



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

Docket No. DG 18-064

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Fiscal Year 2018 Cast Iron/Bare Steel Replacement Program Results

REVISED DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

CATHERINE A. MCNAMARA

May 31, 2018

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1 **I. INTRODUCTION**

2 **Q. Please state your full name and business address.**

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

5 (CM) My name is Catherine A. McNamara. My business address is 15 Buttrick Road,
6 Londonderry, New Hampshire.

7 **Q. Please state by whom you are employed?**

8 A. We are employed by Liberty Utilities Service Corp. (“Liberty”) which provides service to
9 Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities (“EnergyNorth”
10 or the “Company”).

11 **Q. Please describe your educational background and your business and professional
12 experience.**

13 A. (DS) I graduated from Ferris State University in 1993 with a Bachelor of Science in
14 Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also
15 received a Master’s of Business Administration from Walsh College in 2001. In 2006, I
16 earned a Graduate Certificate in Power Systems Management from Worcester
17 Polytechnic Institute. In August of 2013, I joined Liberty as a Utility Analyst and I was
18 promoted to Manager, Rates and Regulatory Affairs in August 2017. Prior to my
19 employment at Liberty, I was employed by NSTAR Electric & Gas (“NSTAR”) as a
20 Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy

1 Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment
2 Planning group from 2004 to 2008.

3 (CM) I graduated from the University of Massachusetts, Boston, in 1993 with a Bachelor
4 of Science in Management with a concentration in Accounting. In November 2017, I
5 joined Liberty as an Analyst in Rates and Regulatory Affairs. Prior to my employment at
6 Liberty, I was employed by Eversource as a Senior Analyst in the Investment Planning
7 group from 2015 to 2017. From 2008 to 2015, I was a Supervisor in the Plant
8 Accounting department. Prior to my position in Plant Accounting, I was a Financial
9 Analyst/General Ledger System Administrator within the Accounting group from 2000 to
10 2008.

11 **Q. Have you previously testified in regulatory proceedings before the New Hampshire**
12 **Public Utilities Commission (the “Commission”)?**

13 A. (DS) Yes, I have testified on numerous occasions before the Commission.

14 (CM) Yes, I previously testified in the EnergyNorth – Keene Summer 2018 Cost of Gas,
15 Docket No. DG 18-052.

16 **II. PURPOSE OF TESTIMONY**

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

18 A. The purpose of our testimony is to explain the Company’s revenue requirement
19 calculation associated with the CIBS main replacement program for the fiscal year
20 starting April 1, 2017, and ending March 31, 2018 (“FY 2018”).

1 **III. REVENUE REQUIREMENT CALCULATION**

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

4 A. The revenue requirement calculation includes the CIBS program spending through FY
5 2018. The Company proposes to recover this revenue requirement beginning July 1,
6 2018, through an increase in its base distribution rates.

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

8 A. The revenue requirement for FY 2018 is calculated in Revised Attachment DBS/CAM-1
9 and is based on actual spending related to projects set forth in the final FY 2018 CIBS
10 plan submitted to Staff in 2017. Revised Attachment DBS/CAM-1 also includes, for
11 illustrative purposes, a projection of the estimated revenue requirement including CIBS-
12 eligible expenses that the Company expects to incur in FY 2019. Pursuant to a Staff
13 request in a prior year's technical session, the Company has also included Revised
14 Attachment DBS/CAM-2, for information purposes only, which provides a calculation of
15 the total revenue requirement associated with the CIBS program from its inception in FY
16 2009. This calculation includes CIBS investment amounts through June 30, 2009, that
17 became part of the permanent rate base established in the Company's distribution rate
18 case of Docket No. DG 10-017.

