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STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 20-105

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

DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

KENNETH A. SOSNICK

July 31, 2020

Regarding Temporary Rates

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ATTACHMENTS

Attachment	Title
DBS/KAS-TEMP-1	Schedule T – Temporary Rate Increase
DBS/KAS-TEMP-2	Bill Impacts – Temporary Rates
DBS/KAS-TEMP-3	Redlined Tariff Pages – Temporary Rates

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I. INTRODUCTION

Q. Please state your full name, position, and business address.

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

(KS) My name is Kenneth A. Sosnick. My business address is 200 State Street, 9th Floor, Boston, Massachusetts.

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

A. (DS) I am employed by Liberty Utilities Service Corp. ("Liberty"), which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth" or "the Company"). My title is Manager, Rates and Regulatory Affairs.

(KS) I am employed by FTI Consulting ("FTI"), which is a worldwide consulting firm dedicated to helping organizations manage change, mitigate risk, and resolve disputes. Our Power & Utilities practice brings these services to firms in regulated and competitive energy industries. The services we provide our utility clients include expert testimony, regulatory advice, support for strategic decision-making, and advice regarding investments and capital allocation. Our team is comprised of former utility executives, regulators, investors, and financial analysts that combine for hundreds of years of experience in the regulated energy space. My title is Managing Director.

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 EnergyNorth.

Q. Are you the same David B. Simek and Kenneth A. Sosnick who submitted other direct testimony in this case?

A. Yes. We also submitted testimony in support of EnergyNorth's permanent rate filing. That testimony sets forth our educational backgrounds and professional qualifications.

Q. What is the purpose of your testimony?

A. The purpose of this joint testimony is to support the Company's request for the Commission to set new distribution rates effective October 1, 2020, as temporary rates pursuant to RSA 378:27, assuming the Commission suspends the Company's proposed tariff pages for a permanent rate increase. Specifically, our testimony explains why the Company is requesting authority to set temporary rates; provides the level of temporary rates sought by the Company; explains the adjustments incorporated into the Company's revenue requirement calculation; and provides the impact of the temporary rates on customers' bills.

Q. Are you sponsoring any attachments and schedules?

A. Yes. We are sponsoring the following attachments and schedules:

- Attachment DBS/KAS-TEMP-1, which includes the following schedule:
  - Schedule T – Temporary Rates Revenue Requirement and Revenue Deficiency (all schedule references in this testimony are to Schedule T);
- Attachment DBS/KAS-TEMP-2, which provides the bill impact analysis for temporary rates; and

- Attachment DBS/KAS-TEMP-3, which provides redlined revised tariff pages reflecting the proposed temporary rates.

II. NEED FOR TEMPORARY RATE RELIEF

Q. Can you please summarize the reasons the Company is requesting temporary rate relief at this time?

A. EnergyNorth is requesting authority to implement temporary rates effective October 1, 2020, primarily due to the revenue deficiency created by the difference between the capital investments made since the Company's last rate case in 2017 and the current level of base-rate revenue allowed in distribution rates. The Company's last rate case was in Docket No. DG 17-048 based on a 2016 test year, and included a step adjustment for plant additions in 2017. As explained in more detail in the testimony of Company witnesses Brian Frost, Robert Mostone, and Heather Tebbetts, the Company made additional capital investments of approximately $90 million in 2018 and 2019 that are not being recovered in rates, with approximately $84 million of that spending for projects that were in service as of the end of the test year, and were outside of its Cast Iron/Bare Steel ("CIBS") replacement program. The Company's request for temporary rate relief is necessary to address the revenue deficiency due to these unrecovered capital investments.

Q. Please discuss the capital investments that are driving the Company's request for temporary rate relief.

A. As noted above, the principal driver of the Company's request for temporary rate relief is to allow for the recovery of the cost of significant distribution system investments implemented since the Company's last step adjustment, which are not offset by higher revenue. The current level of base-rate revenue is insufficient to support utility operations without impairing the integrity of the Company's financial operations, as demonstrated by the financial results of the Company in the test year (twelve months ended December 31, 2019). If the deficiency is not addressed, the Company will experience additional financial degradation during the course of the Commission's review of the permanent rate request. The Company's capital investments are comprised of investments for growth and non-growth capital in its distribution system. Because the Company's customer base grows two to three percent each year, the Company installs new gas service lines off its existing gas mains or builds gas main extensions that include new service lines to accommodate this growth. Non-growth-related investment is required to maintain system safety and address asset condition issues such as the replacement of leak prone pipe.

