

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP.  
d/b/a LIBERTY

Docket No. DG 20-105

Distribution Service Rate Case

**Record Request – Exhibit 60 Revised**

**REQUEST:**

Compare the rate base on January 1, 2020, to your estimate of the unconstrained rate base on January 1, 2021. Recalculate the rate base to be used for the first step increase by taking into account the level of depreciation that occurred in 2020 and compare it to the rate base proposed at the January 18, 2022 hearing.

**RESPONSE:**

The Company appreciates the follow-up request and interprets the question to be asking the Company to calculate the Step Adjustment as a one-year rate-base update, rather than following the calculation that the parties agreed upon in the DG 20-105 Settlement Agreement.

Specifically, the question asks the Company to compare rate base at January 1, 2020 to rate base at January 1, 2021, updating the rate base for elements including depreciation and comparing that to the rate base “proposed” at the January 18, 2022 hearing.

For explanation purposes, it is important to first note that the Company did not propose a rate base amount for recovery at the January 18, 2022 hearing. Instead, the Company is proposing recovery of the fixed amount of \$4 million, as provided by Section 5(a)(i) of the Settlement Agreement. The provisions of the Settlement Agreement governing the Step Adjustments do not call for the Company to update or reset rate base as part of the First Step Adjustment, or subsequent step adjustments. Rate base encompasses all of the Company’s plant-in-service and an update to rate base would reset all elements of rate base, as implied by the question.<sup>1</sup>

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<sup>1</sup> On July 30, 2021, the Commission approved the Settlement Agreement, with the exception of delaying collection of revenues associated with the First Step Adjustment in order to provide the Commission with the opportunity to review the supporting documents and confirm the prudence of the underlying projects. The computation of the \$4 million should not be a point of dispute in this proceeding given that computation of the step (and the revenues available to the Company during the stay-out period agreed to by settlement) is a key settlement provision reflecting countervailing trade-offs. Specifically, the Commission stated, “[f]or the reasons stated above,

The Settlement Agreement is not structured to compute the step in this manner. Instead, the agreement reached on the Step Adjustment was that: (1) the Company would calculate the revenue requirement exclusively on the non-growth capital additions completed in 2020 (including depreciation that occurred in 2020 on those additions); and (2) would recover that revenue requirement up to a cap of \$4 million. The actual revenue requirement on 2020 capital additions is \$4.6 million. Therefore, to reach consensus for the Settlement Agreement, the Settling Parties agreed to a computational method that *differed from a rate-base update*, but that also required the Company to give up approximately \$600,000 of the total revenue requirement computed for those additions.

This mutual agreement is explicitly captured in Section 5 of the Settlement Agreement, which outlines how the calculation of the step will be made, stating as follows (emphasis added):

- (a) Step 1 shall reflect an increase to account for *certain capital projects* placed in service during calendar year 2020 and shall be implemented on August 1, 2021. *This first step adjustment reflects adjustments that have been made to the revenue requirement in order to reach settlement.* The first step shall be subject to the following conditions:
  - i. The *revenue requirement* for this step *shall be capped at a \$4.0 million* increase to annual Distribution Revenue.
  - ii. The step shall be based on the projects closed to plant in 2020, and shall exclude new business/growth-related projects.
  - iii. The projects that may be included in the step are identified in the listing attached as Appendix 1.
  - iv. Local property taxes shall not be included in the calculation and will be recovered through the Property Tax Adjustment Mechanism in Section 6 of the Settlement Agreement. State utility property taxes for all projects listed in Appendix 1, calculated using the statutory tax rate in RSA 83-F:2, shall be included in the step adjustment calculation, shall count toward the cap, and shall be given first priority of recovery.

Thus, the Settlement Agreement captures the following points:

- Section 5(a) states that the Step 1 increase shall account for “certain capital projects” placed in service in 2020.

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we direct Liberty not to collect any revenue requirement associated the first step adjustment until it files a related request with the Commission containing the same level of detail as specified in the Settlement Agreement for the second step increase and specifically identifying which projects shall be considered for prudence determinations up to but not in excess of the \$4 million dollar cap, the Commission holds a hearing, and the Commission *has found the 2020 plant additions necessary to support the revenue requirement cap to be prudently incurred, used, and useful.*” Order No. 26,505 at 12-13 (July 30, 2021) (emphasis added).

- Section 5(a) states that the “first step adjustment reflects adjustments that have been made to the revenue requirement in order to reach settlement.”
- Sections 5(a) and 5(a)(i) establish that the step increase is based on the “revenue requirement” for “certain capital projects,” capped at \$4.0 million. There is no reference to any type of rate-base update or similar computation.

Accordingly, the Settlement Agreement does not contemplate or provide for a rate-base update. *See* Appendix 1 to the Settlement Agreement, presenting the actual calculation of the First Step Adjustment following the steps described above (rather than being executed through a rate-base update) (Exhibit 49 at Bates 029).

