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

Docket No. DG 22-041

Petition for Approval to Recover Revenue Decoupling Adjustment Factor Costs

NHPUC Record Request – June 22, 2023

Date Request Received: 6/22/23
Request No. RR 2

Date of Response: 7/12/23
Respondent: Erica Menard
Gregg Therrien

REQUEST:

Please provide the "Rates 5" model from the Company's Docket No. DG 14-180 rate case.

RESPONSE:

The Company has researched its files and located the Excel file supporting the rate design for permanent rates established in 2014 per the Rate Settlement Agreement approved in Docket No. DG 14-180 in Order No. 25,797 (June 26, 2015). See Attachment RR-02.xlsx, which Excel file includes Tab "RATES-5" from the DG 14-180 rate case, as requested.

The premise in producing this Excel workbook appears to be to arrive at a conclusion as to whether the rate design in Docket No. DG 14-180 also shows that revenue collected through the RLIAP was added to the computation of total base revenues for purposes of quantifying the revenue deficiency in that case, as it was in Docket No. DG 17-048 (RATES-5).

The Company's research shows that the RLIAP revenues were added back in Docket No. DG 14-180. Specifically, the Company shows below that low-income discount revenues were added back to the revenue computation to derive total base revenues for the purpose of quantifying the revenue deficiency in that case.

The requested EXCEL workbook, Tab "RATES-5," provided herewith was submitted in Docket DG 14-180 as part of the Company's ***initial*** filing. That docket was resolved by a rate settlement. Therefore, the final RATES-5 Schedule from the Settlement filing is the schedule that actually pertains to the rates set in that docket. The RATES-5 Schedule included in the Company's ***initial*** filing in Docket DG 14-180 is in a slightly different format than presented in the Company's subsequent rate case in Docket DG 17-048. The following compares the computation of the initial revenue deficiency filed by the Company in these two consecutive cases:

1. Initial Filing in DG 14-180. The section of the DG 14-180 RATES-5 schedule presented in the ***initial filing*** for the proposed rate design has less detail than the RATES-5 schedule used in Docket DG 17-048. (Lines 38-40)

Line	(X)	Company Total (L)	Explanation (M)
27	**C. CLASS REVENUE TARGETS**		
38	Delivery Revenue Requirement	67,021,240	Functional Cost of Service Study
39	Step Adjustment	2,649,554	
40	Total Revenue Requirement	69,670,794	

The Docket DG 14-180 RATES-5 schedule did not include the detail of the low-income "add-back" in the same spot as Docket DG 17-048, the add-back was made in the revenue calculations in a different spot for reasons pertaining to that case.

Specifically, Docket DG 14-180 was EnergyNorth's first distribution rate case following Liberty's mid-2012 acquisition of the Company from National Grid. The Customer Information System was converted from National Grid's system over Labor Day weekend in September 2013, in the middle of the test year.

Given the conversion of the CIS and accounting systems, booked revenues did not match revenues from the billing system in the test year. Therefore, the Company used billing system information to generate a "pro forma" amount of revenue and then the pro forma revenue was reconciled to the amount of revenue recorded on the books of the Company. To reconcile the two amounts, revenues captured in the billing system of $2,544,011 were added to booked revenue to derive the adjusted test-year revenue amount. (*See*, lines 1 and 20 below).

This revenue adjustment of $2,544,011 <u>expressly accomplishes</u> the add-in of the low-income discount revenue on Lines 1 and 20, below, as compared to Line 42 in RATES-5 Schedule in DG 17-048.

RR-3-05 **Liberty Utilities (EnergyNorth)**
vFiled **Adjustments to Test Year**
AD **Adjustment 05**
Revenue
Schedule RR-3-05