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 12-month period ended December 31, 2019 ("Test Year"), the Company's earned return on rate base for the distribution portion of its business was 4.79% as shown on line 22 of Schedule T. This is less than the return on rate base of 6.80% computed using the Company's last authorized return on equity of 9.30%, established by the Commission in Order No. 26,122 (April 27, 2018), and its current cost of debt and capital structure (Schedule T, lines 93–94). As a result, EnergyNorth's financial situation is not sustainable, compelling the Company to seek rate relief so that there are sufficient revenues to support utility operation and continued investment in the safe and reliable operation of the system.

III. REVENUE REQUIREMENT ANALYSIS

Q. What level of temporary rate increase does the Company's financial position support?

A. As shown on Schedule T, page 3, based on updated plant in service at December 31, 2019, the Company's financial position can support a temporary increase of $9,837,964, or an 11.47% increase in distribution revenue and a 6.27% increase in total revenue. However, the Company is not requesting the full temporary increase amount.

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

A. The Company requests temporary rates that would generate additional annual gross distribution revenue of $6,500,000, which represents a 7.58% increase in distribution revenue and a 4.14% increase in total revenue. The Company is requesting that temporary rates take effect as of October 1, 2020, on a service-rendered basis, and that they be applied by increasing all rates under the existing rate design by a uniform percentage. By requesting a temporary increase in distribution revenues lower than the level supported by the Company's financial position, the Company is attempting to be sensitive to the current economic circumstances. The Company is requesting an increase that is less than 50 percent of the requested permanent revenue increase.

Q. How did you calculate the temporary rate deficiency of $9,837,964?

A. We calculated the temporary rate deficiency by multiplying the 6.80% rate of return on rate base (described above) by rate base as of December 31, 2019, and then subtracting from that product the Company's actual return for the test year, with certain adjustments described below.

Q. Please provide an overview of Schedule T (Attachment DBS/KAS-TEMP-1).

A. Schedule T (Attachment DBS/KAS-TEMP-1) provides the Company's Temporary Revenue Requirement of $95,627,197. The Company has calculated a distribution revenue deficiency of $9,837,964 based on adjusted Test Year revenues of $85,789,234. The computation of the revenue deficiency reflects total rate base of $356,487,649 and assumes a weighted cost of capital of 6.80%.

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]

1) Removed revenue related to the cost of gas and the Local Delivery Adjustment Clause ("LDAC") (Schedule T, line 2).
2) Removed the expenses associated with the cost of gas and LDAC revenues from the historical test year (Schedule T, line 7).

[1] See Exhibit DBS/KAS-1 for a detailed breakdown of adjustments included on Schedule T.

3) Adjusted distribution revenue (Schedule T, line 2) to agree with the separately computed cycle operating revenue presented in the testimony of Matthew DeCourcey.

4) Adjusted the amortization of certain ongoing regulatory assets including Costs to Achieve ("CTA"), Concord Steam, and the Depreciation Reserve Imbalance to their going forward levels (Schedule T, line 27). This item is also discussed in our direct testimony regarding the revenue requirement for permanent rates, as well as Schedule RR-EN-3-6 to that testimony.

5) Included the excess accumulated deferred income tax liability amortization as a credit to amortization expense. This amortization is reflective of the regulatory liability grossed-up for income taxes, as calculated using the Reverse South Georgia method (Schedule T, line 30). This item is also discussed in our direct testimony regarding the revenue requirement for permanent rates, as well as Schedule RR-EN-3-6 to that testimony.

6) The final adjustment was to compute income tax expense for the adjusted information, based on statutory rates and synchronized interest expense (line 14, with the calculation provided on lines 33–35, Schedule T).

