorth Natural Gas) Corp.
13 (“EnergyNorth”) and Liberty Utilities (Granite State Electric) Corp.

14

15 A. (HG) I am the President of HSG Group, Inc.

16

17 **Q. On whose behalf are you testifying today?**

18 A. We are testifying on behalf of EnergyNorth.

19

20 **Q. Mr. Mullen, please state your educational background and professional**
21 **experience.**

22 A. In 1989, I graduated from Plymouth State College with a Bachelor of Science

1 degree in Accounting. I attended the NARUC Annual Regulatory Studies Program
2 at Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate
3 School sponsored by Florida State University. I am a Certified Public Accountant
4 and have obtained numerous continuing education credits in accounting, auditing,
5 tax, finance and utility related courses.

6
7 From 1989 through 1996, I was employed as an accountant with Chester C.
8 Raymond, Public Accountant in Manchester, NH. My duties involved preparation
9 of financial statements and tax returns as well as participation in year-end
10 engagements. In 1996, I joined the New Hampshire Public Utilities Commission
11 (“Commission”) as a PUC Examiner in the Finance Department. In that capacity I
12 participated in field audits of regulated utilities’ books and records in the electric,
13 telecommunications, water, sewer and gas industries. I also performed rate of
14 return analysis, participated in financing dockets and presented oral testimony
15 before the Commission. In 1998, I was promoted to the position of Utility Analyst
16 III and continued to work in all of the regulated industry fields. As part of an
17 internal reorganization of the Commission’s Staff in 2001, I became a member of
18 the Electric Division. I was promoted to Utility Analyst IV in 2007 and then
19 Assistant Director of the Electric Division in 2008. Working with the Electric
20 Division Director, I was responsible for the day-to-day management of the Electric
21 Division including decisions on matters of policy. In addition, I evaluated and
22 made recommendations concerning rate, financing, accounting and other general

1 industry filings. I represented Commission Staff in meetings with company
2 officials, outside attorneys, accountants and consultants relative to the
3 Commission's policies, procedures, Uniform System of Accounts, rate case,
4 financing and other industry and regulatory matters. In May 2014, I joined Liberty
5 Energy NH in my current position.

6
7 **Q. Have you previously testified before this Commission?**

8 A. Yes. I have testified in numerous proceedings before the Commission.

9
10 **Q. Mr. Gorman, please state your educational background and professional**
11 **experience.**

12 A. My educational background and professional experience are outlined in my
13 curriculum vitae, which is included as Attachment SEM/HSG-1. I have testified in
14 proceedings before the Commission , as well as the Massachusetts Department of
15 Public Utilities, New Jersey Board of Public Utilities, New York State Public
16 Service Commission, Ontario Energy Board, Pennsylvania Public Utility
17 Commission and Rhode Island Public Utilities Commission.

18
19 **Q. What is the purpose of your testimony today?**

20 A. Our testimony will present the Company's overall revenue requirement for
21 permanent rates and the Company's request for a step increase. Under separate
22 testimony submitted today, we are also presenting the Company's request for a

1 temporary rate increase.

2

3 **Q. Are you sponsoring any schedules as part of your filing?**

4 A. Yes, we are sponsoring the following schedules in accordance with Puc 1604.07
5 and 1604.08. The Rate of Return Information required by Puc 1604.08 is provided
6 in Schedule RR-4. The Adjustments to the Test Year required by Puc 1604.09 are
7 provided in Schedule RR-3 with supporting detail in Schedules RR-3-01 through
8 RR-3-18. The following Schedules comprise Attachment SEM/HSG-2:

9	Computation of Revenue Deficiency & Revenue Requirement	Schedule RR-1
10	Operating Income Statement	Schedule RR-2
11	Operating Income Statement- Detail	Schedule RR-2-1
12	Summary of Adjustments	Schedule RR-3
13	Weighted Average Cost of Capital	Schedule RR-4
14	Rate Base	Schedule RR-5
15	Rate Base Monthly Balances	Schedule RR-5-1
16	Utility Plant & Depreciation- Surplus	Schedule RR-5-2
17	Cash Working Capital	Schedule RR-5-3
18	Accumulated Deferred Income Tax-Plant	Schedule RR-5-4

