STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 20-105

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

REBUTTAL TESTIMONY

OF

BRIAN R. FROST,

ROBERT A. MOSTONE,

AND

HEATHER M. TEBBETTS

April 29, 2021

Liberty™

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I. INTRODUCTION AND BACKGROUND

Q. Mr. Frost, please state your full name, business address, and position.

A. My name is Brian R. Frost. My business address is 130 Elm Street, Manchester, New Hampshire. I am an Engineer IV for Liberty Utilities Service Corp. ("Liberty") in New Hampshire and provide gas system planning engineering services to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty ("EnergyNorth" or "the Company"). Please see the Direct Testimony of Brian R. Frost, Robert A. Mostone, and Heather M. Tebbetts, filed July 31, 2020, for a description of my educational background and work experience.

Q. Mr. Mostone, please state your full name and business address.

A. My name is Robert A. Mostone and my business address is 130 Elm Street, Manchester, New Hampshire. I am the Director of Gas Operations for Liberty in New Hampshire where my responsibilities include managerial oversight of all gas operations and construction processes for EnergyNorth. Please see the Direct Testimony of Brian R. Frost, Robert A. Mostone, and Heather M. Tebbetts, filed July 31, 2020, for a description of my educational background and work experience.

Q. Ms. Tebbetts, please state your full name, business address, and position.

A. My name is Heather M. Tebbetts and my business address is 15 Buttrick Road, Londonderry, New Hampshire. I am Manager of Rates and Regulatory Affairs for Liberty and am responsible for providing rate-related services for EnergyNorth and Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty ("Granite State"). Please see the Direct Testimony of Brian R. Frost, Robert A. Mostone, and Heather M. Tebbetts, filed July 31, 2020, for a description of my educational background and work experience

II. PURPOSE OF TESTIMONY

Q. What is the purpose or your rebuttal testimony?

A. Our rebuttal testimony is provided in response to several issues raised in the testimony of Commission Staff ("Staff") witness Stephen P. Frink related to cost recovery of the Company's capital projects and step adjustments for capital investments in 2020 and beyond. Staff raises concerns regarding the documentation provided by the Company in support of its step adjustment for 2020 capital investments. Staff also opposes the Company's proposal for additional step adjustments for capital investments in 2021 and 2022. Our testimony responds to these concerns and demonstrates that the Company's multi-year rate plan provides an appropriate plan for recovery of non-growth capital investments, and that without the step adjustments the Company will be faced with increased cost pressures that will lead to more frequent base rate case filings. Our testimony also addresses Staff's assertions of alleged deficiencies in the Company's 2020 project documentation and capital spending plans, and explains that the Company's step adjustment proposal includes a reasonable process for the Commission to review capital expenditures prior to implementation of each step adjustment. We also respond to the testimony of Office of Consumer Advocate ("OCA") witness Mr. Al-Azad Iqbal regarding the Company's spending on gas main replacement programs.

III. PURPOSE OF STEP ADJUSTMENTS

Q. What is Staff's position regarding step adjustments and the Company's proposed multi-year rate plan?

A. Staff supports a step adjustment to recover 2020 non-growth capital investments in concept but does not support step adjustments beyond 2020. Staff states that the Company did not provide adequate or timely documentation to support the 2020 step adjustment. Staff opposes the additional proposed step adjustments for 2021 and 2022 capital expenditures, arguing that the plan would "negate the protections afforded ratepayers under the risk sharing mechanism the Commission established for Keene and Pelham," and would "act as disincentive to control capital spending."

Q. Are Staff's assertions correct?

A. No. As explained below, the Company has provided substantial evidence in support of its approximately $37.6 million of 2020 non-growth capital investment for recovery in the first step adjustment. In addition, for capital investments beyond 2020, the multi-year rate plan is necessary for recovery of non-growth project costs, which are critical to ensuring safe and reliable operation of the gas distribution system. The Company's capital plan includes appropriate cost control measures and project documentation requirements to enable the Commission to thoroughly review the Company's expenditures before they are allowed for recovery in step adjustments. The Company also disagrees with Staff's assertion that there may be harm to customers in the areas of Keene and Pelham due to the risk sharing mechanisms, depending on when Liberty files its next rate case.