However, if calculated as a rate-base update, as suggested by the question, the computation would be as follows:

Liberty Utilities (EnergyNorth Natural Gas) Distribution Plant

Line	Description	Year Beginning 1/1/2020 (A)	Year Beginning 1/1/2021 (B)	Reference
1	Total Utility Plant in Service	\$595,343,162	\$624,158,534	Revised F-16 Annual Report Page 17 Line 2 excluding growth
2	Accumulated Provision for Depreciation	<u>\$193,462,473</u>	<u>\$213,636,212</u>	Revised F-16 Annual Report Page 17 Line 14 excluding growth
3	Net Utility Plant	<u>\$401,880,689</u>	<u>\$410,522,322</u>	Line 1 minus Line 2
4	Gross Distribution Plant Change (year over year)		<u>\$28,815,372</u>	Line 1 Col. (B) - Line 1 Col. (A)
5	Net Distribution Plant Change (year over year)		<u>\$20,173,739</u>	Line 3 Col. (B) - Line 3 Col. (A)

Lastly, it should be noted that, doing the calculation this way would result in a step of \$2,648,510, rather than the actual revenue requirement associated with the 2020 non-growth capital additions of \$4.6 million, or the settled amount of \$4 million. This is not a reasonable result because the revenue allowance would not support the 2020 capital additions of \$36,206,418 *in the context of other agreements and concessions made as part of the settled revenue requirement*. All else equal, the revenue requirement of \$2,648,510 on \$36,206,418 of capital additions would result in a weighted cost of capital of 2.61%, which is well below the WACC that the Commission authorized in DG 20-105.

**Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities**  
**Distribution Plant**  
**CY 2020**

Line	Description	Year Beginning 1/1/2020 (A)	Year Beginning 1/1/2021 (B)	Reference
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Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities  
Step Adjustment Calculation  
Computation of Revenue Requirement  
CY 2020

	CY 2020 (a)	CY 2020 (b)		
1 Total Investment	\$ 20,173,739	\$36,206,418		
2 <b>Deferred Tax Calculation</b>				
3 Book Depreciation Rate	1.92%	1.92%		
4 Federal Tax Depreciation Rate	3.75%	3.75%		
5 FEDERAL Vintage Year Tax Depreciation:				
6 CY 2021 Spend	\$756,515	\$1,357,741		
7 Annual Tax Depreciation	\$756,515	\$1,357,741		
8 Cumulative Tax Depreciation	\$756,515	\$1,357,741		
9 STATE Vintage Year Tax Depreciation:				
10 CY 2021 Spend	\$756,515	\$1,357,741		
11 Annual Tax Depreciation	\$756,515	\$1,357,741		
12 Cumulative Tax Depreciation	\$756,515	\$1,357,741		
13				
14 Book Depreciation	\$387,336	\$695,163		
15 Cumulative Book Depreciation	\$387,336	\$695,163		
16				
17 Book/Tax Timer (Federal)	\$369,179	\$662,577		
18 less: Deferred Tax Reserve (State)	\$28,427	\$51,018		
19 Net Book/Tax Timer (Federal)	\$340,753	\$611,559		
20 Effective Tax Rate (Federal)	21.00%	21.00%		
21 Deferred Tax Reserve (Federal)	\$71,558	\$128,427		
22 Book/Tax Timer (State)	\$369,179	\$662,577		
23 Effective Tax Rate (State)	7.70%	7.70%		
24 Deferred Tax Reserve (State)	\$28,427	\$51,018		
25 TOTAL Deferred Tax Reserve	\$99,985	\$179,446		
26 <b>Rate Base Calculation</b>				
27 Plant In Service	\$20,173,739	\$36,206,418		
28 Accumulated Book Depreciation	(\$387,336)	(\$695,163)		
29 Deferred Tax Reserve	(\$99,985)	(\$179,446)		
30 Year End Rate Base	\$19,686,418	\$35,331,809		
31 <b>Revenue Requirement Calculation</b>				
32 Year End Rate Base	\$19,686,418	\$35,331,809		
33 Pre-Tax ROR	8.76%	2.80%		
34 Return and Taxes	\$1,724,963	\$990,992		
35 Book Depreciation	\$387,336	\$695,163		
36 Property Taxes <sup>1</sup>	2.71%	\$962,355		
37 Annual Revenue Requirement	\$2,648,510	\$2,648,510		
38 Adjusted Annual Revenue Requirement	\$2,648,510	\$2,648,510		
39				
40 <b>Imputed Capital Structure(2)</b>				
41	Ratio	Rate	Weighted Rate	Pre Tax
42 Long Term Debt	48.00%	4.42%	2.12%	2.12%
43 Common Equity	52.00%	9.30%	4.84%	6.64%
44	100.00%		6.96%	8.76%
45				
46 <b>Imputed Capital Structure(3)</b>				
47	Ratio	Rate	Weighted Rate	Pre Tax
48 Long Term Debt	48.00%	4.42%	2.12%	2.12%
49 Common Equity	52.00%	0.94626%	0.49%	0.68%
	0.00%		2.61%	2.80%

<sup>1</sup>Property tax rate used in Docket No. DG 20-049

<sup>2</sup>Approved capital structure in Docket DG 20-105

<sup>3</sup>Calculated WACC

(a) Total Investment Attachment 1 page 1 line 5

(b) Total Investment in Settlement Agreement Bates 29 line 1