19

20 The following Schedule comprises Attachment SEM/HSG-3:

21	Step Increase	Schedule Step
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22

23 The following Schedule comprises Attachment SEM/HSG-4:

24	Rate Case Expense	Schedule RC
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1 **Q. Has EnergyNorth filed other material as required by Puc 1604.01?**

2 A. Yes. The material required by Puc 1604.01 is included with this filing in a separate
3 volume.

4
5 **Q. What rate relief is sought by EnergyNorth?**

6 A. The Company is seeking to recover an annual revenue deficiency of \$13,442,972
7 based on a rate base of \$172,908,291. This represents an 8.45% increase in Total
8 Operating Revenue. Schedules RR-1 and RR-2 in Attachment SEM/HSG-3 provide
9 a summary of the different components of EnergyNorth's cost of service and
10 revenue requirements.

11
12 In addition, as discussed later in the testimony, the Company also is seeking
13 approval for a step increase to recover an annual revenue deficiency of \$2,649,554
14 based on additional capital spending of \$16,660,624 for the twelve-month period
15 ending March 31, 2015.

16

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

19 A. The primary driver relates to capital investments made by the Company since the
20 last rate case. A large portion of those investments were for infrastructure
21 replacement and, by their nature, did not produce additional revenue. A discussion
22 of the capital investments made over the last few years is included in the testimony

1 of Christian Brouillard. In addition, the Company seeks recovery of certain
2 information technology (IT) capital costs associated with the creation of IT systems
3 necessary to run the Company. These are described in John Lowson's testimony.

4
5 **Q. Please summarize the approach you used to determine the revenue**
6 **requirement and revenue deficiency.**

7 A. The Company's revenue requirement and revenue deficiency are computed as of
8 and for the year ended March 31, 2014 ("Test Year"). The revenue requirement
9 was computed by starting with the Company's income statement for the Test Year,
10 then removing flow-through items (i.e., Cost of Gas revenue and expenses), and
11 finally adjusting for known and measurable changes. The resulting Test Year pro
12 forma income statement reflects normalized revenues at current rates, expenses and
13 net operating income for ratemaking purposes. These calculations are presented on
14 Schedule RR-2-1 and summarized on Schedule RR-2.

15
16 The next step was to compute the net operating income required to achieve a return
17 of 7.63% on the Company's Test Year rate base. This amount was compared to the
18 Test Year pro forma net operating income to determine the net operating income
19 deficiency. The net operating income deficiency was grossed-up for state and
20 federal income taxes to determine the revenue deficiency. These calculations are
21 presented on Schedule RR-1.

1 **II. CONDITIONS AGREED TO BY ENERGYNORTH**

2 **Q. In Docket No. DG 11-040 the Company agreed to not seek recovery of the**
3 **temporary costs incurred to effect the transaction, among other things. Has**
4 **the Company complied with this requirement?**

5 A. Yes. The Company conducted a review to ensure that no transaction costs relating
6 to financing, legal and regulatory costs incurred in connection with the closing of
7 the transaction and no acquisition premium and no transition costs are included in
8 the Company's financial books. Such costs are included in the books and records
9 of the parent company.

10

11 **III. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT**

12 **A. Rate Base**

13 **Q. Please summarize the information contained in your calculation of the Rate**
14 **Base.**

15 A. Schedule RR-5 shows the calculation of Rate Base. After adjustments, the Pro
16 Forma Rate Base at March 31, 2014, is \$172,908,291. The Company used the test
17 year end date of March 31, 2014, to measure the rate base in order to align revenues
18 and return on rate base with the period in which rates are proposed to be in effect.

