



STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DG 17-048

Liberty Utilities (Energy NorthNatural Gas) Corp.

d/b/a Liberty Utilities

Request for Change in Rates

DIRECT TESTIMONY
OF
JAMES J. CUNNINGHAM JR.

Date: November 30, 2017

1 **Introduction and Summary**

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

3 A. My name is James J. Cunningham Jr. and I am employed by the New Hampshire
4 Public Utilities Commission (Commission) as a Utility Analyst. My business
5 address is 21 S. Fruit Street, Suite 10, Concord New Hampshire, 03301.

6 **Q. Please summarize your educational and professional background.**

7 A. Please see Appendix A.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to provide my recommendation on Employee Pension
10 and Benefits Expense.

11 **Q. Please summarize your recommendations.**

12 A. My recommendation for Employee Pensions and Benefits Expense (Account 926)
13 is as follows:

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15	Pension Plan Expense	\$ 328,799
16	Other Postemployment Benefits (OPEB)	\$ 326,028
17	401-k	\$ 786,115
18	Group Benefits	\$ 3,665,389
19	Other Group Life	\$ 9,895
20	Pension Amortization (DG 14-080 Settlement)	<u>\$ 2,055,680</u>
21	Subtotal including Capitalized Portion	\$ 7,171,906
22	Less Capitalized Portion:	
23	Capitalization Rate	27.15%
24	Capitalized Portion Account 922	<u>\$(1,947,172)</u>
25	Employee Pension and Benefits Expense	<u>\$ 5,224,734</u>
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1 The above amounts also appear in the testimony and schedules of Jayson P.
2 Laflamme and Donna H. Mullinax.¹

3 **Q. Please continue by explaining your recommended amounts for Pension and**
4 **OPEBs.**

5 A. Pension Expenses include a Defined Benefit Pension Plan, a Cash Balance
6 Pension Plan and miscellaneous other expenses including administrative
7 expenses. My recommendations for both plans reflect the latest actuarial
8 assumptions, as contained in the Actuarial Studies performed by CBIZ
9 Cottonwood Retirement Plan Services.²

10 With respect to Other Postemployment Benefits Expense (OPEB), my
11 recommendation reflects the latest actuarial assumptions, as contained in the
12 Actuarial Study performed by CBIZ Cottonwood Retirement Plan Services.³

13 **Q. With respect to 401-k expenses, please explain how your recommendation**
14 **was derived.**

15 A. The expenses related to 401-k are based on a matching amount provided by
16 Liberty Utilities.⁴ Based on a review of the relevant data, I adopted the
17 Company's proposed amount for 401-k expenses. Specifically, 4 percent was
18 applied to *pro forma* salaries to derive the 401-k matching amount.⁵

19 **Q. Please explain how your recommendation for Group Benefits Expenses was**
20 **derived for rate year 2017.**

21 A. My recommendation for Group Benefit Expenses is summarized as follows:

¹ Reference Schedule EN3.10.

² Reference Staff 8-39.1 and Staff 8-39.2 (Copy provided in Appendix B).

³ Reference Staff 8-39.3 (Copy provided in Appendix B).

⁴ Reference Direct Testimony of David B. Simek and Daniel S. Dane, April 28, 2017 (Bates).

⁵ Staff 8-42 (Copy provided in Appendix B).

1	Medical Costs	\$3,175,597
2	Dental	\$ 282,867
3	Life Insurance	\$ 191,925
4	Tuition Reimbursement	<u>\$ 15,000</u>
5	Total Group Benefits	<u>\$3,665,389</u>

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7 Medical costs: My recommendation is derived by using actual test year expense
8 coupled with Liberty Utilities' forecast assumptions, which appeared reasonable.⁶
9 The forecast assumes a 7 percent increase in insurance participation and an 8%
10 increase in insurance premiums.

11 Dental: Similar to medical costs, my recommendation is based on the actual test
12 year expense coupled with forecast assumptions as provided by Liberty Utilities.
13 The forecast assumes a 2.5 percent increase in insurance participation and an 8
14 percent insurance premium increase.

15 Life Insurance: My recommendation starts with 2016 test year expense for life
16 insurance and adds 3 percent, as provided by Liberty Utilities, to cover increased
17 participation in the life insurance program.

18 Tuition Reimbursement: Using 2016 as a base line, my recommendation provides
19 for a doubling in tuition reimbursement for rate year 2017.

20 **Q. Please explain how you developed your recommendation for Other Group**
21 **Life.**

22 A. My recommendation adopts Liberty Utilities' proposed amount of \$9,985.

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⁶ Reference Staff Tech 3-21 (Copy provided in Appendix B).

1 **Q. When Liberty Utilities acquired EnergyNorth, a market valuation of the**
2 **assets in EnergyNorth pension and OPEB plans was required to be**
3 **performed as of the closing date of the merger. Was this valuation**
4 **performed; and, what is the impact in this instant filing?**

5 A. Yes, the market valuation was performed; and, as a result, the pension and OPEB
6 plans were determined to have had an unrecognized loss (i.e., excess of obligation
7 over assets) of \$21,625,753, which was recorded to a regulatory asset, pursuant to
8 Order No. 25,370. The average remaining service life of the employees was
9 10.52 years.⁷ Therefore this asset is being amortized to expense at \$2,055,680 per
10 year. Consistent with the settlement agreement approved in DG 14-180, the
11 amortization of the balance will begin with the effective date of permanent rates
12 in the next (i.e., current DG 17-048) distribution rate case.⁸

13 **Q. Are your recommendations reflected in the testimony and schedules of Jayson P.**
14 **Laflamme and Donna H. Mullinax?**

15 A. Yes. Please refer to the testimony of Jayson P. Laflamme and Donna H. Mullinax,
16 Schedule EN 3.10.

17 **Q. Please summarize your recommendation for Employee Pension and Benefit**
18 **expenses.**

19 A. My recommendation for Employee Pension and Benefit expenses is \$5,224,734,
20 an increase of \$24,567 from the amount proposed amount of \$5,200,167.⁹

21 **Q. Do you have any other comments?**

⁷ Reference Schedules of David B. Simek and Daniel S. Dane, April 28, 2017, EN-3-4, line 49.

⁸ Reference Order No. 25,797, June 26, 2015.

⁹ Reference Schedules of Jayson P. Laflamme and Donna H. Mullinax, Schedule 3.10, line 17.

1 A. Yes. At the technical session on November 1, 2017, Liberty provided a copy of a
2 new Financial Accounting Standard Update (No. 2017-17, dated March 2017).
3 The Company summarized the new standard, noting that the effective date was
4 January 1, 2018; thus, it would not impact the proposed Pension and OPEB
5 expense in the instant filing.¹⁰ However, the Company proposes to include the
6 effect of this accounting change as a going-forward adjustment simultaneous with
7 the Company's proposed step adjustment for 2017 capital additions.

8 **Q. Does that complete your testimony?**

9 A. Yes it does, thank you.

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¹⁰ Reference: Staff Tech 3-15 (Copy provided in Appendix B).