STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

Docket No. DG 17-xxx

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Winter 2017/2018 Cost of Gas Filing
Summer 2018 Cost of Gas Filing

DIRECT TESTIMONY

OF

DAVID B. SIMEK

August 29, 2017

I. INTRODUCTION

Q. Please state your full name and business address.

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

Q. Please state by whom you are employed and your position.

A. I am Manager, Rates and Regulatory Affairs for Liberty Utilities Service Corp. ("Liberty"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("EnergyNorth" or the "Company"). I am responsible for providing rate-related services for the Company.

Q. Please describe your educational background and training.

A. I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I received a Master's of Science in Finance from Walsh College in 2000. I also received a Master's of Business Administration from Walsh College in 2001. In 2006, I earned a Graduate Certificate in Power Systems Management from Worcester Polytechnic Institute.

Q. What is your professional background?

A. In August 2013, I joined Liberty Utilities as a Utility Analyst. I was promoted to a Lead Utility Analyst in December 2014, and to my current position in August 2017. Prior to my employment at Liberty Energy Utilities (New Hampshire) Corp., I was employed by NSTAR Electric & Gas ("NSTAR") as a Senior Analyst in Energy Supply from 2008 to

2012. Prior to my position in Energy Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment Planning group from 2004 to 2008.

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

A. Yes. I have testified on numerous occasions before the Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the Company's proposed firm sales cost of gas rates for the 2017/18 Winter (Peak) Period and the Company's proposed 2017/18 Local Delivery Adjustment Clause, both effective November 1, 2017. My testimony also explains the Company's proposed firm sales cost of gas rates for the 2018 Summer (Off-Peak) Period.

II. WINTER 2017/18 COST OF GAS FACTOR

Q. What are the proposed firm Winter sales and firm transportation cost of gas rates?

A. The Company proposes a firm sales cost of gas rate of $0.6659 per therm for residential customers, $0.6647 per therm for commercial/industrial high winter use customers and $0.6774 per therm for commercial/industrial low winter use customers as shown on Proposed Nineteenth Revised Page 77 (Bates 048). The Company proposes a firm transportation cost of gas rate of $0.0040 per therm as shown on Proposed Third Revised Page 79 (Bates 050).

Q. Please explain tariff page Proposed Fifth Revised Page 76 (Bates 047) and Proposed Nineteenth Revised Page 77.

A. Proposed Fifth Revised Page 76 and Proposed Nineteenth Revised Page 77 contain the calculation of the 2017/18 Winter Period Cost of Gas Rate and summarize the Company's forecast of firm gas costs and firm gas sales. As shown on Page 77, the proposed 2017/18 Average Cost of Gas of $0.6659 per therm is derived by adding the Direct Cost of Gas Rate of $0.6412 per therm to the Indirect Cost of Gas Rate of $0.0247 per therm. The estimated total Anticipated Direct Cost of Gas, derived on Page 76 and repeated on Page 77, is $54,437,427. The estimated Indirect Cost of Gas, also derived on Page 76 and repeated on Page 77, is $2,095,304. The Direct Cost of Gas Rate of $0.6412 and the Indirect Cost of Gas Rate of $0.0247 are determined by dividing each of these total cost figures by the projected winter period firm sales volumes of 84,893,215 therms.

To calculate the total Anticipated Direct Cost of Gas, the Company adds a list of allowable adjustments from deferred gas cost accounts to the projected demand and commodity costs for the winter period supply portfolio. These allowable adjustments, shown on Page 76, total ($5,218,614). These adjustments are added to the Unadjusted Anticipated Cost of Gas of $59,656,041 to determine the Total Anticipated Direct Cost of Gas of $54,437,427.