19

20 **Q. Please describe the information presented on Schedule RR-5-1.**

21 A. Schedule RR-5-1 presents the 13-month average for Materials and Supplies,
22 Prepayments and Customer Deposits.

1 **Q. Please describe the information presented on Schedule RR-5-2.**

2 A. Pursuant to the Commission's Order and the settlement agreement in Docket No.
3 DG 10-017, the Company established an Accumulated Depreciation Surplus
4 Reserve, and agreed to amortize this amount into income (thereby reducing annual
5 depreciation expense) at a rate of \$933,588 per year. The Company discovered that
6 it had inadvertently not recorded the amortization of this item since its acquisition
7 by Liberty Energy NH in July 2012. Had the amortization been recorded as
8 required, accumulated depreciation at March 31, 2014, would be \$1,633,779 lower
9 than recorded on the books. Therefore, in order to determine the correct rate base
10 as of March 31, 2014, it is necessary to reduce accumulated depreciation by
11 \$1,633,779. That adjustment is shown on Schedule RR-5, line 4. In addition, as
12 described later in this testimony, depreciation expense for the test year must be
13 reduced by the \$933,588 referenced above. Schedule RR-5-2 shows the adjustment
14 required to accumulated depreciation, and the pro forma depreciation expense
15 includes the annual reduction for amortization of the surplus (Schedule RR-3-11,
16 line 30).

17

18 **Q. Please describe the information presented on Schedule RR-5-3.**

19 A. Schedule RR-5-3 presents the cash working capital calculation. The Company
20 computed its cash working capital using the "45-day" rule specified under Puc
21 1604.07(t), which allows a revenue lag period of one-half of the billing cycle period
22 plus 30 days. The Company bills its customers monthly; therefore, the lag period

1 under this formula is 45 days. The cash working capital allowance under this
2 methodology is \$4,326,552.

3
4 **Q. Please describe the information presented on Schedule RR-5-4.**

5 A. Schedule RR-5-4 computes the Plant-related Accumulated Deferred Income Tax
6 (“ADIT”) reduction to rate base as of March 31, 2014, using the most current
7 information available. The Plant-related ADIT as of March 31, 2014, is
8 approximately \$78.5 million, which is slightly greater than the amount recorded in
9 the financial statements.

10
11 **B. Net Operating Income**

12 **Q. Please summarize the results of EnergyNorth’s distribution revenue**
13 **requirement.**

14 A. Schedule RR-1 presents the computation of the requested distribution revenue
15 increase and distribution revenue requirement. The revenue deficiency is
16 \$13,442,972 based on an overall rate of return on a rate base of 7.63%. Schedules
17 RR-1-1 through RR-5 provide the support for the items presented on Schedule RR-
18 1, including Pro Forma Test Year net operating income and rate base.

19
20 Following is a list of the adjustments for “known and measurable” changes in
21 revenue and expenses:
22

- 1 a. Salary & Wage costs to reflect the Company's New Hampshire-based labor
- 2 complement, including only the portion charged to EnergyNorth O&M
- 3 expense;
- 4 b. Payroll tax expense aligned with Salary & Wage expense;
- 5 c. Pension and Benefits expense aligned with Salary & Wage expense,
- 6 including Pension valuation assets and liabilities incurred on acquisitions;
- 7 d. Property and Casualty Insurance expense;
- 8 e. Weather-normalized Distribution revenue and removal of revenue related to
- 9 Cost of Gas and the Local Distribution Adjustment Charge (LDAC);
- 10 f. Costs of complying with recent changes to the Puc 500 rules;
- 11 g. Amortization expense for Costs to Achieve;
- 12 h. Removal of non-recurring Test Year costs, including cost of services
- 13 provided by National Grid under the Amended and Restated Transition
- 14 Services Agreement;
- 15 i. Other adjustments-Variou adjustments for out-of-period items, known and
- 16 measurable changes and corrections.
- 17 j. Contract labor based on current requirements;
- 18 k. Computation of depreciation expense on year-end balances and amortization
- 19 of the Depreciation Reserve surplus;
- 20 l. Pro forming expenses reflecting relocation of the Company's headquarters
- 21 to Londonderry;
- 22 m. Providing for a full year of the cost of services provided by the parent

1 company and its affiliates;

2 n. Property taxes based on actual bills;

3 o. Removal of Cost of Gas expenses;

4 p. Amortization of Intangible Assets;

5 q. Historical Test Year income tax expense at statutory rates; and

6 r. Incremental income tax expense to reflect the known and measurable
7 adjustments.

