STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 23-067

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty
Distribution Service Rate Case
Revenue Requirement and Permanent Rates

DIRECT TESTIMONY

OF

TYLER J CULBERTSON

AND

C. DREW CAYTON

July 27, 2023

Liberty™

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TABLE OF CONTENTS

TITLE PAGE

LIST OF ATTACHMENTS iii
LIST OF TABLES iii
I. INTRODUCTION 1
II. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT 5
  A. Rate Base 5
  B. Net Operating Income 6
  C. Weighted Average Cost of Capital 15
III. STEP INCREASES 15
IV. RATE CASE EXPENSES 17
V. EFFECTIVE DATE 18
VI. UPDATED SCHEDULES 19
VII. CONCLUSION 19

LIST OF ATTACHMENTS

Attachment TJC/CDC-1	Revenue Requirement Schedules
Attachment TJC/CDC-2	Depreciation Study Memo
Attachment TJC/CDC-3	Step Increases Schedules
Attachment TJC/CDC-4	Rate Case Expense

LIST OF TABLES

Table 1. Revenue Requirement Schedules 2
Table 2. Schedules Containing Adjustments to Test Year Net Operating Income 7

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I. INTRODUCTION

Q. Please state your full name, business address, and position.

A. My name is Tyler J Culbertson. I am employed by Liberty Utilities Service Corp. ("LUSC") as the Director of Rates and Regulatory Affairs for Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty ("Liberty EnergyNorth" or the "Company") and Liberty Utilities (Granite State Electric) Corp. ("Liberty GSE"). Liberty EnergyNorth and Liberty GSE are direct subsidiaries of Liberty Utilities Co. ("Liberty") that provide natural gas and electric utility services to customers in New Hampshire. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

Q. On whose behalf are you submitting this testimony?

A. I am submitting testimony in this proceeding before the New Hampshire Public Utilities Commission ("Commission") on behalf of Liberty EnergyNorth.

Q. Are you the same Tyler J Culbertson who submitted other direct testimony in this case?

A. Yes. I also submitted testimony in support of Liberty EnergyNorth's temporary rate filing and regulatory testimony. The temporary rate filing testimony sets forth my educational background and professional qualifications.

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

A. My name is C. Drew Cayton. My business address is 11401 Lamar Ave., Overland Park, Kansas, 66221. I am employed by Black and Veatch Management Consulting, LLC as a Principal Consultant.

Q. On whose behalf are you submitting this testimony?

A. I am testifying in this proceeding before the Commission on behalf of Liberty EnergyNorth.

Q. Are you the same C. Drew Cayton who submitted other direct testimony in this case?

A. Yes. I also submitted testimony in support of Liberty EnergyNorth's request for temporary rates. That testimony sets forth my educational background and professional qualifications.

Q. Are you sponsoring any schedules as a part of your direct testimony?

A. Yes. We are sponsoring Attachment TJC/CDC-1, which includes the schedules listed below, in accordance with Puc 1604.07 and 1604.08.

Table 1. Revenue Requirement Schedules

Schedule RR-EN-1	Revenue Deficiency and Revenue Requirement
Schedule RR-EN-2	Operating Income Statement
Schedule RR-EN-2-1	Operating Income Statement – Detail
Schedule RR-EN-3	Summary of Adjustments
Schedule RR-EN-3-1 to RR-EN-3-10	Detailed Adjustment Schedules
Schedule RR-EN-4	Weighted Average Cost of Capital
Schedule RR-EN-5	Rate Base
Schedule RR-EN-5-1	Rate Base Quarterly Balances
Schedule RR-EN-5-2	Cash Working Capital

Additionally, Attachment TJC/CDC-2 presents a memo summarizing the findings of the Company's most recent depreciation study. Attachment TJC/CDC-3 presents three requested step increases for non-growth capital investments for calendar years 2023, 2024, and 2025. Lastly, estimated rate case expenses are presented in Attachment TJC/CDC-4 in Schedule RC-Rate Case Expense.

Q. Please summarize the rate relief Liberty EnergyNorth is seeking in this proceeding.

A. Liberty EnergyNorth is seeking to recover an annual revenue deficiency of $27,549,837, based on a rate base of $527,941,042, which represents a 26.71% increase in total operating revenue for Liberty EnergyNorth, based on a test year of the twelve months ending December 31, 2022 (the "Test Year").