Docket No. DG 14-180
Attachment SEM/HSG-2
Schedule RR-3-05
Page 1 of 2

Line	Description	RR-2-1 Historic per Trial Balance	Line 36 Reclass	After Reclass	Adjustment			Pro Forma
1	Operating revenue	158,502,751	(529,795)	157,972,955	Adjust to amount computed	Line 20	2,544,011	54,831,021
2					Remove Gas revenue	Line 22	(104,423,831)	
3					Normalization	Attachment RATES-3, page 2, line 30	(1,645,434)	
4					CIBS as of 2014-07-01	Attachment RATES-3, page 3, line 30	383,320	
5								
6	Other revenue	492,263	529,795	1,022,058	Adjust to amount computed	Line 34	(598,422)	423,636
7	**Adjustments to Revenue**	**158,995,014**	**0**	**158,995,014**			**(103,740,357)**	**55,254,657**
8								
9	Operating revenue- Computed separately							
10	Distribution- billed				Attachment RATES-1, page 2, line 15		54,984,777	
11	Distribution- unbilled				Attachment RATES-3 page 1, line 30		325,700	
12	Special contracts						782,658	
13	Total Distribution revenue- Computed						56,093,135	
14								
15	Cost of Gas- billed and unbilled						100,096,780	
16	Local Distribution Adjustment Charge (LDAC)						4,327,051	
17	Total Gas revenue- Computed						104,423,831	
18	Total Operating revenue- Computed						160,516,966	
19	Operating revenue on books after reclass				From Line 1		157,972,955	
20	Adjustment to Operating revenue				To Line 1		2,544,011	
21								
22	Remove Gas revenue				To Line 2		(104,423,831)	
23								

2. <u>DG 14-180 Low Income Discount Revenues are Included in Total Distribution Revenues</u>. As shown in the exhibit in part 2, above, the low-income discount revenue is included in the revenue add-back of $2,544,011. Specifically, on Line 10, the amount of $54,984,777 is shown for "Distribution – billed," which is the revenue amount from the billing system recorded at tariffed rates (under tariffed rates, R-4 revenue is discounted from R-3 revenue). The amount listed on Line 10 is then added to unbilled revenue and special contract revenue to arrive at "Total Distribution Revenue – Computed."

Lines 15 and 16 operate to add revenues for the Cost of Gas and Local Distribution Adjustment Charge ("LDAC") ($104,423,831) to the Total Distribution Revenue ($56,093,135) to arrive at Total Operating Revenues of $160,516,966 (Line 18).

Total Operating Revenues ($160,516,966) are then compared to Operating Revenue "On Books" After Reclass ($157,972,955) (Line 19) to derive the adjustment of $2,544,011, which was added to Total Distribution Revenues for purposes of calculating the ***initial*** revenue deficiency.

Revenues collected from customers through the RLIAP component of the LDAC are equal to the amount of the R-4 rate discount. Therefore, the computation to adjust the booked revenue upward by $2,544,011 ensured that the revenues collected for the R-4 low-income discount through the LDAC (and all other applicable revenues) were added back into the Total Distribution Revenues used to calculate the ***initial***, filed revenue deficiency in the initial filing in DG 14-180.

3. Computation of Revenue Deficiency In the Initial Filing Using Total Distribution Revenues. Line 7 of Attachment SEM/HSG-2, Schedule RR-3-05, from the DG 14-180 proceeding shows that, after sequential adjustments, ***the Pro Forma, adjusted test year distribution revenue was $55,254,657***. That amount is also shown below in the "Test Year at Current Rates" column, Line 4:

RR-2 **Liberty Utilities (EnergyNorth)**
vFiled **Operating Income Statement**
RR **Test Year With Known and Measurable Changes**

Docket No. DG 14-180
Attachment SEM/HSG-2
Schedule RR-2
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Schedule RR-2

	Source			RR-3			RR-1	
Line	**Account**	**Test Year Ended Mar. 31, 2014**	**Flow-Through and Reclass**	**Distribution Operating Income**	**Known and Measurable Adjustments**	**Test Year At Current Rates**	**Proposed Increase**	**Distribution Operating Income With Proposed Increase**
1	**Revenue**							
2	Operating revenue	158,502,751	(529,795)	157,972,955	(103,141,934)	54,831,021	13,442,972	68,273,993
3	Other revenue	492,263	529,795	1,022,058	(598,422)	423,636		423,636
4		**158,995,014**	**0**	**158,995,014**	**(103,740,357)**	**55,254,657**	**13,442,972**	**68,697,629**
5								
6	**Operating Expenses**							
7	O&M- Gas	100,621,978	0	100,621,978	(101,444,594)	(822,615)		(822,615)
8	O&M- Distribution	9,455,735	0	9,455,735	1,639,063	11,094,798		11,094,798
9	Customer Accounting	4,766,598	0	4,766,598	3,824	4,770,421		4,770,421
10	Sales & New Business	588,814	0	588,814	21,183	609,997		609,997
11	Administrative And General	12,366,566	0	12,366,566	2,698,988	15,065,554		15,065,554
12	Depreciation Expense	10,147,810	0	10,147,810	(143,650)	10,004,160		10,004,160
13	General taxes	9,094,407	0	9,094,407	(704,412)	8,389,995		8,389,995
14	Income taxes	3,162,166	0	3,162,166	(2,094,509)	1,067,657	5,324,761	6,392,418
15		**150,204,073**	**0**	**150,204,073**	**(100,024,108)**	**50,179,965**	**5,324,761**	**55,504,726**
16								
17	**Utility Net Income**	**8,790,941**	**0**	**8,790,941**	**(3,716,249)**	**5,074,692**	**8,118,211**	**13,192,903**
18	*Check*	*8,790,941*	*0*	*8,790,941*	*(3,716,249)*	*5,074,692*	*0*	*0*
19								
20	Rate Base			172,908,291		172,908,291		172,908,291
21								
22	Rate of Return on Rate Base			**5.08%**		**2.93%**		**7.63%**

