Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty

DG 22-028
Petition for Approval of Step Adjustment Filing

NHPUC Record Requests - Set 1

Date Request Received: 8/8/22
Request No. RR 1-1

Date of Response:8/12/22
Respondent: Paul Normand
Erica Menard

REQUEST:

Reference: McNamara/Menard testimony, Bates pages 007-008. Please provide Schedule A (Bates pages 068-069), Schedule B (Bates pages 073-074), and Attachment CAM/ELM-2 (Bates page 080) for each of the following scenarios. (Please provide all schedules in live Excel format.)

a. Using a cost of removal (COR) of 7.5% instead of 10% (a reduction of 25% of COR expenses compared to the current level).
b. Using a COR of 4.74% instead of 10% (a reduction of 52.6% of COR expenses compared to the current level).

RESPONSE:

Attachment RR 1-1.A EnergyNorth COR Evaluation.xlsx details the COR levels and related percent of additions for all three COR scenarios requested (10%, 7.5%, 4.74%) since the Company's last depreciation study based on the calendar year 2016. Please note that the 10% COR rate was only applied to certain portions of additions, which results in a much lower level when considering the total additions in these two plant accounts (MAINS 376 and SERVICES 380). In reviewing the two additional levels of 7.5 and 4.74 percent COR, the analysis shows a lower level of COR as compared to the same total plant additions.

a. Using this information, the originally filed Schedule A, provided in the live Excel file Attachment RR 1-1.B Energy North Natural Gas Co. 14 COL @12-31-21 (10% COR).xlsx for reference, has been recalculated for the 7.5% COR scenario. The reserve imbalance for total depreciable plant from the as filed Schedule A of $10,918,303 is reduced to $8,084,813 as shown in Col. 13 in the live Excel file Attachment RR 1-1.C Energy North Natural Gas Co. 14 COL @12-31-21 (7.5%COR).xlsx.
b. Using this information, the originally filed Schedule A has been recalculated for the 4.74% COR scenario. The reserve imbalance for total depreciable plant from the filed $10,918,303 is reduced to $4,956,639 as shown in Col. 13 in the live Excel file

Attachment RR 1-1.D Energy North Natural Gas Co. 14 COL @12-31-21 (4.74%COR).xlsx.

Note that Schedule B remains unchanged from the filed results as this is a whole life depreciation analysis that has no impact on Schedule B results. In addition, the recommended first step in reducing the COR to 7.5% considered the need for two additional years to establish a more robust average going forward. Also, a major factor in these estimates is that COR is essentially labor-related and with the recent large increase in inflation, the Company would expect that this would have an impact on these results.

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NHPUC Record Requests - Set 1

Date Request Received: 8/8/22	Date of Response:8/12/22
Request No. RR 1-2	Respondent: Paul Normand Erica Menard

REQUEST:

Reference: Record Request 1 above.

a. Schedule A. Please compare the reserve variances among the three COR scenarios (10%, 7.5%, and 4.74%).

b. Schedule B. Please compare the differences in the annual accruals (column 10) applying a COR of 7.5% and a COR of 4.74%.

c. Attachment CAM/ELM-2. Please compare the Total Annual Revenue Requirement among the three COR scenarios (10%, 7.5%, and 4.74%).

RESPONSE:

a. Please see the response to RR 1-1, parts a and b.

b. Schedule B remains unchanged from the filed results as this is a whole life depreciation analysis that has no impact on Schedule B results.

c. Under the as-filed scenario of 10% COR, the total annual revenue requirement after the Keene Phase I adjustment is $3,409,119. To perform the requested analysis, the Company calculated an illustrative capital addition amount for each scenario to demonstrate the directional impact on the revenue requirement of increasing the level of additions included in the step adjustment as a result of lowering the cost of removal. Under the 7.5% COR scenario, the distribution mains and services capital spending was adjusted to reflect less cost of removal and higher plant additions resulting in an adjusted annual revenue requirement of $3,412,715. Under the 4.74% COR scenario, the distribution mains and services capital spending was adjusted to reflect less cost of removal and higher plant additions resulting in an adjusted annual revenue requirement of $3,416,686. In all scenarios, the revenue requirement is higher than the $3.2 million cap and would not impact the step adjustment amount. Please see Attachment RR 1-2.xlsx for the revenue requirement under each scenario.