Q. Is the Company also requesting approval of step adjustments in this proceeding?

A. Yes. In addition to the recovery of the Company's annual revenue deficiency, Liberty EnergyNorth seeks approval for step adjustments in 2024, 2025, and 2026, to recover the cost of non-growth related post-test year plant additions through 2025. The first step adjustment of $6,382,231, is for the projected annual revenue requirement associated with incremental non-growth plant additions placed into service during 2023. The Company anticipates placing $46,429,223 of non-growth related plant into service by December 31, 2023. This first annual step increase will begin upon implementation of permanent rates in this proceeding, anticipated to occur on August 1, 2024.

The second step adjustment of $9,604,838, will be for the projected annual revenue requirement associated with the incremental non-growth plant additions placed into service during 2024. The Company anticipates placing $62,892,420 of non-growth related plant into service by December 31, 2024. Liberty EnergyNorth anticipates the second annual step increase will begin on or around August 1, 2025.

The third step adjustment of $7,566,868 will be for the projected annual revenue requirement associated with the incremental non-growth plant additions placed into service during 2025. The Company anticipates placing $52,306,751 of non-growth related plant into service by December 31, 2025. Liberty EnergyNorth anticipates the third annual step increase will begin on or around August 1, 2026.

Q. What is the primary driver of the Company's need for an increase in base distribution rates?

A. The primary driver of the Company's revenue deficiency and resulting need for a distribution base rate increase is the capital investment the Company has made since 2019 which was the test year in the Company's most recent rate case.[1] As shown on Schedule RR-EN-2 of Attachment TJC/CDC-1, the Company's earned return on rate based for the Test Year in this case was 3.65%. When adjusted for known and measurable changes, the Company's rate of return increases to 3.87%.

Both returns are significantly below the weighted average cost of capital of 7.68% recommended by Company witness Ann E. Bulkley and Christopher M. Wall.[2]

Q. How were the revenue requirement and revenue deficiency calculated?

A. The Company's revenue requirement and revenue deficiency were calculated based on the Company's financial results for the Test Year, excluding revenues related to the Cost of Gas ("COG"), decoupling, and the Local Delivery Adjustment Charge ("LDAC"), as

[1] The Test Year for Docket No. DG 20-105 was the twelve months ending December 31, 2019.

[2] Direct Testimony of Witness Ann E. Bulkley and Christopher M. Wall, Attachment AEB/CMW-2.

adjusted for known and measurable changes. The resulting Test Year net operating income reflects normalized revenues at current rates, expenses, and net operating income for rate making purposes, as summarized on Schedule RR-EN-2.

Pro forma net operating income was then compared to the Company's operating income requirement, which is the net operating income required to achieve a return of 7.68% on the Company's Test Year rate base. The difference between the *pro forma* net operating income and the required net operating income is equal to the after-tax net operating income deficiency. The net operating income deficiency is then grossed-up for federal and state income taxes to determine the revenue deficiency, as shown on Schedule RR-EN-1 of Attachment TJC/CDC-1.

II. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT

A. Rate Base

Q. What are the components of Liberty EnergyNorth's rate base?

A. Liberty EnergyNorth's rate base is comprised of: (1) utility plant in service as of December 31, 2022, including the balance in FERC Account No. 106, Completed Construction not Classified, net of accumulated depreciation as of December, 31, 2022; (2) a deduction for the five-quarter average balance of customer deposits; (3) the five-quarter average balance in materials and supplies; (4) deductions for accumulated deferred and excess accumulated deferred income tax assets and liabilities; and (5) the outstanding regulatory assets balance as of December 31, 2022. The rate base is measured as of December 31, 2022, to align with the calculation of revenues and return on rate base. The rate base components are summarized in Schedule RR-EN-5 and total $527,941,042.

Q. Were there any adjustments made to plant in service as of December 31, 2022?

A. No.

Q. What information is provided in Schedule RR-EN-5-1?

A. Schedule RR-EN-5-1 details the five-quarter averages of materials and supplies and customer deposits for Liberty EnergyNorth.

Q. What is provided in Schedule RR-EN-5-2?

A. Schedule RR-EN-5-2 provides the calculation of cash working capital. In that schedule, the cash working capital required days of 24.86 was applied to adjusted operations and maintenance expenses to calculate a cash working capital requirement.[3] The resulting cash working capital requirement is $3,148,063.