Based on the Test Year Revenue at Current Rates ($55,254,657), the Company computed a revenue deficiency and proposed increase, pre-tax, of $8,118,211 (Line 17), based on "Total Revenues" (Line 7) of $55,254,657 as compared to a cost of service/revenue requirement computed to be $68,697,629.

That deficiency was then used in the Functional Cost of Service Study (Line 24) in the column entitled "System Total," below. Line 31 ("Delivery Costs") shows that the total revenue requirement to be recovered through distribution rates after the proposed revenue increase in the case was $67,060,997.

Docket No. DG 14-180
Attachment DAH-2
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FUNCTIONAL COST STUDY
SUMMARY OF RESULTS

Line No.	Description	System Total	Delivery Costs	Direct Gas Costs	LPG & LNG	Misc	Production Costs
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Rate Base						
1	Plant in Service	$ 365,570,860	$ 353,407,725	$ -	$ 12,156,252	$ 6,883	$ 12,163,135
2	Accumulated Reserve	(129,344,216)	(119,911,270)	-	(9,429,957)	(2,990)	(9,432,946)
3	Other Rate Base Items	(63,318,353)	(61,218,102)	-	(2,160,406)	60,154	(2,100,251)
4	Total Rate Base	$ 172,908,291	$ 172,278,353	$ -	$ 565,890	$ 64,048	$ 629,938
	Revenues at Current Rates						
5	Sales Revenue	$ 54,831,021	$ 54,831,021	$ -	$ -	$ -	$ -
6	Miscellaneous Revenues	423,636	416,796	-	4,509	2,331	6,840
7	Total Revenues	$ 55,254,657	$ 55,247,817	$ -	$ 4,509	$ 2,331	$ 6,840
	Expenses at Current Rates						
8	Operations & Maintenance Expenses	$ 30,718,154	$ 29,929,478	$ -	$ 246,577	$ 542,099	$ 788,676
9	Depreciation Expense	10,004,160	9,558,593	-	437,956	7,611	445,567
10	Taxes Other Than Income Taxes	8,389,995	8,058,959	-	330,229	807	331,036
11	Total Expenses - Current	$ 49,112,309	$ 47,547,030	$ -	$ 1,014,762	$ 550,517	$ 1,565,279
12	Interest Expense	$ 3,446,927	$ 3,434,369	$ -	$ 11,281	$ 1,277	$ 12,558
13	Tax Additions/Deductions to Oper. Inc.	-	-	-	-	-	-
14	State Taxable Income	2,695,421	4,266,418	-	(1,021,534)	(549,463)	(1,570,997)
15	State Income Tax	$ 229,111	$ 362,646	$ -	$ (86,830)	$ (46,704)	$ (133,535)
16	Federal Taxable Income	2,466,310	3,903,772	-	(934,703)	(502,759)	(1,437,462)
17	Federal Income Tax	$ 838,546	$ 1,327,283	$ -	$ (317,799)	$ (170,938)	$ (488,737)
18	Total Income Taxes	$ 1,067,656	$ 1,689,928	$ -	$ (404,630)	$ (217,642)	$ (622,272)
19	Current Operating Income	$ 5,074,692	$ 6,010,859	$ -	$ (605,623)	$ (330,544)	$ (936,167)
20	Return at Current Rates	2.93%	3.49%	0.00%	-107.02%	-516.09%	-148.61%
21	Index Rate of Return	1.00	1.19	-	(36.46)	(175.84)	(50.64)
	Revenue Requirement at Equal Rates of Return						
22	Required Return	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%
23	Required Operating Income	$ 13,192,903	$ 13,144,838	$ -	$ 43,177	$ 4,887	$ 48,064
24	Operating Income (Deficiency)/Surplus	$ (8,118,211)	$ (7,133,980)	$ -	$ (648,801)	$ (335,431)	$ (984,231)
	Expenses at Required Return						
25	Operations & Maintenance Expenses	$ 30,718,154	$ 29,929,478	$ -	$ 246,577	$ 542,099	$ 788,676
26	Depreciation Expense	10,004,160	9,558,593	-	437,956	7,611	445,567
27	Taxes Other than Income	8,389,995	8,058,959	-	330,229	807	331,036
28	Interest on Customer Deposits	-	-	-	-	-	-
29	Total Expenses Required	$ 49,112,309	$ 47,547,030	$ -	$ 1,014,762	$ 550,517	$ 1,565,279
30	Income Taxes	$ 6,392,418	$ 6,369,129	$ -	$ 20,921	$ 2,368	$ 23,289
31	Total Revenue Requirement at Equal Return	$ 68,697,629	$ 67,060,997	$ -	$ 1,078,860	$ 557,772	$ 1,636,632
32	Revenue (Deficiency)/Surplus	$ (13,442,972)	$ (11,813,180)	$ -	$ (1,074,351)	$ (555,441)	$ (1,629,792)