Q. What are the components of the Unadjusted Anticipated Cost of Gas?

A. The Unadjusted Anticipated Cost of Gas shown on Proposed Fifth Revised Page 76 consists of the following components:

1.	Purchased Gas Demand Costs	$9,099,131
2.	Purchased Gas Commodity Costs	40,677,774
3.	Storage Demand and Capacity Costs	876,359
4.	Storage Commodity Costs	4,238,570
5.	Produced Gas Cost	4,764,207
	Total	$59,656,041

Q. What are the components of the allowable adjustments to the Cost of Gas?

A. The allowable adjustments to gas costs, listed on Proposed Fifth Revised Page 76, are as follows:

1.	Deferred Gas Cost Prior Period Under Collection	$1,714,057
2.	Interest	(90,332)
3.	Broker Revenues	(4,580,575)
4.	Transportation COG Revenue	(207,219)
5.	Capacity Release Margin	(2,099,545)
6.	Fixed Price Administrative Cost	45,000
	Total Adjustments	($5,218,614)

These allowable adjustments are standard adjustments made to the deferred gas cost balance through the operation of the Company’s cost of gas adjustment clause. I will discuss the factors contributing to the prior period under collection later in this testimony.

Q. How does the proposed average cost of gas rate in this filing compare to the average cost of gas rate approved by the Commission in Docket No. DG 16-814 for the 2016/17 Winter Period?

A. The average cost of gas rate proposed in this filing of $0.6659 per therm is $0.0503 per therm less than the initial rate of $0.7162[1] per therm approved by the Commission in Order No. 25,958 (October 26, 2016) in Docket No. DG 16-814. The $0.0503 per therm decrease in the rate reflects a $4.1 million decrease in the Total Unadjusted Cost of Gas.

Q. How does the proposed firm transportation winter cost of gas rate compare to the rate approved by the Commission for the 2016/17 winter period?

A. The proposed firm transportation winter cost of gas rate is $0.0040 per therm. The rate approved in Docket No. DG 16-814 was $0.0006 per therm. The increase in the rate relates to an estimated $178,411 in transportation customer costs plus the prior period under collection of $28,808.

Q. In the calculation of its firm transportation winter cost of gas rate, has the Company updated the estimated percentage used for pressure support purposes?

A. No, it has not. The Company used, for pressure support purposes, a rate of 9.9% based on the marginal cost study used for the rate design approved in the Settlement Agreement in Docket No. DG 10-017.

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1 For comparison purposes, by the end of the 2016/17 Winter Period, the residential cost of gas rate decreased to $0.4002 per therm through the operation of the monthly adjustment mechanism.

Q. What was the actual weighted average firm sales cost of gas rate for the 2016/17 winter period?

A. The weighted average cost of gas rate was $0.5905 per therm (Bates 092). This was calculated by applying the actual monthly cost of gas rates for November 2016 through April 2017 to the monthly therm usage of an average residential heating customer using 779 therms per year, or 638 therms for the six winter period months.

III. PRIOR WINTER PERIOD UNDER COLLECTION

Q. Please explain the prior period under collection of $1,037,013.

A. The prior period under collection is also detailed in the 2016/17 Winter Period Reconciliation that was filed with the Commission on July 29, 2017. The $1,037,013 under collection is the sum of the deferred gas cost, bad debt, and working capital balance as of April 30, 2017, including Peak Period costs recovered in May 2017 based on billings for April consumption. The under-collection was driven mainly by the timing of monthly cost of gas rate adjustments as compared to changes in the underlying costs and accounting adjustments made between the Summer and Winter periods.