Q. Why is the Company proposing normalizing adjustments to the cost of service in this filing?

A. Although the Company relies substantially on unadjusted 2019 test year data in the development of the cost of service, it is important to make normalizing adjustments to the cost of service. One reason is that included in any representative test year are cost or revenue elements that are non-recurring, out-of-period, or otherwise not appropriate to be reflected in the revenue requirement. Similarly, to the extent that the test year excludes certain known-and-measurable cost or revenue elements that are understood to be incurred on a continuing basis, those elements are appropriate for inclusion in the revenue requirement.

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

A. Yes. Pursuant to RSA 378.27, temporary rates "shall be sufficient to yield not less than a reasonable return on the cost of the property of the utility used and useful in the public service less accrued depreciation, *as shown by the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports*" (emphasis added). The adjustments described above are items that are necessary to reflect the results of distribution operations from a regulatory perspective; thus, they are appropriate for inclusion in the calculation of temporary rates.

IV. BILL IMPACTS

Q. Has the Company calculated the bill impacts from the proposed temporary rates?

A. Yes. The bill impacts are shown in Attachment DBS/KAS-TEMP-2. Attachment DBS/KAS-TEMP-3 provides redlined revised tariff pages reflecting the proposed temporary rates.

Q. Please describe the customer bill impacts of the temporary rates.

A. The annual bill impacts (as a percentage of the total bill) to various classes of customers are as follows:

- For a residential heating customer (Rate R-3) using 791 therms per year, the annual increase is $48.14, or 4.75% on a total bill basis.
- For a low annual use, high winter use commercial/industrial customer (Rate G-41) using 2,603 therms per year, the annual increase is $123.14, or 4.21% on a total bill basis.
- For a medium annual use, high winter use commercial/industrial customer (Rate G-42) using 24,404 therms per year, the annual increase is $775.00, or 3.48% on a total bill basis; and
- For medium annual use, low winter use commercial/industrial customer (Rate G-52) using 24,242 therms per year, the annual increase is $484.28, or 2.72% on a total bill basis.

Additional information showing the bill impacts by rate class is provided in Attachment DBS/KAS-TEMP-2. The rates derived on DBS/KAS-TEMP-2 were used to prepare the tariff pages included as Attachments DBS/KAS-TEMP-3.

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

A. Not at this time.

V. CONCLUSION

Q. Please summarize why the Company is requesting a temporary rate increase.

A. The Company is seeking a temporary rate increase because its return on rate base for the historical test year ended December 31, 2019, as adjusted on Schedule T, was only 4.79%, as compared to its allowed return of 6.80%. This is significantly less than the rate of return on equity approved by the Commission in the Company's last rate case filing (computed as described above), and is driven by the cost of capital investments since the last rate case. 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 rate increase of $13,497,250; and the calculated deficiency for temporary rate purposes is $9,837,964 or 72.9% of that amount, which demonstrates that the deficiency is driven predominantly by test year results. However, as discussed above, the Company is requesting a temporary increase of only $6,500,000, which is approximately 48.2% of the requested permanent increase in distribution revenues. Temporary rates are proposed to be in effect until the establishment of permanent rates pursuant to the Commission's final order in this rate case. The temporary rate increase will reduce regulatory lag while providing the Commission and parties to the proceeding with sufficient opportunity to fully evaluate the Company's permanent rate request. The temporary rate increase will also allow the Company to begin returning excess accumulated deferred income tax dollars to customers before permanent rates go into effect. The temporary rates as requested will also provide a gradual transition to the permanent rates ultimately approved by the Commission.

Q. Do the proposed temporary rates provide no more than a reasonable return on the cost of the property of the Company that is used and useful in 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 on the books and records on file with the Commission. As demonstrated in Attachment DBS/KAS-TEMP-1, Schedule T, the Company's required level of temporary rates yields a rate of return equal to 6.80%, however EnergyNorth is requesting temporary rates that would result in a rate of return of 6.04%, which is 76 basis points lower than calculated in Schedule T.

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

A. Yes, it does.

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