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

20 A. As shown in Revised Attachment DBS/CAM-1, eligible CIBS investments are split into
21 two categories: mains and services. Recoverable book depreciation expense is calculated
22 based on these investment amounts using the depreciation rates established in the

1 Company's last depreciation study (which was filed in Docket No. DG 08-009). The
2 depreciation expense amount is used to calculate the deferred tax reserve associated with
3 the effects of the timing difference between book and tax depreciation. The deferred tax
4 reserve, along with accumulated book depreciation, reduces the rate base on which the
5 Company is eligible to earn a return. The adjusted rate base is multiplied by the pre-tax
6 rate of return of 8.51 percent (the Company's current ROR of 6.80% adjusted for current
7 federal and state income tax rates of 21% and 7.9%, respectively) to arrive at the return
8 on rate base and taxes. Added to the return and taxes are the actual calculated
9 depreciation expense and property taxes. The property tax rate is calculated annually and
10 is based on prior calendar year municipal property tax expense as a percentage of the
11 average of the prior two calendar year's net plant in service.

12 **Q. What is the CIBS revenue requirement for fiscal year 2018?**

13 A. As shown on Revised Attachment DBS/CAM-1, page 1, the cumulative CIBS revenue
14 requirement for FY 2018 is \$3,521,171 (line 35(j)), which corresponds to a \$762,488
15 revenue deficiency, as provided on line 39(j).

16 **Q. Please explain how you calculated the FY 2018 revenue requirement.**

17 A. Page 1 of Revised Attachment DBS/CAM-1 provides detail as to how the Company
18 derived the FY 2018 revenue requirement. Lines 1(j) and 2(j) represent the FY 2018
19 CIBS program investment related to mains and services, respectively. These current year
20 amounts are added together and reduced by the CIBS Base Amount of \$527,275. For FY
21 2018, the net incremental amount of CIBS additions is \$9,720,506, as shown on line 6(j).
22 This amount is then added to the cumulative incremental CIBS program additions from

1 July 1, 2009, to March 31, 2017, of \$26,502,263, as shown on line 7(i), to derive the
2 cumulative incremental CIBS program additions through March 31, 2018, of \$36,222,769
3 as reported on line 7(j).

4 On lines 10(j) through 20(j) of page 1, the Company shows the calculations for book and
5 tax depreciation, and the resulting deferred tax reserve. Because the CIBS program
6 spending is expected to be 100 percent tax deductible, as discussed later in my testimony,
7 the cumulative tax depreciation on line 11(j) is equal to the cumulative incremental CIBS
8 program spending of \$36,222,769 from line 7(j). When compared to the accumulated
9 depreciation of \$3,310,822 on line 14(j), the resulting timing difference between book
10 and tax depreciation is \$32,911,947, as shown on line 17(j). This amount is then
11 multiplied by the Company's current effective tax rate and the deferred tax reserve of
12 \$11,934,746 is shown on line 20(j). On lines 23(j) through 27(j), the Company calculates
13 rate base by reducing the amount of cumulative incremental CIBS spending of
14 \$36,222,769 by \$3,310,822 for accumulated depreciation and \$11,934,746 for deferred
15 tax reserves, resulting in a year end rate base of \$20,977,200 (line 27(j)). The Company
16 then multiplied the rate base amount times the pre-tax ROR of 8.51 percent, which
17 resulted in the return and taxes amount of \$1,785,160 on line 32(j). On lines 33(j) and
18 34(j), the Company added book depreciation of \$814,476 and property taxes of \$921,535.
19 The resulting FY 2018 cumulative revenue requirement is \$3,521,171, as shown on line
20 35(j). From this amount, the Company deducted the prior year revenue requirement of
21 \$2,758,683, as shown on line 37(j), to arrive at a revenue deficiency of \$762,488 on line
22 39(j).

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

3 A. The Company will design rates that will result in an increase in annual revenues of
4 \$762,488. Specifically, the cumulative revenue requirement for fiscal year 2017 amounts
5 to \$3,521,171, or \$762,488 more than the \$2,758,683 which is currently being billed, and
6 as shown on Revised Attachment DBS/CAM-1, page 1, line 35(i). Consistent with past
7 adjustments, the Company will increase all rate components on an equal percentage basis.