Q. Why is the Company proposing step adjustments?

A. The proposed step adjustments are necessary to allow timely recovery of plant investments without driving a need for frequent rate cases, and are consistent with the step adjustment mechanisms that the Commission has previously approved for other New Hampshire utilities. In addition, the step adjustments are necessary to enable the Company to recover its costs to replace cast iron and bare steel pipe ("CIBS"), which are ongoing despite termination of accelerated cost recovery through the former CIBS program.

Q. Does the Company's multi-year rate plan provide benefits and include an appropriate process for a prudence review of Energy North's capital expenditures?

A. Yes. Step adjustments are a critical component of multi-year rate plans because they provide utilities with a means to fund necessary and significant plant construction beyond the rate year while reducing cost pressures that drive the need to file for another base rate increase. Such plans are cost-efficient because they enable companies to delay resource intensive base rate reviews. Customers also benefit from step adjustments in a multi-year rate plan because they provide rate stability and predictability. Multi-year rate plans mitigate the potential for rate shock by allowing timely recovery of capital investments in smaller, gradual annual increases rather than larger increases at greater intervals in a base rate case.

The Company has proposed a well-designed multi-year rate plan that will allow parties a reasonable time to review each year's investments, and the Commission will retain its full authority to review capital projects for prudency prior to implementation of each step. As explained later in our testimony, the Company has provided substantial evidence in support of its 2020 capital investments. For future step increases (2021 and beyond), the Company proposes to file documentation in early April demonstrating the change in its net plant between January 1 and December 31 of the preceding calendar year. The step increase would take effect on July 1 of each year, allowing a period of approximately three months for the Commission's review. This process is consistent with the step adjustments allowed for other New Hampshire utilities.

Q. Do step adjustments cause disincentives to control capital spending?

A. No. The Commission retains its full authority to conduct prudence reviews of capital expenditures before they are allowed in rates. Customer interests are protected because cost recovery is permitted only after the respective projects have been placed into service, are used and useful, and have been found to be prudent. Although Staff claims regulatory lag is an incentive to control spending, approximately one-half of the proposed step adjustment projects, by volume of spend, are related to essential infrastructure work that supports mandates placed upon the Company by others such as City/State construction and, thus, costs related to the timing and scope of those projects are beyond the Company's control.

Q. Would the step adjustments negate ratepayer protections related to Keene and Pelham risk sharing?

A. No. Staff's argument is a red herring. Customer protections are preserved by properly defining the investments that will be included in step adjustments.

IV. STEP ADJUSTMENT PROJECTS

Q. What are the types of infrastructure projects to be recovered through the step adjustments?

A. Approximately one-half of the projects to be recovered through the step adjustments are infrastructure replacement projects that the Company performs to satisfy state and federal pipeline safety requirements, or to support State, local, or Commission requirements imposed on the Company. This work includes K meter replacements identified in the Company's Distribution Integrity Management Plan, reactive main replacements of pipes that have active corrosion, and leaks that can only be repaired by capital pipe replacement, all of which are directly related to maintaining pipeline safety. In addition, the step adjustments would recover the costs of projects required by governmental agencies to replace cast iron and bare steel pipe (collectively described as leak prone pipe or "LPP"), and other projects where the Company is required to move or replace gas mains beneath city and state roads (where the Company's facilities are located by sufferance) that encumber city/state sponsored public works projects.

Q. Please explain Order No. 26,374 and how it affects the Company's capital spending through 2025.

A. Order No. 26,374 (June 30, 2020) in Docket No. DG 20-049, the 2020 Cast/Iron Bare Steel Replacement filing, requires the Company to:

> Plan for and use its best efforts to complete, by the end of calendar year 2025, replacement of the remaining cast iron and bare steel pipe in its system, with the exception of cast iron mains in Keene and low pressure pipelines greater than 10-inch nominal diameter.

Order No. 26,374 at 9.

