Liberty Utilities

EXHIBIT
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DE 19-064

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 19-064

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

DIRECT TESTIMONY

OF

PHILIP E. GREENE

AND

DAVID B. SIMEK

April 30, 2019
Regarding Temporary Rates

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ATTACHMENTS

Attachment	Title
PEG/DBS-TEMP-1	Calculation of Temporary Increase to Distribution Revenues
PEG/DBS-TEMP-2	Monthly Typical Bill Impact Analysis
PEG/DBS-TEMP-3	Annual Bill Impact Analysis
PEG/DBS-TEMP-4	Delivery Service Rate Design
PEG/DBS-TEMP-5	Light Fixture Rate Design
PEG/DBS-TEMP-6	Summary of Current and Proposed Rates
PEG/DBS-TEMP-7	Redlined Revised Tariff Pages

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I. INTRODUCTION

Q. Please state your names and business addresses.

A. (PEG) My name is Philip E. Greene. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

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

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

A. (PEG) I am a Senior Financial Regulatory Analyst for Liberty Utilities Service Corp. ("Liberty"), which provides services to Liberty Utilities (Granite State Electric) Corp. ("Granite State" or "the Company").

(DBS) I am employed by Liberty as Manager of Rates and Regulatory Affairs.

Q. On whose behalf are you submitting this testimony?

A. We are testifying in this proceeding before the New Hampshire Public Utilities Commission (the "Commission") on behalf of Granite State.

Q. Are you the same Philip E. Greene and David B. Simek who submitted other direct testimony in this case?

A. Yes. Our educational backgrounds and qualifications are set forth in the prefiled direct testimony we submitted in support of Granite State's permanent rate filing.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to provide the level of temporary rates sought by the Company, the reasons for the request, and the impact of the temporary rates on customers' bills.

Q. Are you sponsoring any attachments and schedules?

A. We are sponsoring the following attachments and schedules:

- Attachment PEG/DBS-TEMP-1, which includes the following schedule:
  - Schedule T - Temporary Rates Revenue Requirement and Revenue Deficiency (all schedule references in this temporary rates testimony are to Schedule T);
- Attachment PEG/DBS-TEMP-2, which provides the monthly bill impact resulting from temporary rates for a residential customer using 650 kWh per month; and
- Attachment PEG/DBS-TEMP-3, which provides the annual bill impact analysis for temporary rates; and
- Attachment PEG/DBS-TEMP-4, which details the temporary delivery service rate design by rate class; and
- Attachment PEG/DBS-TEMP-5, which details the temporary light fixture rate design; and
- Attachment PEG/DBS-TEMP-6, which provides a summary of current base distribution rates and the proposed temporary rates; and

- Attachment PEG/DBS-TEMP-7, which provides redlined revised tariff pages reflecting the proposed temporary rates.

Q. Are the Company's current rates sufficient to allow it to earn a reasonable return on rate base?

A. No, they are not. For the test year ended December 31, 2018, the Company's earned return on rate base for the distribution portion of its business was 6.43%, as shown on Schedule T, line 25. This is less than the return on rate base of 7.69%, computed using the Company's last authorized return on equity of 9.4%, established by the Commission in Docket No. DE 16-383, and its current cost of debt and capital structure (Schedule T, lines 114-117).

Q. What is the primary reason that the Company's earnings have been below the allowed rate of return?

A. The primary reason relates to capital investments the Company has made since its last rate case as discussed in the testimony of Joel Rivera, Anthony Strabone, and Heather Tebbetts.

Q. What level of temporary rate increase is the Company requesting?

A. The Company is requesting temporary rates that would generate additional annual gross distribution revenue of $2,093,349 (Schedule T, line 2), which represents a 5.18% increase in distribution revenue and a 2.06% increase in total revenue. The Company is requesting that temporary rates take effect as of July 1, 2019, on a service-rendered basis, and that they be applied by increasing all rates under the existing rate design by a uniform percentage.

Q. Is the Company proposing any rate design changes associated with temporary rates?

A. No. The Company recognizes that a temporary rate request generally does not provide a sufficient opportunity for the Commission and other parties to review proposed revenue allocation or rate design changes, and therefore the Company is not proposing any such changes in connection with the temporary rates.

Q. Why is the Company requesting a temporary rate increase?

A. The Company is seeking a temporary rate increase because its return on rate base in the historical test year ended December 31, 2018, as adjusted on Schedule T, was 6.43%, which is significantly less than the return on rate base of 7.69% (computed as described above). Without a temporary rate increase, the Company will not have the opportunity to earn a reasonable return until a permanent rate order becomes effective.