8
9 The adjustments listed above are summarized on Schedule RR-3, which also shows
10 the specific accounts to which the adjustments are made. Schedules RR-3-1
11 through RR-3-18 provide more detail on each of the adjustments.
12

13 **Q. Please describe the information presented on Schedule RR-2.**

14 A. Schedule RR-2 presents the computation of EnergyNorth's Test Year net operating
15 income and return on rate base using historical information in the column "Test
16 Year Ended March 31, 2014." In the column "Flow Through and Reclass" certain
17 reclassifications among the income statement accounts are made. After this
18 reclassification, the results are shown in the column labeled "Distribution Operating
19 Income." The "Known and Measurable Adjustments" are then applied to arrive at
20 the column "Test Year At Current Rates." Finally, the "Proposed Increase" in
21 distribution revenues, and the resulting changes in bad debt expense and income tax
22 expense, are applied to yield the amounts in the column "Distribution Operating

1 Income with Proposed Increase.”

2

3 **Q. Please describe the information presented on Schedule RR-2-1.**

4 A. Schedule RR-2-1 presents the FERC account detail to support the calculations on
5 Schedule RR-2, including the columns “Test Year Ended March 31, 2014,” “Flow
6 Through and Reclass,” “Distribution Operating Income,” “Known and Measurable
7 Adjustments,” and “Test Year At Current Rates.”

8

9 In addition, the two columns on the right, “Labor” and “Labor Pro Forma,” show
10 the labor content of each account included in the columns “Test Year Ended March
11 31, 2014” and “Test Year At Current Rates” respectively.

12

13 **Q. Please describe the information presented on Schedule RR-3.**

14 A. Schedule RR-3 presents a summary of the pro forma adjustments included in the
15 distribution revenue requirement. Each adjustment is discussed below.

16

17 **Q. Please describe the adjustment for salary and wage expense.**

18 A. Schedule RR-3-01 presents the adjustment to salary and wage expense. This
19 schedule adjusts the Historic Test Year payroll amounts that were charged to
20 expense for known and measurable changes. The adjustment reflects the annual
21 cost of the full complement of employees as of March 31, 2015, required for
22 EnergyNorth to provide all necessary services to customers, including salary and

1 wage increases for present employees and the hiring of additional employees. The
2 EnergyNorth employees will replace transition services provided by National Grid
3 through the Amended and Restated Transition Services Agreement (“TSA”); the
4 TSA costs reflected in the Historical Test Year are removed on Schedule RR-3-08.
5 The adjustment was computed by determining the annual salary and wage cost of
6 each employee included in the March 31, 2015, labor complement, including
7 regular salary and wages, overtime, incentive and premiums. Because some
8 employees provide services for both EnergyNorth and its sister utility, Granite State
9 Electric, the portion of time dedicated to EnergyNorth was determined for each
10 employee. In addition, the portion of EnergyNorth time for each employee was
11 split between EnergyNorth operating expense and other, which includes
12 EnergyNorth capital projects and amounts billed to affiliates. The annual salary
13 and wage cost for each employee was multiplied by the EnergyNorth portion, and
14 the result was multiplied by the EnergyNorth operating expense portion, to
15 determine the annual salary and wage cost charged to EnergyNorth operating
16 expense. This result of this computation is that \$14,562,417 is charged to
17 EnergyNorth operating expense in the Test Year on a pro forma basis. This amount
18 was compared to the \$12,003,543 recorded in the Historical Test Year, and an
19 adjustment of \$2,558,874 was made (line 19).

20

21 **Q. Please describe the adjustment for payroll tax expense.**

22 A. Schedule RR-3-02 presents the adjustment to payroll tax expense. This adjustment

1 aligns payroll tax expense with total salary and wages expense (Schedule RR-3-01)
2 and was computed in the same way.
3

4 **Q. Please describe the adjustment for pension and benefits expense.**

5 A. Schedule RR-3-03 presents the adjustment to pension and benefits expense. This
6 adjustment aligns pension and benefits with total salary and wage expense
7 (Schedule RR-3-01) and was computed in the same way. Pension costs and Other
8 Post-Employment Benefits (“OPEB”) costs reflect the latest actuarial reports and
9 assumptions. Health care costs reflect the costs of the currently effective programs,
10 based on information provided by the Company’s outside insurance brokers.
11

12 In addition, pension and benefits expense includes amortization of certain deferred
13 debits. Total pension and benefits expense reflected in the revenue requirement
14 comprises:
15

16	Pension and benefits expense from actuarial reports (a)	\$651,000
17	Health care benefits expense (a)	2,529,000
18	Costs (gains) for inactive employees	(443,000)
19	Deferred pension costs arising from prior acquisition	\$755,000
20	Deferred OPEB costs arising from prior acquisition	492,000
21	Valuation allowance arising from Liberty acquisition	<u>2,003,000</u>
22	Total	<u>\$5,987,000</u>

1 (a) Amount charged to expense represents the portion allocated to EnergyNorth and
2 the portion of that charged to operating expense.