As of the beginning of the 2021 construction season, the Company must replace 48.31 miles of pipe by the end of calendar year 2025 to comply with this Order. To that end, the Company intends to replace 5.99 miles of LPP during the 2021 construction season. If the remaining LPP mileage is replaced in equal amounts over the next four years, 10.58 miles per will be need to be replaced each year. The following table provides a year by year mileage and estimated cost based on historical pricing to meet the requirements of the Order, escalated for inflation:

Year	LPP Mileage Completed	LPP Mileage Remaining	Estimated Cost
2021	5.99	48.31	$13,353,035
2022	10.58	42.32	$25,253,363
2023	10.58	31.74	$27,374,818
2024	10.58	21.16	$30,335,303
2025	10.58	10.58	$33,258,626
Total	48.31	-	$116,222,110

Staff's and OCA's complaints that the Company's "aggressive" capital spending contributes to requests for rate increases fails to acknowledge that the fundamental drivers of that capital investment include the state's desire to eliminate LPP by 2025 and the need to comply with difficult to predict work arising from municipalities or other entities. The significant capital investment required to comply with these state policies and other governmental mandates, when combined with the use of an historical test year, yield rates that do not support the needed investment, absent some mechanism to provide rate relief, whether in the form of step increases or frequent rate cases.

Q. Since your direct testimony was filed in this docket on July 31, 2020, have there been any changes regarding expected spending on LPP and city/state public works main replacement projects?

A. When the Company filed its proposed capital spending plan in this docket, it proposed a combined LPP and city/state main replacement budget of approximately $23 million for calendar year 2021. This corresponded to planned replacement of 10.8 miles of gas main with approximately 1.1 miles related solely to city/state public works construction (coated steel and plastic pipe), and the remainder dedicated to LPP. Due to a number of factors, the Company's planned LPP replacement mileage in 2021 was revised to 5.99 miles.

The recent federal stimulus packages have provided municipalities with unanticipated funding to use toward infrastructure projects. As a result, the Company has seen an increase in mandates to replace coated steel and plastic pipe (which do not count toward the LPP goals discussed above) to support municipal and New Hampshire Department of Transportation ("NHDOT") projects. Notable 2021 public works projects are approximately $1.4 million in non-LPP gas main replacement in the City of Manchester to support sewer and drain work, and approximately $1 million of non-LPP gas main replacement to support NHDOT projects in the Route 101A corridor of Merrimack. The City of Manchester is also in the design and early construction stages of a multi-year campaign to separate storm water from the sanitary sewer system on the east side of the Merrimack River. These projects will involve construction of several large scale underground gravity culverts through the city, which will affect the Company's gas facilities in numerous locations.

Q. Is it accurate to characterize the Company's capital spending as "aggressive"?

A. No. A more appropriate description would be that it is prudent, necessary, and compliant. As explained above, approximately one-half of EnergyNorth's capital budget includes projects that are generally tied to mandates placed upon the Company, or supporting wider public works infrastructure projects. In fact, the proposed gas main replacement step adjustment requested will likely consist of just LPP replacement mandated by Commission order, and not main replacement expected to occur due to city/state public works projects. It is inaccurate to describe the Company's spending to meet these types of mandates as "aggressive."

Q. Are there other significant projects in the next several years that drive the need for the step adjustments?

A. Yes, as referenced in the Direct Testimony of Witness Fleck and as described during the course of discovery, the Company is implementing a company-wide comprehensive replacement to the existing billing system, accounting software, and other vital systems. This initiative, collectively referred to as "Customer First," leverages the capabilities and experience of the entire Liberty organization to address critical needs across the enterprise by upgrading or replacing key systems that have become generally obsolete, costly to maintain, not well integrated with other Liberty systems, and potentially present security risks. Following industry practice, Liberty evaluated multiple top-tier software vendors before selecting SAP as its core enterprise technology platform for Customer First.