IV. FIXED PRICE OPTION

Q. Has the Company established a winter period fixed price pursuant to its Fixed Price Option Program?

A. Yes. Pursuant to Order No. 24,515 in Docket No. DG 05-127 the Fixed Price Option Program ("FPO") rates are set at $0.0200 per therm higher than the initial proposed COG rate. Proposed Third Revised Page 78 (Bates 049) contains the FPO rate for the 2017/18 Winter period, which is $0.6859 per therm for residential customers. This compares to the FPO rate approved for the 2016/17 winter period of $0.7268 per therm for residential customers. This represents a $0.0409 per therm, or 5.6% decrease in the residential FPO rate. The total bill impact on the winter period bills for an average FPO heating customer using 638 therms is an increase of approximately $25.77 or 3.0% compared to last winter. The total bill impact reflects the implementation of the increases approved in Docket Nos. DG 17-063 and DG 17-048 effective July 1, 2017, relating to the cast iron/bare steel main replacement program and temporary distribution rates, respectively. The estimated winter period bill for an average residential heating customer opting for the FPO would be approximately $12.76 (or 1.5%) higher than the bill under the proposed cost of gas rates, assuming no monthly adjustments to the COG rate during the course of the winter. Schedule 23 (Bates 184) contains the historical results of the FPO program.

V. <u>LOCAL DELIVERY ADJUSTMENT CLAUSE ("LDAC")</u>

Q. What are the surcharges that will be billed under the LDAC?

A. As shown on Proposed Fourth Revised Page 82 (Bates 053), the Company is submitting for approval an LDAC of $0.0856 per therm for the residential non-heating class and residential heating class, and $0.0674 per therm for the commercial/industrial bundled sales classes, effective November 1, 2017. The surcharges proposed to be billed under the LDAC are the Energy Efficiency Charge, the Energy Efficiency Resource Standard Lost Revenue Adjustment Mechanism, the Environmental Surcharge for Manufactured Gas Plant ("MGP") remediation, the Residential Low Income Assistance Program charge, and the rate case expense reconciliation surcharge from Docket No. DG 14-180.

Q. Please explain the Energy Efficiency Charge.

A. The Energy Efficiency Charge is designed to recover the projected expenses associated with the Company's energy efficiency programs for Calendar Year 2017 that will be filed with the Commission in the near future. In the calculation of the Energy Efficiency Charge, the Company has also included the projected prior period under recovery of the Company's Residential and Commercial energy efficiency programs as of October 2017. As shown on Schedule 19 Energy Efficiency (Bates 120), the proposed Energy Efficiency charge is $0.0516 per therm for Residential customers and $0.0332 per therm for Commercial and Industrial customers.

Q. Please explain the Energy Efficiency Resource Standard Lost Revenue Adjustment Mechanism ("LRAM").

A. As shown on Schedule 19 LRAM (Bates 117), the proposed LRAM charge is $0.0019 per therm for Residential customers and $0.0021 per therm for Commercial and Industrial customers. It is designed to recover lost revenues associated with energy efficiency measures installed under the EERS programs. In accordance with Order No. 25,932 in Docket No. DE 15-137 the Company will continue to implement its Lost Revenue Adjustment Mechanism effective November 1, 2017.

Q. What is the proposed Residential Low Income Assistance Program ("RLIAP") charge?

A. As shown on Schedule 19 RLIAP (Bates 119), the proposed RLIAP charge is $0.0096 per therm. It is designed to recover administrative costs, revenue shortfall, and the prior period reconciliation adjustment relating to this program. For the 2017/18 Winter Period the Company is providing a 60% base rate discount, consistent with the settlement agreement approved by the Commission in Order No. 24,669 (Sept. 22, 2006) in Docket No. DG 06-120. The current RLIAP charge is designed to recover $1,747,858, of which $1,512,253 is for the revenue shortfall resulting from 4,463 customers receiving a 60% discount off their base rates, and $235,606 for the prior year reconciling adjustment.

Q. In Order No. 24,824 (Feb. 29, 2008) in Docket No. DG 06-122 relating to short-term debt issues, the Company agreed to adjust its short-term debt limits each year as part of the Company's Winter Period Cost of Gas filing. Did the Company calculate the short-term debt limit for fuel and non-fuel purposes in accordance with this settlement?