B. Net Operating Income

Q. Please summarize the results of Liberty EnergyNorth's distribution revenue requirement, as presented in Schedule RR-EN-1.

A. Schedule RR-EN-1 provides the requested distribution revenue increase and distribution revenue requirement. As shown in that schedule, the revenue deficiency is $27,549,837, based on an overall rate of return on rate base of 7.68%. Schedules RR-EN-2 through

[3] See the Direct Testimony of Dr. Albert W. Bremser.

RR-EN-5 provide the support for items presented on Schedule RR-1, including the Test Year net operating income and rate base.

Q. What information is provided in Schedules RR-EN-2 and RR-EN-2-1?

A. Schedule RR-EN-2 provides the revenues and expenses for Liberty EnergyNorth, including: (1) Test Year amounts; (2) amounts that are excluded from the base distribution revenue requirements such as the COG and LDAC revenues and expenses; (3) known and measurable adjustments; and (4) the proposed revenue increase, including income tax effects.

Schedule RR-EN-2-1 provides a more detailed income statement by FERC account and provides information regarding labor amounts in each FERC account.

Q. What known and measurable adjustments were made to Liberty EnergyNorth's Test Year revenues and expenses to arrive at the Test Year net operating income?

A. The following is a list of adjustments for known and measurable changes in revenue and expenses for Liberty EnergyNorth, along with the schedules in which the details are provided:

Table 2. Schedules Containing Adjustments to Test Year Net Operating Income

Schedule RR-EN-3-1	Revenue
Schedule RR-EN-3-2	Salary and wages
Schedule RR-EN-3-3	Payroll taxes
Schedule RR-EN-3-4	Pension and other benefits
Schedule RR-EN-3-5	Depreciation
Schedule RR-EN-3-6	Amortization
Schedule RR-EN-3-7	Property taxes
Schedule RR-EN-3-8	Income taxes – historical test year
Schedule RR-EN-3-9	Income taxes – effect of adjustments
Schedule RR-EN-3-10	Other adjustments

Q. What adjustments were made to revenues in Schedule RR-EN-3-1?

A. Liberty EnergyNorth's historical Test Year operating revenues (less COG and LDAC revenues) were adjusted to remove revenues associated with Granite Ridge and iNATGAS Special Contracts. Test Year revenues were also adjusted to reflect weather and calendar year normalizations, as supported by Company witness Kenneth A. Sosnick.[4] Additionally, the test year includes $1,517,900 of revenues associated with calendar year 2021 related to the deferral of step increase revenues. In sum, the total adjustment to Test Year operating revenue is a reduction of $2,275,787. Miscellaneous revenues were increased by $799,100 to recognize an increase in the connection fees, as discussed in the Regulatory Direct Testimony of Tyler J Culbertson.

Q. Please describe the adjustment for salary and wage expense shown in Schedule RR-EN-3-2.

A. The salary and wage expense adjustment reflects the annualized expense for the full complement of Liberty EnergyNorth employees as of December 31, 2022, including wage increases effective in March 2022, expected incentive compensation, and overtime. Once the annualized salaries and wages for 2022 were calculated, a 4% expected average wage increase for 2023 was applied. Because many employees provide services to both Liberty EnergyNorth and Liberty GSE, each employee's salary was allocated between Liberty EnergyNorth and Liberty GSE per the portion of their time spent dedicated to each company. Costs for the new Customer Advocacy Manager for the East Region have

[4] See Direct Testimony of Kenneth A. Sosnick.

also been included in the *pro forma* labor increase. The costs for this new position have been allocated to Liberty EnergyNorth based on the company's customer count as a percentage of the entire East Region. Additionally, there remains $3,600 of the 2019 ratification bonus from DG 20-105 remaining to be amortized in rates. The original amortization is due to expire on December 31, 2023. In an effort to tie the end of the amortization to a potential future test year following the final step increase in this proceeding, the Company proposes to extend the amortization period for this item to four years, ending December 31, 2026. In summary, the total salary and wage adjustment is $417,752.

