

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DG 23-067

**LIBERTY UTILITIES (ENERGYNORTH NATURAL GAS) CORP. D/B/A LIBERTY
REQUEST FOR CHANGE IN DISTRIBUTION RATES**

**LIBERTY TO OFFICE OF CONSUMER ADVOCATE
SET 1**

Direct Testimony of John Defever

1-1.	Regarding the testimony of John Defever, please provide Exhibit JD-1 in native format, with links and formulas intact.
1-2.	Regarding the testimony of John Defever, at 7:10-9:2: a. Does Witness Defever believe that contingencies are capitalized when plant is placed into service? Please explain your answer. b. Please confirm Witness Defever's understanding that the step adjustments included in the filing are illustrative and the actual step adjustments will not be known until the non-growth related projects are complete. c. Does Witness Defever believe contingencies are a best practice budgeting tool? If not, why not. d. Please provide a narrative description of Witness Defever's experience related to budgeting for utility capital projects.
1-3.	Regarding the testimony of John Defever, 12:16-13:16, is Witness Defever's position that the Company's employees feel that their incentive pay is guaranteed? If yes, please provide all studies, reports, and any other analyses that supports Witness Defever's position as it relates to the Company's employees. If no, please explain your answer.
1-4.	Regarding the testimony of John Defever, 13:1-14:19: a. Does Witness Defever believe that the financial health of the Company impacts the cost of borrowing (i.e., are borrowing costs higher or lower for a company in poor financial health vs one in good financial health?) please explain your answer. b. Please provide the basis for Witness Defever's 50/50 cost sharing approach to include any analysis performed by Witness Defever that supports his proposed allocation methodology.
1-5.	Regarding the testimony of John Defever, 16:8-17:8, a. Please provide the basis for Witness Defever's 75/25 cost sharing allocation for D&O insurance expense to include any analysis performed by Witness Defever that supports his proposed allocation methodology for D&O insurance.

	<ul style="list-style-type: none"> b. Does Witness Defever agree that D&O insurance is an expense incurred to run the Company? c. Is it Witness Defever's position that D&O insurance is not a prudent utility expense? Please explain your answer. d. Please explain how Witness Defever's cost sharing proposal, if accepted, would impact the Company's rate of return on its investment.
1-6.	<p>Regarding the testimony of John Defever, 17:20-19:20,</p> <ul style="list-style-type: none"> a. Please provide the basis for Witness Defever's 75/25 cost sharing allocation for Board of Directors to include any analysis performed by Witness Defever that supports his proposed allocation methodology for Board of Directors costs. b. Does Witness Defever agree that Company board management is an expense incurred to run the Company? c. Is it Witness Defever's position that Board of Directors expenses are not a prudent utility expense? Please explain your answer. d. Please explain how Witness Defever's cost sharing proposal, if accepted, would impact the Company's rate of return on its investment. e. Please provide Witness Defever's understanding of the nature of the Board of Directors costs being allocated to the Company (e.g., salaries, food and beverage, hotel stays, etc.)
1-7.	<p>Regarding the testimony of John Defever, 19:22-19:2,</p> <ul style="list-style-type: none"> a. Please provide the basis for Witness Defever's 75/25 cost sharing allocation to include any analysis performed by Witness Defever that supports his proposed allocation methodology for investor relations costs. b. Does Witness Defever agree that investor relation is an expense incurred to run the Company? Please explain your answer. c. Please provide Witness Defever's understanding of how utilities raise capital to invest it their systems. d. Please explain how Witness Defever's cost sharing proposal, if accepted, would impact the Company's rate of return on its investment.