In the RATES-5 Schedule in DG 14-180, the $67,090,997 was shown as the revenue requirement (Line 38), less an adjustment of approximately $70,000. Rather than adding the low-income discount revenues in here, as was done in Docket 17-048, the R-4 low-income discount revenue was already accounted for.

Line		Company Total	Explanation
	(X)	(L)	(M)
27	**C. CLASS REVENUE TARGETS**		
38	Delivery Revenue Requirement	67,021,240	Functional Cost of Service Study
39	Step Adjustment	2,649,554	
40	Total Revenue Requirement	69,670,794	

4. <u>Final Rate Settlement, RATES-5 Schedule</u>. As noted above, the Company submitted the RATES-5 Schedule in DG 14-180 as part of its ***initial*** filing. Subsequent to the initial filing, no testimony was filed in the case by NHPUC Staff or the OCA. Instead, a rate settlement was reached. As part of the Rate Settlement Agreement, the parties submitted an "abbreviated" RATES-5 Schedule that did not include a derivation of the approved cost of service or "revenue requirement." However, the Settlement Agreement, Rates 5 Schedule correctly laid out the rate design process based on Total Distribution Revenues, as denoted by the following:

- First, on Lines 27-34, "Settlement Base Rates" are set with the "R-4 Discount Included," <u>i.e.</u>, new distribution rates are set for each class including R-4, with the low-income discount applying to the R-4 distribution rate.

- Second, on Lines 35-97, the computation of the low-income revenues to be recovered through the RLIAP is provided in detail.