8 **Q. How was the statutory tax rate of 27.24% on Revised Attachment DBS/CAM-1,**
9 **page 1, line 18, column j, calculated?**

10 A. The statutory rate of 27.24% was calculated by using a 21% federal tax rate and an 7.9%
11 tax rate for the State of New Hampshire $(.21 + .079 - (.21 \times .079) = .2724)$.

12 **Q. How was the common equity pre-tax rate of 6.290% on Revised Attachment**
13 **DBS/CAM-1, line 56(c) calculated?**

14 A. The common equity pre-tax rate of 6.290% was calculated by dividing the 9.30% rate of
15 return on common equity, approved in Docket No. DG 17-048, by .7276 $(1 - .2724$
16 $[$ statutory tax rate – see previous question $])$ and multiplied by 49.20% (ratio of debt to
17 equity in DG 17-048) $[.0930 / .7276 \times .4920 = .0629]$.

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

20 A. In 2009, the Internal Revenue Service issued guidance under Internal Revenue Code
21 (“IRC”) Section 162 regarding the eligibility of certain repair and maintenance expenses

1 for an immediate deduction for income tax purposes, but capitalized by the Company for
2 book purposes. This tax deduction has the effect of increasing deferred taxes and
3 lowering the current revenue requirement that customers will pay under the CIBS
4 program. Based on IRC §263(a) and §162, repairs resulting in the replacement of less
5 than 20 percent of an original unit of property qualify for a repairs tax deduction. A gas
6 company's gas subsystem is considered a "unit of property" for the purposes of the
7 repairs tax deduction. Replacement pipe cannot be more than 2 additional inches in
8 diameter from the original pipe, and to the extent that a length of replacement pipe is
9 longer than the pipe being retired, the increase in length must be no more than 5 percent
10 of the subsystem for it to be eligible for the repairs tax deduction.

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

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

18 A. Book depreciation expense is calculated on page 2 of Revised Attachment DBS/CAM-1.
19 The actual spending for mains and services is referenced on page 1, lines 1 and 2,
20 respectively. These amounts are reduced on a pro rata basis by the CIBS Base Amount.
21 The net amounts for mains and services are shown on page 2, lines 3 and 27 and are used
22 to calculate book depreciation expense for each vintage year. Lines 5 through 17 and 29

1 through 41 show the calculation of book depreciation expense using the depreciation
2 rates set in the Company's last approved depreciation study. FY 2018 book depreciation
3 expense of \$585,632 and \$228,843 for mains and services is shown on lines 17(j) and
4 41(j), respectively. These amounts, when combined, equal \$814,476 as shown on line
5 48(j), which is carried forward to page 1, line 13(j). Cumulative book depreciation
6 expense of \$2,375,577 and \$935,245 for mains and services are shown on lines 20(j) and
7 44(j), respectively. Line 50(j) is the sum of these two lines, amounting to \$3,310,822,
8 which is then used on page 1, line 14(j).

9 Property taxes are calculated on page 3 of Revised Attachment DBS/CAM-1. Net plant
10 is calculated using plant in service as reported on the Company's Annual Report (Form
11 F-16G) less the reserve for accumulated depreciation and amortization. An average of
12 the most recent two years of net plant is then calculated on lines 6 through 8. Line 10(m)
13 shows the property tax expense for the prior calendar year. The property tax expense rate
14 of 2.80% shown on line 12(m) is calculated by dividing line 10(m) by the average net
15 plant shown on line 8(m). This property tax rate is then carried forward to page 1, line 34
16 and is multiplied by net plant in service found on page 1, line 25(j), resulting in the
17 property tax amount of \$921,535 on page 1, line 34(j).

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

19 A. Page 4 of Revised Attachment DBS/CAM-1 shows the average bill impacts of the CIBS
20 program. The annual CIBS-related increase for FY 2018 for an average Residential
21 Heating customer using a total of 779 therms per year is \$3.26, as shown on line 22(j).

1 **Q. Does this conclude your testimony?**

2 **A.** Yes it does.

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