Direct Testimony of Aaron L. Rothschild

1-8.	Please provide electronic copies of all workpapers supporting the calculations used in Mr. Rothschild's testimony and exhibits, including but not limited to electronic copies of all exhibits, charts and figures.
1-9.	Please provide the underlying data supporting all options analyses prepared by Mr. Rothschild. All data should be in electronic format with working formulas.
1-10.	<p>Referencing Mr. Rothschild's Direct Testimony at page 19, lines 12-16:</p> <ul style="list-style-type: none"> a. Please explain how Mr. Rothschild has gone to "great lengths to distill the sustainable growth components" from the Zacks projected EPS growth rates. b. Please provide all workpapers in native format with formulas.
1-11.	<p>Referencing Mr. Rothschild's Direct Testimony at page 19, lines 17-19:</p> <ul style="list-style-type: none"> a. Please provide all supporting documentation for Mr. Rothschild's statement that he has provided "direct measurement of investors' expectations as indicated by market prices".

	<p>b. Please provide all academic support for the methodology used by Mr. Rothschild for the “direct measurement” of investors’ expectations.</p>
1-12.	<p>Referencing Mr. Rothschild’s Direct Testimony at page 20:</p> <p>a. Please confirm that a decreasing market value results in a higher return on market for the same expected return on book, all else equal. If that cannot be confirmed, please explain in detail why that is not the case, citing to relevant academic articles or texts as support for this opinion.</p>
1-13.	<p>Referencing Mr. Rothschild’s Direct Testimony at page 24-26.</p> <p>a. Please identify all capital markets data that Mr. Rothschild has considered since January 31, 2024, including but not limited to:</p> <ol style="list-style-type: none"> i. macroeconomic data (i.e. labor force participation, unemployment, GDP) ii. Federal Open Market Committee meeting notes, iii. FOMC member (or chair) speeches, and iv. market viewpoints on changes in interest rates. <p>b. Please provide all documentation supporting the data referenced in response to part (a).</p>
1-14.	<p>Referencing Mr. Rothschild’s Direct Testimony Chart 2 (p. 27), please provide the source data relied upon for the Federal Funds expectations.</p>
1-15.	<p>Please provide the operating companies owned by each of the proxy group companies relied upon in Mr. Rothschild’s cost of equity analysis.</p>
1-16.	<p>Referencing Mr. Rothschild’s Direct Testimony at page 26: Mr. Rothschild states that “the Federal Reserve Bank of Atlanta estimated that as of December 29, 2023, investors expect the three-month average Federal Funds rate will most likely decrease from its current range of 5.25%-5.50% to an expected value of under 3.25% in 2025.”</p> <ol style="list-style-type: none"> a. Please provide the source for this data. b. Please indicate whether the Atlanta Federal Reserve bank’s projection is “capital market data” in Mr. Rothschild’s opinion. c. Has Mr. Rothschild conducted any analysis to determine the variability in this daily data? If not, why did he not consider the variability in the Atlanta Federal Reserve’s projections important?
1-17.	<p>Referencing Mr. Rothschild’s Direct Testimony at page 26: Please explain why the Federal Reserve Bank of Atlanta’s projections are more appropriate to consider when calculating the cost of equity than analyst projections.</p>
1-18.	<p>Referencing Footnote 32 of Mr. Rothschild’s testimony, please provide all data related to the Electric LEAPS proxy group relied upon in Mr. Rothschild’s analysis.</p>
1-19.	<p>Referencing Mr. Rothschild’s Direct Testimony at pages 22, and charts 3 and 5. Mr. Rothschild states that Chart 3 and Chart 5 show investors expect inflation to decrease sharply over the next few years and long-term interest rates to remain near current levels in coming decades.</p> <ol style="list-style-type: none"> a. Please provide the source for this data. b. Is this capital market data or a projection? Please explain.
1-20.	<p>Referencing Mr. Rothschild’s Direct Testimony at page 23, lines 5-9, please provide all supporting documentation for Mr. Rothschild’s conclusion that the decrease in</p>