26	Total Quantities	986,821	53,322,029	3,452,737	56,774,766	19,255,380	30,690,696	9,834,247	3,907,851	7,285,042	9,278,965	17,301,454	155,315,222	Company Records
27	Settlement Base Rates with R-4 Discount included **Before Step Adjustment**													
28	Monthly Customer Charge	$14.75	$21.34	$8.54	$21.34	$46.71	$140.13	$601.38	$46.71	$140.13	$618.89	$618.89		OCA Rate Sheet, Col J
29	Winter Period Variable Rates													
30	Head Block	$0.1950	$0.3375	$0.1350	$0.3375	$0.3830	$0.3483	$0.2140	$0.2308	$0.1982	$0.1385	$0.0529		OCA Rate Sheet, Col J
31	Tail Block	$0.1950	$0.2793	$0.1117	$0.2793	$0.2573	$0.2320	$0.2140	$0.1500	$0.1321	$0.1385	$0.0529		OCA Rate Sheet, Col J
32	Summer Period Variable Rates													
33	Head Block	$0.1950	$0.3375	$0.1350	$0.3375	$0.3830	$0.3483	$0.0979	$0.2308	$0.1436	$0.0665	$0.0287		OCA Rate Sheet, Col J
34	Tail Block	$0.1950	$0.2793	$0.1117	$0.2793	$0.2573	$0.2320	$0.0979	$0.1500	$0.0816	$0.0665	$0.0287		OCA Rate Sheet, Col J
35	Low Income Discount and RLIAP Calculation													
36	Base Revenues before Low Income Discount													
37	Monthly Customer Charge			$1,238,122										Line 28 * Line 18
38	Winter Period Variable Rates													
39	Head Block			$739,407										Line 30 * Line 21
40	Tail Block			$171,256										Line 31 * Line 22
41	Summer Period Variable Rates													
42	Head Block			$149,561										Line 33 * Line 24
43	Tail Block			$57,423										Line 34 * Line 25
44	Total Base Revenue before Low Income Discount			$2,355,769									$2,355,769	∑ Line 37 to Line 43
45														
46	Low Income Discount % of Distribution Rates			**60.00%**										Rate Design Input: Docket DG 10-47
47	Total Low Income Revenue Shortfall			$1,413,462	$1,413,462								**$1,413,462**	Line 46 x Line 44
48	Low Income RLIAP ($/therm)												**$0.0091**	Line 47 / Line 26 (Truncated to 4 decimals)
49	RLIAP Revenues	$8,981	$485,262	$31,422	$516,684	$175,235	$279,304	$89,498	$35,564	$66,298	$84,444	$157,454	$1,413,462	Line 26 * Line 48 Col (L)
50	Increase in RLIAP Rate												**$0.0017**	Line 48 - Line 12
51	Base Rates **Before Step Adjustment** Revenue Proof													

As a result, the summary of the Company's research on this EXCEL is as follows:

Revenue Deficiency = Allowed Return – Actual Net Income. This was calculated the same in both DG 14-180 and DG 17-048.

Allowed Return = Actual Rate Base x Allowed WACC. This was calculated the same in both DG 14-180 and DG 17-048.

Actual Net Income = Actual Revenues – Actual Expense. This was calculated differently in DG 14-180 and DG17-048, but to the same effect. In DG 14-180, the RLIAP discount was added to actual revenues for purposes of calculating the deficiency. In DG 17-048, the RLIAP discount was not included in the actual net income because the RLIAP discount was shown as a credit in expense and was therefore removed from the computation of the revenue deficiency.

Total Non-Discounted Base Revenue Requirement = Actual TY Revenue + Revenue Deficiency. This was calculated differently in DG 14-180 and DG-17-048, but to the same effect. In DG 17-048, the RLIAP discount is not included in the revenue deficiency but is added as revenue in the test year. In DG 14-180, the RLIAP discount is included in the revenue deficiency as a component of net income.

Please note that, although the Company is providing this confirmation, this exercise is fundamentally flawed because it ignores the existence of two separate steps in the ratemaking process. These two steps are as follows:

1. When a base distribution rate case is filed, the utility puts forward a computation of its “revenue requirement” – the amount of money needed to recover its return of anr return on capital, operations and maintenance expenses, and taxes. Next, the Company calculates a “revenue deficiency” - the Company’s *proposed revenue requirement* as compared to total base revenues *produced by existing rates*. To correctly calculate the *proposed* revenue deficiency, existing rates must include both base distribution rates and reconciling rate mechanisms, such as the RLIAP.” Outside of the initial filing, the Company’s computed revenue deficiency plays virtually no role in the distribution rate case, because NHPUC staff and intervenors focus on the components of the total revenue requirement rather than just the deficiency to present rates.

2. When new base distribution rates are set, the rates are set based on the approved “revenue requirement.” There are no revenues included in this computation, only the sum total of the revenue requirement components listed above.

Accordingly, the only way that any “double recovery” or “over recovery” of the low-income discount could occur through base rates is where the low-income discount amount has been incorporated into the approved cost of service, essentially as a line-item expense, which has not occurred.

Instead, in both DG 14-180 and DG 17-048, the low-income discount revenues are added into the total base revenues for purposes of calculating the initial revenue deficiency. At the end of the case, once the cost-of-service was reviewed and accepted for inclusion in rates, the actual rates were designed and set by tariff. The low-income discount revenues were ***not*** included in the approved revenue requirement representing the approved cost of service using test year costs. Instead, the discount is accounted for only in the design of rates, using the approved cost of service or “revenue requirement.” Therefore, there is no “double counting” of the low-income discount revenues that has occurred in either DG 14-180 or DG 17-048.