Q. Please describe the adjustment for payroll tax expense shown in Schedule RR-EN-3-3.

A. Payroll taxes were determined in Schedule RR-EN-3-3 by calculating the ratio of payroll taxes to gross payroll for the unadjusted historical Test Year, and then applying that ratio to the salary and wages expense increase. That adjustment aligns payroll taxes with gross payroll, resulting in a payroll tax adjustment of $32,628.

Q. Please describe the adjustment for pension and benefits expense shown in Schedule RR-EN-3-4.

A. The pension and benefits expense adjustment reflects the full employment of current Liberty EnergyNorth employees as of December 31, 2022, as well as known and measurable changes to benefits expense based on the latest actuarial analysis. Specifically, the Company makes employee 401(k) contributions at 6.67% of the test year portion of salaries changed to operations and maintenance expenses. In addition, the Company recently updated its 401(k) matching policy to allow for a 1% increase in company match. As such 7.67% (6.67% + 1%) was applied to the *pro forma* salaries and wages expense to calculate the going forward 401(k) expense, $1,221,515, an increase of $185,726 from the Test Year total. Pension and Other Post-Employment Benefits ("OPEB" or "PBOP") expense was adjusted to reflect the latest actuarial assumptions, resulting in an increase of $1,896,339 before consideration of capitalized amounts. All other pension and benefits expenses were unadjusted from Test Year amounts.

Q. What adjustment did you make to pension and benefits expense to reflect the capitalization of pension and OPEB benefits expense?

A. The Company capitalizes a portion of pension and benefits expense. The Company's current capitalization rate is 30.65%. When the capitalization rate of 30.65% is applied to the Company's pension and OPEB expense, it results in capitalized pension and OPEB expense of $581,133, which is credited to Account No. 922.

Q. What adjustments were made to depreciation expense?

A. Depreciation and amortization expense for each FERC plant account were calculated using the depreciation rates approved in Docket No. DG 17-048, further analyzed in Docket No. DG 20-105 and updated in Docket No. DG 22-028. Included in the total depreciation expense is the annual amortization of the Account No. 403 portion of the depreciation reserve shortfall that was determined in Docket No. DG 17-048 and is currently being amortized over a six-year period and scheduled to end April 30, 2023. As of the end of the Test Year, $2,047,451 of the depreciation reserve shortfall has been unamortized. As a result, Liberty EnergyNorth proposes to extend the amortization of the depreciation reserve shortfall through December 2026 to better match the end of the shortfall amortization and the Test Year of a future distribution rate increase filing following the third step increase.

Q. Has the status of the amortization of the depreciation reserve shortfall been examined since the Company's last distribution rate case?

A. Yes. As directed in Order No. 26,505 approving the settlement agreement from the Company's last distribution rate increase, the Company engaged Management Applications Consulting, Inc. to complete a full depreciation study to include analysis of the depreciation reserve imbalance. The Direct Testimony of Catherine A. McNamara and Erica L. Menard in Docket No. DG 22-028 summarizes the recommendations from the updated depreciation study. Among the recommendations was to continue amortizing the depreciation reserve imbalance until April 30, 2024, to mitigate the remaining variance. Attachment TJC/CDC-2 is a memo from the Company's depreciation experts, Management Applications Consulting, Inc., that discusses the depreciation study required in Order No. 26,112 and implemented as a part of the Company's 2021 Step Adjustment. As explained earlier, the Company is proposing to extend the recovery of the outstanding depreciation reserve imbalance to the end of 2026 to better match with the Test Year of a potential future distribution rate filing.

Q. What adjustments were made to amortization expense?

A. Four adjustments were made to the historical Test Year amortization expense. The first two adjustments are to recover the outstanding Cost to Achieve interest and NHDAS Special Contract regulatory assets from Docket No. DG 20-105 over four years. The current amortization of the Cost to Achieve interest and the NHDAS Special Contract are scheduled to end July 30, 2024. Similar to the Company's adjustment to extend the depreciation reserve imbalance amortization to the end of 2026, Liberty EnergyNorth is proposing to extend the Cost of Achieve interest and NHDAS Special Contract amortizations to December 31, 2026, to better align the amortization's end with the Test Year of a potential future distribution rate filing.