3
4 The treatment of the valuation allowance arising from the acquisition of
5 EnergyNorth by Liberty Energy NH is consistent with the treatment of similar
6 items in prior acquisitions and is consistent with the treatment of the related amount
7 for Granite State Electric, as approved by the Commission in Docket No. DE 13-
8 063. Absent the acquisition of EnergyNorth by Liberty Energy NH, the future
9 pension cost due to valuation as of July 2, 2012, would have been included in
10 pension expense in the actuarial reports; upon the acquisition, a valuation allowance
11 was established that must be amortized in order to reflect that cost in rates.
12 Although this annual amortization appears as an increase to test year expenses, that
13 is solely due to the fact that the amortization expense had not previously been
14 recorded in the financial statements.

15
16 **Q. Please describe the adjustment for property and liability insurance.**

17 A. Schedule RR-3-04 presents the adjustment to property and liability insurance
18 expense. Property and liability insurance expense reflects the cost of insurance that
19 provides protection from casualty and other losses and from other damages that the
20 Company may incur in the conduct of its business, less the portion of such costs
21 that is capitalized. The adjustment reflects known and measurable changes in
22 insurance premiums, allocation of these premiums among EnergyNorth and its

1 affiliates and capitalization of appropriate portions.

2

3 **Q. Please describe the adjustment for revenue.**

4 A. Schedule RR-3-05 adjusts Historic Test Year revenue to Pro Forma amounts, to
5 reflect the following:

- 6 • Adjust total revenue in the Historic test year to the amount computed
7 separately;
- 8 • Remove Cost of Gas revenue and LDAC revenue;
- 9 • Adjust for weather normalization;
- 10 • Adjust for Cast Iron/Bare Steel (CIBS) increase to distribution rates that
11 was effective as of July 1, 2014;
- 12 • Remove non-recurring items from Other revenue; remove interest income
13 and AFUDC-equity.

14

15 **Q. Please describe the adjustment for the Puc 500 rules expense.**

16 A. Schedule RR-3-06 reflects the adjustment to expenses for costs incurred as a result
17 of Chapter 500 rules changes. The testimony of Mr. Brouillard describes the rules
18 changes and the actions the Company is taking to comply with them. These rules
19 changes will require EnergyNorth to incur the following types of costs:

- 20 • Capital projects - These costs will be capitalized and added to rate base
21 when incurred;

- 1 • One-time costs spread over several years - These costs were amortized over
- 2 two years with the annual amortization included in the revenue requirement;
- 3 and
- 4 • Recurring annual costs - These costs are included in the revenue
- 5 requirement.

6

7 **Q. Please describe the adjustment for amortization of CTA costs.**

8 A. Schedule RR-03-07 presents the adjustment to annual amortization expense of

9 certain Costs to Achieve (“CTA”) associated with EnergyNorth’s prior acquisition

10 by National Grid through National Grid’s merger with KeySpan Corporation.

11 Pursuant to Commission Order No. 24,777 in Docket No. DG 06-107, regarding the

12 acquisition of EnergyNorth by National Grid, EnergyNorth is permitted to amortize

13 and to include in the revenue requirement its prudently incurred costs to achieve

14 certain savings. The initial approved amortization amount was \$409,203 per year,

15 resulting in monthly amortization of \$34,100. Order No. 25,370 in Docket No. DG

16 11-040, regarding the acquisition of EnergyNorth by Liberty Energy NH, did not

17 change the prior Order with regard to this amortization. The adjustment computed

18 on Schedule RR-03-07 reflects the settlement agreement in Docket No. DG 06-107

19 and corrects the test year level of amortization expense.