	the market risk premium more than offsets the effect of inflation, interest rates and stock price performance.
1-21.	Referencing Mr. Rothschild's Direct Testimony at page 25, lines 1-4. Please quantify what Mr. Rothschild means by "relatively low" and "over the coming years".
1-22.	Referencing Mr. Rothschild's Direct Testimony at page 26, lines 14-18. Please provide all data that Mr. Rothschild reviewed that supports the statement that the Federal Reserve Bank of Atlanta relies on market-implied probabilities based on investors' expectations as indicated by option prices, future prices and swap spreads.
1-23.	Referencing Chart 5 of Mr. Rothschild's testimony, please explain if the expected yields on the 10-year Treasury as shown in this chart are based on option prices, futures prices and swaps spreads. If not, is this information capital market data, projections or prognostications?
1-24.	Please provide all analysis conducted that demonstrates that the Option Implied Betas and Option-Implied COE term structure of Mr. Rothschild's Electric LEAPS proxy group is reasonable to be relied upon in the estimation of the ROE for a natural gas company such as Liberty Utilities (EnergyNorth).
1-25.	Please provide all data used to develop the Option-Implied analyses performed by Mr. Rothschild, either for the Electric LEAPS proxy group or the RFC Gas Proxy Group. The data requested includes all workpapers that demonstrate the daily option-implied betas that were relied upon to develop his analysis.
1-26.	Please provide all regulatory decisions of which Mr. Rothschild is aware, where the regulatory commission specifically endorsed the use of option implied beta coefficients.
1-27.	Referencing Mr. Rothschild's testimony at page 48 lines 18-22, please provide any academic articles, journal publications or other authoritative sources that support Mr. Rothschild's view that there are "benefits of using recent spot data for forward-looking analyses". To the extent that Mr. Rothschild cannot provide any such support, please so state.
1-28.	Referencing Mr. Rothschild's testimony at page 63 lines 10-11, please provide in native electronic format, with formulas, the calculation of Mr. Rothschild's "historical blended" beta.
1-29.	Please indicate if the methodology that Mr. Rothschild has relied upon in calculating the option-implied betas in this case differs in any way from the methodologies that he has used in any other case where he has filed testimony in the last 12 months. If the answer is yes, please identify each difference in the calculation and how the use of the previously relied upon methodology would have affected the results. Please provide all workpapers.
1-30.	Please confirm that Mr. Rothschild agrees that the dividend yields of utility stocks have increased in the last 12 months. If Mr. Rothschild cannot confirm, please provide the supporting documentation he relies upon to deny this statement.
1-31.	Please confirm that Mr. Rothschild did not rely on dividend per share growth rates in his DCF analyses. If this cannot be confirmed, please provide the specific reference to where in his exhibits he has relied on these growth rates.