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DG 22-028
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NHPUC Record Requests - Set 1

Date Request Received: 8/8/22 | Date of Response:8/12/22
Request No. RR 1-3 | Respondent: Erica Menard

REQUEST:

Please provide a similar analysis for the second step adjustment comparing the rate base on January 1, 2021, to your estimate of the unconstrained rate base on January 1, 2022. Recalculate the rate base to be used for the second step increase by taking into account the level of depreciation that occurred in 2021.

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, which calculation the Commission approved in Order No. 26,505 (July 30, 2021).

Specifically, the question asks the Company to compare rate base on January 1, 2021, to rate base on January 1, 2022, updating the rate base for elements including depreciation.

For explanation purposes, it is important to first note that the Company is proposing recovery of the fixed amount of $3.2 million before any adjustments to depreciation expense, as provided by Section 5(b)(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 Second Step Adjustment. 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.

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 2021 (including depreciation that occurred in 2021 on those additions); and (2) would recover that revenue requirement up to a cap of $3.2 million. The actual revenue requirement on 2021 capital additions is $3.4 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 $400,000 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):

(b) Step 2 shall reflect an increase to account for *certain capital projects* placed in service during calendar year 2021 and shall be effective on August 1, 2022. *This second step adjustment reflects adjustments that have been made to the revenue requirement in order to reach settlement.* The second step shall be subject to the following conditions:

i. The *revenue requirement* for this step *shall be capped at a $3.2 million* increase to annual Distribution Revenue from the projects referenced in iii. below.

ii. The step shall be based on the projects closed to plant in 2021, 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 2 including Keene CNG Phase 1 costs as further described in Section 7.2. The Settling Parties agree that the Company may substitute other similar non-growth projects prior to the commencement of the review period if projects identified in Appendix 2 are not deployed.

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.

v. The step adjustment shall include adjustments resulting from the updated depreciation study as provided in Section 3.2 of the Settlement Agreement.

Thus, the Settlement Agreement captures the following points:

- Section 5.1(b) states that the Step 2 increase shall account for "certain capital projects" placed in service in 2021.
- Section 5.1(b) states that the "second step adjustment reflects adjustments that have been made to the revenue requirement in order to reach settlement."
- Sections 5.1(b) and 5.1(b)(i) establish that the step increase is based on the "revenue requirement" for "certain capital projects," capped at $3.2 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 Second Step Adjustment following the steps described above (rather than being executed through a rate-base update) (Exhibit 49 at Bates 031).

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

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty
Distribution Plant
CY 2021

Line	Description	(A) Year Beginning 1/1/2021	(B) Year Beginning 1/1/2022	Reference
		(A)	(B)	
1	Total Utility Plant in Service	$ 690,099,380	$ 732,369,591	Revised F-16 Annual Report Page 17 Line 8
2	Accumulated Provision for Depreciation	$ 213,310,740	$ 230,310,206	Revised F-16 Annual Report Page 17 Line 14
3	Net Utility Plant	$ 476,788,640	$ 502,059,385	Line 1 - Line 2
4	Gross Distribution Plant Change (year over year)		$ 42,270,211	Line 1 Col. (B) - Line 1 Col. (A)
5	Net Distribution Plant Change (year over year)		$ 25,270,745	Line 3 Col. (B) - Line 3 Col. (A)
6	Plant in Service (growth related)	$12,623,219	$5,612,346	Company calculation
7	Depreciation (growth related)	325,472	156,122	Company calculation
8	Net Utility Plant (growth related)	$ 12,297,748	$ 5,456,224	Line 6 - Line 7
9	Total Utility Plant in Service (excluding growth)	$ 677,476,161	$ 726,757,245	Line 1 - Line 6
10	Accumulated Provision for Depreciation (excluding growth)	$ 212,985,268	$ 230,466,328	Line 2 - Line 7
11	Net Utility Plant	$ 464,490,892	$ 496,290,917	Line 9 - Line 10
12	Gross Distribution Plant Change (year over year) (excluding growth)		$ 49,281,085	Line 9 Col. (B) - Line 9 Col. (A)
13	Net Distribution Plant Change (year over year) (excluding growth)		$ 31,800,025	Line 11 Col. (B) - Line 11 Col. (A)

Lastly, it should be noted that doing the calculation this way would result in a step of $3,538,213, capped at the settled amount of $3.2 million, rather than the actual revenue requirement associated with the 2021 non-growth capital additions of $3.4 million, or the settled amount of $3.2 million.