1 **Q. Please describe the adjustment to remove non-recurring TSA costs in the**
2 **Historic Test Year.**

3 A. Schedule RR-3-08 presents the adjustment to remove non-recurring TSA costs in
4 the Historic Test Year. These are the costs of the TSAs with National Grid. These
5 costs will no longer be required because the services will no longer be provided by
6 National Grid; rather, the services will be performed by EnergyNorth employees
7 and/or contractors, and those costs have been included in the revenue requirement.

8
9 **Q. Please describe the adjustment for Other items.**

10 A. Schedule RR-3-09 presents the adjustment for the following miscellaneous items:

- 11 • Maintenance of Overhead Lines - These costs were incorrectly charged to
12 EnergyNorth, and have been removed from the revenue requirement.
- 13 • Compressors - additional annual operating costs relating to the natural gas
14 compressors to be installed as discussed in Docket No. DG 14-091.
- 15 • Contributions and Dues - These amounts have been removed from the
16 revenue requirement.
- 17 • PUC Annual Assessment - Historic and PUC Gas Pipeline Safety
18 Assessment- Historic: The amounts recorded in the Historic Test Year are
19 adjusted to reflect the most recent information.
- 20 • Repairs Study - The estimated cost of an annual study for the tax repair
21 allowance has been included in the revenue requirement.

1 **Q. Please discuss the adjustment for contract labor.**

2 A. Schedule RR-3-10 presents the adjustment for contract labor. The first column,
3 “FYE 2014-03-31 Expense,” is the costs for contract labor recorded in the Historic
4 Test Year. The next column, “FYE 2015-03-31 Expense- Total” shows the total
5 contract labor costs for FYE 2015-03-31. These amounts are multiplied by
6 percentage shown in the column “Portion to EnergyNorth,” which is the portion of
7 the total cost for each department that is applicable to EnergyNorth. The
8 EnergyNorth amounts are compared to the amounts in the Historic Test Year, and
9 an adjustment is made for the difference.

10

11 **Q. Please discuss the adjustment for depreciation expense.**

12 A. Schedule RR-3-11 presents the adjustment for depreciation expense. Pro forma
13 depreciation expense for the Test Year is computed based on the asset cost balances
14 as of March 31, 2014, and the depreciation rates approved by the Commission in
15 Docket No. DG 08-009, a prior EnergyNorth base rate case. The Company did not
16 prepare a depreciation study because the prior study was fairly recent, and results
17 typically do not change substantially over a relatively short period.

18

19 In addition, depreciation expense is reduced by amortization of the accumulated
20 depreciation reserve surplus as determined in Docket No. DG 08-009, in the annual
21 amount of \$933,588. The resulting net depreciation expense for ratemaking
22 purposes is compared to the Historic Test Year amount, and an adjustment is made

1 for the difference.

2

3 **Q. Please discuss the adjustment for the Londonderry office relocation.**

4 A. Schedule RR-3-12 presents the adjustment to reflect the annual rent expense at the
5 Company's new headquarters in Londonderry, and to remove the rent expense at
6 the Company's old headquarters in Salem. The result is a decrease of
7 approximately \$12,000 per year.

8

9 **Q. Please discuss the adjustment for Algonquin/Liberty Support Services Costs.**

10 A. Schedule RR-3-13 presents the adjustment for Algonquin/Liberty Support Services
11 Costs. The testimony of Mr. McCarthy discusses the services that are provided by
12 EnergyNorth's parent company and the parent's affiliates.

13

14 The column labeled "Total" shows the amounts incurred (lines 1-8) and the
15 capitalized portions (lines 11-17) for each of the three service providers: Liberty
16 Utilities Co. ("LU"), Algonquin and Liberty Utilities (Canada) Corp. ("LUCC").¹
17 The net expense (incurred minus capitalized) in the Historic Test Year was
18 \$2,324,531 (line 19).

¹ Schedule RR-3-13 includes a column labeled "LABS." In 2013, the Liberty Algonquin Business Services ("LABS") group was created to increase the efficient delivery of certain administrative services including Communications, Financial Reporting and Accounting Standards, HR, IT, Internal Audit, Legal, Procurement and Risk Management. LABS is not a separate entity but, rather, a broadly focused group of business professionals and specialists at the Algonquin level committed to enhancing the operational excellence of APUC and its subsidiaries. The employees that bill through LABS are all employees of LUCC.