Direct Testimony of Marc Vatter

1-32.	Referencing the Direct Testimony of Marc Vatter. Please provide the underlying source data used to create all figures in his Direct Testimony with sufficient detail that the charts can be verified.
1-33.	Is Mr. Vatter aware of whether the New Hampshire Public Utilities Commission recognizes the U.S. Supreme Court decisions, Hope and Bluefield, in particular the standards that require that the ROE that is set for a utility be set at a level that is commensurate with the return on other entities of comparable risk? If he is not aware, please explain whether or not he thinks this standard is relevant in establishing the ROE for EnergyNorth in this proceeding.
1-34.	Referencing the Direct Testimony of Marc Vatter at page 3, lines 11 through 16. Please confirm that all else equal, selling stock would increase the equity component of a company's capital structure.
1-35.	Referencing the Direct Testimony of Marc Vatter at page 8, lines 8 through 13. Please provide the data reviewed and relied upon to conclude that interest rates have been stable for fifteen months.
1-36.	Referencing the Direct Testimony of Marc Vatter at page 8, lines 14 through 18. Please provide Mr. Vatter's understanding of the stand-alone ratemaking principle. If he is unaware of this principle, please so state.
1-37.	Please explain Mr. Vatter's views on whether or not a diversified portfolio has less risk than an investment in an individual company.
1-38.	Does Mr. Vatter believe that it is appropriate to rely on Algonquin Power & Utilities Corp. ("APUC") as the comparable company upon which to base the ROE for EnergyNorth? If the answer is yes, please explain whether or not Mr. Vatter believes that the use of a proxy group beyond APUC is appropriate in establishing the ROE for EnergyNorth.
1-39.	Referencing the Direct Testimony of Marc Vatter at page 8, line 19 through page 9, line 5. Please confirm that Mr. Vatter is aware that in January 2023 APUC announced 40 percent decrease in its dividend and a plan to sell \$1 billion in assets to strengthen its financial position.
1-40.	Referencing the Direct Testimony of Marc Vatter at page 11. <ol style="list-style-type: none">Has Mr. Vatter conducted any analysis of recently authorized ROEs that are within the range of the ROE recommended by Mr. Rothschild, or the real ROE he estimates for APUC.If the answer to part a of this question is no, please explain why he did not conduct this analysis.If the answer to part a of this question is yes, please provide the analysis including underlying data in electronic format with formulas.
1-41.	Please provide Mr. Vatter's calculation of the APUC dividend yield in electronic format with formulas and supporting data.
1-42.	Referencing the Direct Testimony of Marc Vatter at page 11. <ol style="list-style-type: none">Please provide all commission decisions of which Mr. Vatter is aware that demonstrate that the utility commission has adopted his approach to estimating the cost of equity; relying on the real ROE plus a forward looking inflation factor.

	<p>b. If Mr. Vatter has not conducted any analysis to demonstrate that this methodology has been relied upon, please so state.</p>
1-43.	<p>Referencing the Direct Testimony of Marc Vatter at page 10, lines 9-16 and page 11, Table II. Please provide all supporting documentation for the inflation estimates relied upon by Mr. Vatter.</p>
1-44.	<p>Referencing the Direct Testimony of Marc Vatter at page 14.</p> <p>a. Please provide all equity analyst reports reviewed and relied upon by Mr. Vatter to support his view that “It is the real rate of interest that investors consider in comparison to real rates of return when deciding whether to borrow funds to invest in real capital...”.</p> <p>b. If Mr. Vatter does not have any equity analyst reports that support his views, please so state.</p>
1-45.	<p>Please confirm that Mr. Vatter believes it is reasonable and appropriate to rely on forecasts in setting the cost of equity. If this cannot be confirmed, please explain in detail why he disagrees with this statement.</p>
1-46.	<p>Referencing Figure VII of Mr. Vatter’s testimony.</p> <p>a. Please identify the source of the forecasted yield curves shown in this figure. Please provide all underlying data in electronic format with formulas, resulting in the figure presented.</p> <p>b. Is it Mr. Vatter’s position that investors rely on the forecasts provided in Figure VII? If yes, please provide all supporting analyses and academic studies relied on by Mr. Vatter to conclude that investors rely on the forecasts provided in Figure VII.</p>
1-47.	<p>Please provide all data demonstrating that Henry Hub is in contango and the futures curve for Brent is in backwardation. Please provide all data in electronic format, with formulas.</p>
1-48.	<p>Referencing the Direct Testimony of Marc Vatter at page 21.</p> <p>a. Please confirm that the nominal allowed ROE of 9.30 percent, set for EnergyNorth in New Hampshire, is the only factor that affects the price of APUC’s stock price.</p> <p>b. If part a of this question cannot be confirmed, please explain provide a detailed explanation as to why Mr. Vatter believes this is the only factor that affects the APUC stock price.</p> <p>c. Please provide all factors that Mr. Vatter believes affect the stock price of APUC.</p> <p>d. Referencing page 9, Figure IV, please provide the percent change in APUC’s stock price between July 30, 2021 (Order date in EnergyNorth’s last rate case in DG 20-105) and January 31, 2024.</p>