Q. How does the request for temporary rates relate to the Company's request for a permanent rate increase?

A. The Company has requested a permanent increase of $5,683,102; the temporary increase is 36.83% of that amount. Temporary rates are proposed to be in effect until the establishment of permanent rate pursuant to the Commission's final order in this case. The temporary rate increase will reduce regulatory lag, while providing the Commission and parties to the proceeding sufficient opportunity to fully evaluate the Company's permanent rate request. Temporary rates at 36.83% of the requested permanent rate increase also provide a more gradual, smoother transition to the permanent rates ultimately approved by the Commission in this case.

Q. How did you calculate the requested temporary rate increase of $2,093,349?

A. We calculated the requested temporary rate increase by multiplying the 7.69% return on rate base (described above) by rate base as of December 31, 2018, and then subtracting from that product the Company's actual return for the test year, with certain adjustments described below.

Q. What adjustments did you make?

A. We made the following adjustments to normalize the test year actual return, as shown on Schedule T:

1) Removed non-distribution revenue and costs (Adjustments A, B, C, and D, lines 28 thru 47 of Schedule T) – Revenue and costs related to purchased power, transmission, and reconciling items were removed. Also distribution revenues were adjusted to reflect the rates in effect at December 31, 2018 (Adjustment E3, line 52).
2) Removed other non-recurring items (Adjustments E1, E2, and E4, lines 50, 51, and 53) – Non-recurring and out of period items.
3) Applied a reduction to the test year federal income tax expense to reflect annual amortization of the excess ADIT amount resulting from tax reform (Adjustment

E5, line 54) using an amortization period of 20.87 years, which is the average remaining life of the underlying assets.

4) Computed the Rate Base (Adjustment F, lines 57 thru 67) – Computed based on year end balances for plant and accumulated depreciation; 5-quarter averages for materials and supplies and customer deposits; accumulated deferred income taxes including those associated with plant in service at the time of Granite State's acquisition from National Grid in mid-2012, consistent with the amounts found in the Settlement Agreement in Docket No. 16-383; and cash working capital using the 26.82 day lag time calculated in the DE 16-383 distribution rate case.

5) Normalized the income tax expense (Adjustment G, lines 85 thru 102) to compute income tax expense for the year 2018, as adjusted, based on current statutory tax rates and synchronized interest based on the return on rate base developed in adjustments H and I as described below.

6) Computed the Temporary Rates Revenue Deficiency (Adjustments H and I, lines 105 thru 112) as the computation of the appropriate return on rate base for the temporary rates requested, and of the temporary rate increase needed to produce that return. The rate of return is based on the Company's actual cost of debt, the capital structure, and return on equity as approved by the Commission in the prior rate case, computed as 7.69%. The requested temporary rate increase is computed to produce the after-tax return on rate base.

Q. Are those proposed adjustments consistent with the statute governing temporary rates?

A. Yes. Per RSA 378:27, temporary rates should be based on "…the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports." As the adjustments described above are corrections to the test year to recognize previously approved items that were omitted from the Company's books in the test year, they are appropriate for inclusion in the calculation of temporary rates.

Q. What percentage increase in customers' bills does the Company's temporary rate request represent?

A. The monthly bill impact for a residential customer using 650 kWh per month is an increase of $2.48, or 2.01% as a percentage of the total bill. As shown on Attachment PEG/DBS-TEMP-2, the bill impact was calculated as compared to the rates in effect as of the date of this filing. As additional adjustments to various rate components are expected between the date of this filing and the requested effective date for temporary rates, the actual bill impacts will be different than those reflected above. Additional information regarding customer bill impacts for the various rate classes is presented in Attachment PEG/DBS-TEMP-3.

Q. Have you prepared a schedule that shows how you determined the base revenue target and the proposed rates for each class?

A. Yes. Attachment PEG/DBS-TEMP-4 shows how the class base revenue targets were determined, and the process that was used to determine the final proposed base rates.

Q. Please identify where the final proposed temporary rates are shown.

A. The proposed temporary charges are provided on Attachment PEG/DBS-TEMP-4, line 37. The proposed demand charges are shown on Attachment PEG/DBS-TEMP-4, lines 53–56. The proposed Rate M charges per luminaire and pole are provided in Attachment PEG/DBS-TEMP-5. A summary of all current and proposed rates are provided in Attachment PEG/DBS-TEMP-6.

Q. Do the proposed temporary rates provide not more than a reasonable return on the cost of the property used and useful for the public service less accrued depreciation, as shown by the reports of the Company filed with the Commission?

A. Yes. With the proposed temporary rates, the Company will earn no more than a reasonable return on its investment calculated based on the books and records on file with the Commission. As demonstrated in Attachment PEG/DBS-TEMP-1, Schedule T, the Company's requested level of temporary rates yields a rate of return equal to 7.69%, which is based on the return on equity and capital structure approved in the Company's last rate case.

Q. Are customers protected from being overcharged by temporary rates if the final rate case decision is less than the level of temporary rates?

A. Yes, customers are protected because of the reconciling nature of temporary rates once permanent rates are established by the Commission.

Q. Does this conclude your testimony regarding temporary rates?

A. Yes.