1 The column “Pro Forma” shows the amounts to be incurred (lines 1-8) based on
2 changes in the cost allocation methodology. The Pro Forma amounts are shown as
3 either the same as the Historic Test Year (lines 2, 5 and 6), equal to 96.68% of the
4 Historic Test Year amount and reflecting a change in the portion of LU costs
5 allocated to EnergyNorth from 21.7% to 20.98% (lines 1 and 3), or computed on
6 Schedule RR-3-13A (lines 4 and 7).

7
8 Schedule RR-3-13A presents the methodology used to allocate costs from
9 Algonquin and LABS to LU, and from LU to EnergyNorth. The adjustment to
10 costs incurred, an increase in the revenue requirement of \$332,925 (Schedule RR-3-
11 13, line 9), is reflected in Account 923.

12
13 The column “Pro Forma” on Schedule RR-3-13 shows the amounts to be
14 capitalized (line 16). The portion of the total allocated cost to be capitalized is
15 26.16%, the same as in the Historic Test Year. The adjustment to costs capitalized,
16 a decrease in the revenue requirement of \$87,091 (line 18) is reflected in Account
17 922.

18
19 **Q. Please discuss the adjustment for property taxes.**

20 A. Schedule RR-3-14 presents the adjustment for property taxes. The revenue
21 requirement includes property tax for calendar year 2014. If the full year bill has
22 been received, the column “Basis” indicates Full, and that amount is included in the

1 revenue requirement; if only the first half year bill has been received, the column
2 “Basis” indicates Part, and the revenue requirement includes twice the half-year
3 amount. The schedules also shows the assessed valuations and tax rates by
4 municipality for each parcel.

5

6 **Q. Please discuss the adjustment for Cost of Gas.**

7 A. Schedule RR-3-15 presents an adjustment to remove costs that are recovered in the
8 COG charge and the LDAC.

9

10 **Q. Please discuss the adjustment for Amortization of Intangibles**

11 A. Schedule RR-3-16 presents the annual amortization expense of intangible assets.
12 This amount is computed for the Test Year (Schedule RR-3-11, line 2) and
13 deducted from the total expense (Schedule RR-3-11, line 29), and included in
14 Schedule RR-3-16.

15

16 **Q. Please describe the adjustment for Income Tax Expense – Historic Test Year.**

17 A. Schedule RR-3-17 presents the computation of Income Tax Expense – Historic Test
18 Year. This adjustment computes Income Tax expense for the Historic Test Year
19 based on current statutory rates, including synchronized interest expense based on
20 the capital structure and cost of debt proposed by the Company in this proceeding.

21

1 **Q. Please describe the adjustment for Income Tax Expense – Pro Forma Test**
2 **Year at Current Rates.**

3 A. Schedule RR-3-18 presents the adjustment in income tax expense due to the
4 Company's proposed pro forma adjustments. This adjustment provides for the
5 income tax effect of the pro forma adjustments listed on the schedule.

6

7 **C. Weighted Average Cost of Capital**

8 **Q. What rate of return on rate base have you used for ratemaking purposes?**

9 A. As shown on Schedule RR-4, EnergyNorth's weighted average cost of capital is
10 7.63% percent, reflecting a debt/equity split of 45%/55%; debt cost of 4.43%; and
11 required return on equity of 10.25%. This information is presented in the testimony
12 of Mr. Hevert.

13

14 **IV. STEP INCREASE**

15 **Q. Is the Company proposing a Step Increase as part of this filing?**

16 A. Yes. The Company is requesting that the Commission approve a Step Increase to
17 reflect additions to rate base through March 31, 2015. The Step Increase is
18 structured to recover an annual revenue deficiency of \$2,649,554 based on capital
19 additions of \$16,660,624 for the period April 1, 2014, to March 31, 2015. The
20 resulting rates from the Step Increase would go into effect concurrent with the
21 permanent increase. The projects and associated estimated costs are shown in
22 Attachment SEM/HSG-3.