Customer First is expected to be implemented for EnergyNorth in 2022 and will replace the current billing system Cogsdale which has significant limitations and struggles to meet the Company's business needs. Customer First will also replace Great Plains, the financial system currently used for general and plant accounting, which also has limited capabilities and lacks visibility into any data outside the system, creating challenges with managing inventory accuracy. These systems will be replaced with SAP to allow the Company smarter processes to manage and access billing and financial data. Included in the suite of solutions are systems to enhance customer engagement; improve employee recruiting and onboarding; and, improve system monitoring and resiliency.

The Company expects to include in its future step adjustments costs associated with the implementation of SAP, specifically the proposed 2023 step adjustment given the software will be in service in 2022.

V. CAPITAL PROJECT DOCUMENTATION AND REVIEW PROCESS

Q. Has the Company provided substantial documentation in support of its 2020 step adjustment?

A. Yes. Staff contends that the Company did not provide sufficient documentation prior to Staff's testimony for Staff to complete its review and audit of the 2020 project costs. However, the Company respectfully notes that during the discovery phase of this docket, the Company timely responded to three sets of Staff data requests and three sets of Staff technical session data requests, which included a response to Staff TS 3-31 with the 2020 project budget in the Company's original filing, to be updated later in the process with actual spending amounts. The discovery requests did not otherwise seek information on the 2020 step adjustment projects. The Company subsequently received Staff's request for supporting documentation in an email from Staff counsel on March 3, 2021, which was the first request for such documentation. Staff's request noted the Settlement Agreement in Docket No. DE 19-064, Granite State's most recent distribution rate case, and that it would be helpful for the Company to provide data in this case in the same manner, which it did. The Company responded promptly to Staff's request and provided the requested documentation one week later, on March 10, 2021, in a supplemental response to Staff TS 3-31. The Company also notes that on March 11, 2021, the Company started to receive data requests from the Commission's Audit Staff and has been working diligently since that time to answer all of Audit Staff's questions. The Company has responded to all of Audit Staff's requests in a timely manner and has provided all requested backup data for the 2020 step adjustment projects.

Q. Did the Company provide additional supporting documentation on projects in support of Staff's review process where Staff observed variances between budgeted costs and actual costs?

A. Yes. When Staff was in the process of its review, they sent the Company a list of selected projects from Staff TS 3-31 and asked for additional information. The request identified projects based on the budget-to-actual results. The Company explained the reasons why the selected projects showed variances, noting that many of the projects highlighted by Staff were blanket projects where the actual costs are driven by field conditions that are not known at the time of budget development (e.g., leaks requiring repair by capital pipe replacements, meter sets failing inspection and not able to be repaired by temporary maintenance). Notwithstanding individual project variances, the Company notes on an overall basis that its total actual project spending in 2020 was generally in line with the budget. In fact, non-growth capital spending for the year was within 0.7% of budget.

Q. In reviewing the Company's costs for additional step adjustments in 2022 and 2023, are there recent examples of review processes approved by the Commission that allow for timely completion of annual prudence reviews of utility capital spending?

A. Yes. Yearly reviews of completed capital projects have been an integral part of the Company's longstanding CIBS program dockets, most recently covered in Docket No. DG 20-049. Staff's testimony also referenced the Settlement Agreement in Docket No. DE 19-064, which provided for a process to complete yearly step adjustment project review. Consistent with the Granite State case, the Company provided documentation of its 2020 capital projects in the format established in Docket No. DE 19-064.

Q. Based on this precedent, is it reasonable to expect that annual reviews of step adjustment capital projects can be completed in a procedurally efficient manner?

A. Yes. The Company recommends and supports adopting a process similar to the process in the Settlement Agreement of Docket No. DE 19-064 for evaluating capital project results and step adjustments.

VI. CONCLUSION

Q. Do you have any concluding remarks?

A. The Company's proposed step adjustments provide rate stability to customers and timely recovery of prudently incurred project costs for the Company, and are necessary to support mandated and other critical capital investments beyond the rate year. The Company has provided substantial evidence on the prudence of its 2020 capital expenditures and proposes a reasonable process for reviewing the costs to be recovered in additional step adjustments.

Q. Does this conclude your testimony?

A. Yes.