A. Yes, the Company included in Schedule 24 (Bates 185) the short-term debt limit for fuel and non-fuel purposes for the 2017/18 period. As shown, the short-term debt limit for fuel inventory financing for the period November 1, 2017, through October 31, 2018, is calculated to be $16,959,819, and the limit for non-fuel purposes is calculated to be $87,593,557.

Q. Has the Company updated the Environmental Surcharge (Tariff Page 80)?

A. Yes, it has. The costs submitted for recovery through the MGP remediation cost recovery mechanism, as well as the third party recoveries, are included in the Environmental Cost Summary in Schedule 20 (Bates 124) of this filing. The environmental investigation and remediation costs that underlie these expenses are the result of efforts by the Company to respond to its legal obligations with regard to these sites, as described by Ms. Casey in her pre-filed direct testimony in this proceeding and as set forth in the MGP site summaries included in this filing under Schedule 20. The Summary included in Schedule 20 shows the remediation cost pools for the Concord Pond, Concord MGP, Manchester, Nashua, and Laconia sites, and a General Pool for costs that cannot be directly assigned to a specific site.

A summary sheet and detailed backup spreadsheets that support the 2016/17 costs are provided in Schedule 20 of this filing. Consistent with past practice, the Company met with the Commission Staff and OCA in August of this year to provide an update on the status of environmental matters. Ms. Casey's testimony describes the Company's activities with regard to all five sites.

Q. Please describe how the Company calculated the Environmental Surcharge included in this filing.

A. The proposed Manufactured Gas Plant Remediation surcharge for the period beginning November 1, 2017, and ending October 31, 2018, is $0.0163 per therm. This surcharge will recover a total of $2,970,202 in amortized remediation costs. The costs submitted for recovery are shown in the Environmental Cost Summary included in Schedule 20 of this filing.

Q. Did the Company include a Rate Case Expense (RCE) reconciliation surcharge in this filing?

A. Yes. As shown on Schedule 19 RCE (Bates 115), the Company is proposing to collect $1,228,926 in uncollected rate case and recoupment expense. The RCE rate of $0.0062 per therm is determined by dividing the $1,228,926 by the estimated November 2017 through October 2018 sales volumes of 196,892,274 therms. Consistent with the Settlement Agreement in Docket No. DG 14-180 the RCE surcharge terminated December 31, 2016. The proposed RCE surcharge in this filing is to recover the reconciled under-collected rate case and recoupment expense from that docket.

Q. Has the Company also updated its Company Allowance percentage for the period November 2017 through October 2018 in accordance with Section 8 of the Company's Delivery Terms and Condition?

A. Yes, in Schedule 25 (Bates 186) the Company has recalculated its Company Allowance for the period November 2017 through October 2018. The Company calculated the Company Allowance of 2.07% based on sendout and throughput data for the twelve-month period ending June 2017. The Company proposes to apply this recalculated Company Allowance to all supplier deliveries beginning in November 2017.

VI. CUSTOMER BILL IMPACTS

Q. What is the estimated impact of the proposed firm sales cost of gas rate and proposed LDAC surcharges on an average heating customer's winter bill as compared to the winter rates in effect last year?

A. The bill impact analysis is presented in Schedule 8 (Bates 092) of this filing. These bill impacts reflect the implementation of the increases approved in Docket Nos. DG 17-048 and DG 17-063 both effective July 1, 2017, relating to temporary distribution rate increases and the cast iron/bare steel main replacement program. The total bill impact over the winter period for an average residential heating customer is an increase of approximately $99.97, or 13.05%. The total bill impact for an average commercial/industrial G-41 customer is an increase of approximately $290.90, or 14.13% (Bates 093). Schedule 8 of this filing provides more detail of the impact of the proposed rate adjustments on heating customers.

VII. OTHER TARIFF CHANGES

Q. Is the Company updating its Delivery Terms and Conditions in the filing?

A. Yes. The Company is submitting Proposed Third Revised Page 143 (Bates 054) relating to Supplier Balancing and Peaking Demand Charges and Proposed Third Revised Page 144 (Bates 055) relating to Capacity Allocation.