Second, the 2017 Tax Cuts and Jobs Act ("TCJA") Excess Accumulated Deferred Income Tax ("EADIT") regulatory liabilities continue to be amortized over the same amortization periods approved in Docket No. DG 20-105. In addition to TJCA EADIT, the New Hampshire Business Tax rate has been reduced twice since Liberty EnergyNorth's last rate case. As a result of the decreases in the state's business tax, Liberty EnergyNorth has each time adjusted its accumulated deferred income tax accounts to reflect the lower state tax rate. This adjustment results in a new, New Hampshire EADIT liability of $1,758,215 (exclusive of gross-up). State EADIT regulatory liabilities are classified as unprotected, *i.e.*, not subject to federal income tax normalization requirements. As such, the Company is proposing to return the New Hampshire EADIT over twenty years, following the unprotected TCJA EADIT amortization period approved in Docket No. DG 20-105.

Finally, similar to depreciation expense, amortization of intangible plant was updated to reflect a full year of amortization, using the amortization rates approved in Docket No. DG 17-048 as updated in Docket No. DG 22-028 and inclusive of the Account No. 405 portion of the previously discussed depreciation reserve imbalance adjustment. Consistent with the Company's approach to extend the depreciation reserve imbalance amortization through December 31, 2026, the remaining imbalance associated with amortization, $162,944, is being amortized over four years. In total, the amortization expense adjustments result in an amortization expense decrease of $1,505,943, as shown on Schedule RR-EN-3-6.

Q. What adjustments were made to property taxes?

A. Property taxes were adjusted to reflect the most recent property tax bills received by Liberty EnergyNorth. To calculate the adjustment, the second half payments for calendar year 2022 were doubled, with the exception of the true-up payment. The *pro forma* property tax was then compared to the Test Year property tax as recorded, with the difference being the adjustment amount shown in Schedule RR-EN-3-7, $1,187,207.

Q. Please describe the adjustment to Liberty EnergyNorth's income tax expense.

A. First, income tax expense was reduced in Schedule RR-EN-3-8 by $6,538,415 to reflect the difference between the income taxes recorded by Liberty EnergyNorth and what is calculated under the statutory federal income tax rate of 21% and the New Hampshire Business Tax statutory rate of 7.50%. Secondly, a decrease of $1,993,941 was made in

Schedule RR-EN-3-9 for the income tax effect of the known and measurable adjustments made to revenue and O&M expenses.

Q. Please describe the adjustment for other items.

A. In Schedule RR-EN-3-10, the Company proposes five other adjustments related to its revenue requirement. First, an adjustment was made for the Commission's annual assessment ("PUC Annual Assessment") and PUC Gas Pipeline Safety Assessment. The Test Year expense related to the PUC Annual Assessment and the PUC Gas Pipeline Safety Assessment was adjusted upward by $87,083.

Second, an adjustment was made to update the Concord Rental Expense based on the most recent allocation between Liberty EnergyNorth and Liberty GSE. This adjustment results in a decrease of $7,751 from the Test Year amount.

Third, the company is making an adjustment to include costs associated with implementing a new fee-free credit and debit card program, resulting in an increase of $136,364, based on the estimated recurring costs of running the program.

Fourth, an adjustment was made to include the costs of new low-income customer arrears relief, resulting in an increase of $1,220,068, based on the estimated recurring cost of running the program. These two programs are more fully addressed in the testimony of Company witness Lauren A. Preston.

Finally, an adjustment was made to incorporate costs associated with the Customer First Program, an increase of $1,737,945. To derive the recurring Customer First Program costs amount, the average of program expenses for 2023 through 2026 was used to normalize the expenses over the period of time the distribution rates resulting from this case are likely to be in effect. This program is more fully addressed in the testimony of Company witness Lauren A. Preston.

C. Weighted Average Cost of Capital

Q. What is the Company's proposed rate of return for ratemaking purposes?

A. Liberty EnergyNorth's weighed average cost of capital is 7.68%, reflecting a capital structure comprised of 45.00% debt and 55.0% equity, a 4.417% cost of debt, and a 10.35% requested return on equity, as described in Ms. Bulkley's and Mr. Wall's testimony.