1 **Q. Please explain why the Company is seeking a step increase.**

2 A. As explained in Mr. Brouillard's testimony, the Company will be making
3 significant capital investments during the pendency of this case, and as Mr.
4 Lowson's testimony explains, the Company has also made certain IT capital
5 investments. As of December 31, 2014, the total IT capital costs incurred by
6 EnergyNorth are expected to be \$12,348,942, of which \$1,135,743 had been closed
7 to Plant in Service as of March 31, 2014, leaving \$11,213,199 to be recovered
8 through the step adjustment. As a result, the Company is seeking a Step Increase
9 for these capital investments because without this increase, the Company would not
10 have a reasonable opportunity to earn its allowed return immediately upon the
11 conclusion of the case.

12

13 **Q. Please explain the Step Increase revenue requirement calculation.**

14 A. Attachment SEM/HS3-3 contains the revenue requirement for the Step Increase.
15 Line 2 shows the capital additions of \$16,660,624, broken out by asset type (FERC
16 classification). Lines 7 and 9 show tax depreciation deduction and book
17 depreciation expense, respectively, in year 1. Line 12 is the difference between the
18 tax and book, and line 13 is the deferred tax amount after year 1. Lines 15-19
19 compute the rate base reflecting capital cost, accumulated depreciation and ADIT.
20 Lines 21-25 compute the revenue requirement including pre-tax return on rate base,
21 depreciation expense and property tax and insurance costs related to plant in
22 service. The total revenue requirement of \$2,649,554 is on line 25.

1 The Company proposes the Step Increase amount of \$2,649,554 be recovered in the
2 same manner and commencing simultaneous with the implementation of permanent
3 rates.

4
5 **V. RATE CASE EXPENSES**

6 **Q. How do you propose to recover the expenses associated with this rate case?**

7 A. Consistent with Order No. 25,370 and the Settlement Agreement in Docket No. DG
8 11-040, EnergyNorth is allowed to recover up to \$600,000 in rate case expenses.
9 The Company proposes to recover the total cost associated with this rate case over
10 one year, through the existing LDAC component that covers expenses related to
11 rate cases and in a manner consistent with the existing tariff provisions.

12
13 **Q. Does that component of the LDAC currently reflect an overcollection?**

14 A. Yes. Given the existence of that balance (which continues to be credited with
15 interest), the Company proposes to apply the existing over-collection to the total
16 rate case expenses approved for recovery in this proceeding.

17
18 **Q. Please describe the nature of the rate case expenses.**

19 A. The costs to be incurred for the rate case are incremental, external costs. The costs
20 are primarily for services such as outside consulting services and legal expense to
21 assist with the preparation and presentation of this rate case, including the
22 development of studies on various matters required to establish appropriate rates for

1 the Company's customers. The Company obtained competitive bids for these
2 services consistent with the Puc 1900 rules. Also included will be copying
3 expense, the cost of legal notices, and the cost of the court reporter. A list of these
4 outside services and their estimated costs are shown in Attachment SEM/HSG-4,
5 Schedule RC.

6
7 **Q. How are rate case expenses accounted for?**

8 A. The Company defers for future recovery all costs associated with the case as they
9 are incurred during the course of the proceeding.

10
11 **VI. EFFECTIVE DATE**

12 **Q. How and when is the Company proposing that these rates be implemented?**

13 A. Consistent with the Commission's rules on the implementation of rate changes, the
14 Company is proposing that rate changes be made effective for usage on and after
15 September 1, 2014. While this is the same proposed effective date as for temporary
16 rates, we acknowledge that the tariff pages supporting the proposed permanent rates
17 will most likely be suspended.

18
19 **VII. UPDATED SCHEDULES**

20 **Q. Does the Company intend to update its schedules during the course of this**
21 **proceeding?**

22 A. Yes. The schedules will be updated at the end of the discovery period to reflect any

1 new or updated information that becomes available, and to include any changes that
2 are identified the discovery process. In addition, consistent with the Commission's
3 approval in Docket No. DG 14-091 of a special contract with iNATGAS, the
4 Company plans to provide an appropriate credit for the revenue that will be
5 received pursuant to that contract, most likely as a component of the LDAC.
6 Finally, EnergyNorth has requested approval to acquire New Hampshire Gas
7 Corporation (Docket No. DG 14-155) and may update the request in this docket to
8 include proposed rates for those customers in Keene that would take effect after the
9 closing of the transaction.

10

11 **VIII. CONCLUSION**

12 **Q. Does this conclude your testimony today?**

13 **A.** Yes, it does.