Q. Please describe the changes to tariff Page 143.

A. In Proposed Third Revised Page 143, the Company is updating the Peaking Demand Charge from $11.39 per MMBtu of Peak MDQ to $20.06 per MMBtu of Peak MDQ. This calculation is also presented in Schedule 21 (Bates 169).

Q. Please describe the changes to tariff Page 144.

A. Proposed Third Revised Page 144 updates the Capacity Allocator percentages used to allocate pipeline, storage, and local peaking capacity to high and low load factor customers under the mandatory capacity assignment requirement for firm transportation service. Schedule 22 (Bates 178) contains the six-page worksheet that backs up the calculations for the updated allocators.

VIII. SUMMER 2018 COST OF GAS FACTOR

Q. What are the proposed 2018 summer firm sales cost of gas rates?

A. The Company proposes a firm sales cost of gas rate of $0.3144 per therm for residential customers, $0.3095 per therm for commercial/industrial high winter use customers and $0.3310 per therm for commercial/industrial low winter use customers as shown on Proposed Twentieth Revised Page 77 (Bates 194).

Q. Please explain tariff pages Proposed Sixth Revised Page 76 and Proposed Twentieth Revised Page 77.

A. Proposed Sixth Revised Page 76 and Proposed Twentieth Revised Page 77 contain the calculation of the 2018 Summer Period Cost of Gas Rate and summarize the Company's forecast of firm gas sales, firm gas sendout, and gas costs. On Proposed Twentieth Revised Page 77, the 2018 Average Cost of Gas of $0.3144 per therm is derived by adding the Direct Cost of Gas Rate of $0.3052 per therm to the Indirect Cost of Gas Rate of $0.0092 per therm. The estimated total Anticipated Direct Cost of gas is $5,919,015 and the estimated Indirect Cost of Gas is $177,713. The Direct Cost of Gas Rate and the Indirect Cost of Gas Rates are determined by dividing each of these total cost figures by the projected Summer firm sales volumes of 19,395,370 therms. Proposed Twentieth Revised Page 77 further shows that the Residential Cost of Gas Rate of $0.3144 per therm is equal to the Average Cost of Gas for all firm sales customers. It also shows the calculation of the Commercial/Industrial High Winter Use Cost of Gas Rate of $0.3095 per therm and the Commercial/Industrial Low Winter Use Cost of Gas Rate of $0.3310 per therm.

The calculation of the Anticipated Direct Cost of Gas is shown on Proposed Sixth Revised Page 76. To derive the total Anticipated Direct Cost of Gas of $5,919,015, the Company starts with the Unadjusted Anticipated Cost of Gas of $6,719,108 and adds the Net Adjustment totaling ($800,093) (an over-collection).

Q. What are the components of the Unadjusted Anticipated Cost of Gas?

A. The Unadjusted Anticipated Cost of Gas consists of the following:

1. Purchased Gas Demand Costs	$3,898,265
2. Purchased Gas Supply Costs	2,728,951
3. Produced Gas Costs	91,892
Total Unadjusted Anticipated Cost of Gas	**$6,719,108**

Q. What are the components of the adjustments to the cost of gas?

A. The adjustments to gas costs, listed on Proposed 193 Revised Page 76, are as follows:

1. Prior Period (Over)/Under Collection	($767,503)
2. Interest	(32,590)
Total Adjustments	**($800,093)**

Q. How does the proposed average Residential Summer cost of gas rate in this filing compare to the initial cost of gas rate approved by the Commission for the 2017 Summer Period?

A. The cost of gas rate proposed in this filing is $0.1224 per therm lower than the initial rate approved by the Commission for the 2017 Summer Period ($0.4368 vs. $0.3144)

(Schedule 8 Bates 219). This decrease is primarily due to a $2.9 million anticipated decrease to the Supply Costs.

Q. Does this conclude your testimony?

A. Yes, it does.