III. <u>STEP INCREASES</u>

Q. Please explain the 2023 Step Increase.

A. The Company is requesting Commission approval of a 2023 Step Increase to reflect non-growth additions to rate base through December 31, 2023. This step increase is structured to recover an incremental revenue requirement of $6,382,231 for Liberty EnergyNorth, of which is based on non-revenue producing capital additions of $46,439,223 for the period January 1, 2023, through December 31, 2023. The resulting step increase would go into effect concurrent with the permanent increase. Additionally, the Company is proposing two additional incremental step increases, $9,604,838 in 2024 and $7,566,868 in 2025, to recover non-growth related capital additions in calendar year 2024 and 2025, estimated to be $62,892,420 and $52,306,751, respectively. Estimated costs for each years' non-growth capital investment is shown in Attachment TJC/CDC-3. It is important note that the capital investment provided in Attachment TJC/CDC-3 is an estimate that will be trued-up during the step increase filing. The step increases are therefore illustrative of what the company projects to spend on non-growth capital projects.

Q. What is the purpose of a step increase?

A. Liberty EnergyNorth continues to make capital investments each calendar year. Many of these investments are intended to improve the safety and reliability of service provided to existing customers, thus, the company is seeking three step increases for the identified, non-growth related capital investments in 2023, 2024, and 2025. Without those increases, the Company would not have a reasonable opportunity to earn its approved rate of return between general rate cases. In addition, it is known and measurable that these assets will be utilized in providing service to the Company's customers at the conclusion of each calendar year, well in advance of when the rates go into effect.

Q. What are the components of a step increase revenue requirement?

A. The step increase revenue requirement consists of: (1) return on rate base; (2) depreciation expense; (3) state property taxes; and (4) property insurance.

Q. How do you determine the step increase rate base and return on that rate base?

A. The step increase rate base is calculated as the total amount of gross plant in service as of the end of the Test Year, less accumulated depreciation and accumulated deferred income taxes. A pre-tax cost of capital is then calculated to apply to the step increase rate base to develop a pre-tax rate of return on rate base, as shown on line 40 for each of the 2023, 2024, and 2025 Step Increase workpapers in Attachment TJC/CDC-3.

Q. How do you calculate the step increase depreciation expense?

A. The step increase depreciation expense is calculated by applying the currently approved depreciation rates to the step increase depreciable plant additions by FERC account.

Q. How do you calculate state property taxes in the step increase revenue requirement?

A. Property tax expense in the step increase is calculated by multiplying the step's plant subject to state property taxes and applying the state property tax rate of $6.60/$1,000.

Q. How do you calculate property insurance in the step increase revenue requirement?

A. Property insurance expense in the step increase is calculated by calculating the ratio of total plant in service that requires insurance, to the *pro forma* property insurance expense. This ratio is then applied to the step increase gross plant additions that require insurance.

IV. RATE CASE EXPENSES

Q. How does the Company propose to recover rate case expenses incurred in this proceeding?

A. The Company proposes to recover the total cost associated with this rate case through the existing LDAC surcharge that, among other things, is designed to recover expenses related to rate cases, consistent with provisions in the Company's existing tariff.

Q. Please describe the nature of the rate case expenses.

A. The costs incurred for rate cases are incremental, external costs that are primarily for services such as outside consulting and legal services necessary to assist with the preparation and presentation of the case. This includes the development of studies on various matters required to establish the appropriate rates for Liberty EnergyNorth's customers. Liberty EnergyNorth obtained competitive bids for these services consistent with the PUC 1900 rules. Also included are expenses related to copying, legal notices, court reporter and other costs associated with the litigation of this rate case. A list of these outside services and their estimated costs are shown in Attachment TJC/CDC-4, Schedule RC.

Q. When does the Company account for and propose to recover rate case expenses?

A. The Company accounts for rate case expenses as they are incurred during the proceeding while deferring for future recovery all the costs associated with the cases through the LDAC surcharge.

V. <u>EFFECTIVE DATE</u>

Q. What is the Company's proposal for the effective date of rates in this proceeding?

A. Consistent with the Commission's rules on the implementation of rate changes, the Company is proposing that rate changes be made effective for use on and after August 1, 2024. However, we anticipate that the Commission will suspend the rate for investigation, so we are proposing temporary rates effective October 1, 2023, as described in a separate testimony.

VI. UPDATED SCHEDULES

Q. Does the Company intend to update its schedules during the course of this proceeding?

A. Yes. At the end of the discovery period, schedules will be updated to reflect any new or updated information that becomes available and will include any necessary changes that are identified throughout the discovery process.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

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