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
Temporary Rates

DIRECT TESTIMONY

OF

TYLER J CULBERTSON

AND

C. DREW CAYTON

July 27, 2023

Liberty™

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I. INTRODUCTION

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

A. My name is Tyler J Culbertson. Since May 2023, 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"). LUSC, Liberty EnergyNorth, and Liberty GSE are direct subsidiaries of Liberty Utilities Co. ("Liberty"). 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. Please describe your educational and professional background.

A. I graduated from the University of Iowa in 2009 with a Bachelor of Science degree in Accounting, and I have held an active Certified Public Accountant ("CPA") license since 2012. Prior to accepting my position, I was employed by DCP Midstream as the Senior Manager of Regulatory Affairs from 2015 to 2023. My responsibility at DCP Midstream was to ensure company-wide compliance with the economic regulations of the Federal Energy Regulatory Commission and various state regulatory agencies. From 2014 to 2015, I was a Senior Rate Analyst for Tallgrass Energy, and from 2010 to 2014, I was a Rate Analyst for SourceGas (now Black Hills Energy).

Q. Please describe your duties for Liberty EnergyNorth.

A. As Director of Rates and Regulatory Affairs, I am primarily responsible for rates regulatory affairs for Liberty EnergyNorth and Liberty GSE.

Q. Have you previously testified in regulatory proceedings before the New Hampshire Public Utilities Commission ("Commission")?

A. Yes. I testified in a regulatory proceeding before the Commission in Docket No. DE 23-044 in support of Liberty GSE's Default Energy Service rates.

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. Please describe your business and educational background.

A. I am an economic consultant with more than fifteen years of experience regarding rate-making and regulatory issues involving state and federally regulated utilities, including seven years as an Energy Industry Analyst at the Federal Energy Regulatory Commission ("FERC") in the Office of Administrative Litigation. I hold a Bachelor of Arts in Political Science and a Master's in Public Administration from the University of North Carolina at Wilmington. A copy of my curriculum vitae is included as Attachment TJC/CDC-TEMP-3.

Q. What are your responsibilities in your current position?

A. As a member of Black and Veatch Management Consulting, LLC's Global Advisory practice, my responsibilities include providing advisory services that address strategic, financial, reputational, and regulatory needs of energy and utility clients. My primary areas of focus are regulatory advisory, accounting, civil litigation, and financial analysis.

Q. Have you testified before the Commission?

A. No, I have not.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to support the Company's request for the Commission to set new distribution rates effective October 1, 2023, as temporary rates pursuant to RSA 378:27, assuming the Commission suspends the Company's proposed tariff pages for a permanent rate increase. Specifically, our testimony explains why the Company is requesting authority to set temporary rates; provides the level of temporary rates sought by the Company; explains the adjustments incorporated into the Company's revenue requirement calculation; and provides the impact of the temporary rates on customers' bills.

Q. Are you sponsoring any attachments and schedules?

A. Yes. In addition to Mr. Cayton's curriculum vitae in Attachment TJC/CDC-TEMP-3, we are sponsoring the following attachments and schedules:

- Attachment TJC/CDC-TEMP-1, which includes the following schedule:

  - Schedule T – Temporary Rates Revenue Requirement and Revenue Deficiency (all schedule references in this testimony are to Schedule T).
- Attachment TJC/ CDC-TEMP-2, which provides the bill impact analysis for temporary rates.

II. NEED FOR TEMPORARY RATE RELIEF

Q. Can you please summarize the reasons the Company is requesting temporary rate relief at this time?

A. Liberty EnergyNorth is requesting authority to implement temporary rates effective October 1, 2023, primarily due to the revenue deficiency created by the difference between the capital investments made since the Company's last rate case in 2019 and the current level of base-rate revenue allowed in distribution rates. The Company's most recent rate case was Docket No. DG 20-105 and was based on a 2019 test year and included two step adjustments for plant additions in 2020 and 2021. As explained in more detail in the testimony of Company witnesses Tracy A. Mustoe and Bradford R. Marx, the Company made additional capital investments of approximately $123.1 million in 2020, 2021, and 2022 that are not being recovered in rates. The Company's request for temporary rate relief is necessary to address the revenue deficiency due to these unrecovered capital investments.

Q. Please discuss the capital investments that are driving the Company's request for temporary rate relief.

A. As noted above, the principal driver of the Company's request for temporary rate relief is to allow for the recovery of the cost of significant distribution system investments implemented since the Company's last step adjustment, which are not reflected in rates. The current level of base-rate revenue is insufficient to allow the Company an opportunity to earn a fair rate of return, as demonstrated by the financial results of the Company in the test year (twelve months ended December 31, 2022). If the deficiency is not addressed, the Company will experience additional financial degradation during the course of the Commission's review of the permanent rate request. The Company's capital investments are comprised of investments for growth and non-growth capital in its distribution system. Because the Company's customer base grows each year, the Company installs new gas service lines off its existing gas mains or builds gas main extensions that include new service lines to accommodate this growth. Non-growth-related investment is required to maintain system safety and address asset condition issues such as the replacement of leak prone pipe. While the Company has been allowed to recover some non-growth related plant investment between rate cases through the two step adjustments granted in the last rate case, the growth related plant investment is not currently being recovered in Liberty EnergyNorth's distribution rates.

Q. Are the Company's current rates sufficient to allow it to earn a reasonable return on rate base?

A. No, they are not. For the 12-month period ended December 31, 2022 ("Test Year"), the Company's earned return on rate base for the distribution portion of its business was 4.99% as shown on line 23 of Schedule T. This is less than the allowed return on rate base of 7.1% computed using the Company's last authorized return on equity of 9.3%, established by the Commission in Order No. 26,505 (July 30, 2021), and its current cost of debt and capital structure (Schedule T, lines 93–95). As a result, Liberty EnergyNorth's financial situation is not sustainable, compelling the Company to seek rate relief so that there are sufficient revenues to support utility operation and continued investment in the safe and reliable operation of the system.

III. <u>REVENUE REQUIREMENT ANALYSIS</u>

Q. What level of temporary rate increase does the Company's financial position support?

A. As shown on Schedule T, page 3, based on updated plant in service on December 31, 2022, the Company's financial position can support a temporary increase of $15,287,114, or a 14.94% increase in distribution revenue and a 6.83% increase in total revenue.

Q. What level of temporary rate increase is the Company requesting?

A. The Company requests temporary rates that would generate additional annual gross distribution revenue of $15,287,114, which represents a 14.94% increase in distribution revenue and 6.83% increase in total revenue. The Company is requesting that temporary rates take effect as of October 1, 2023, on a service-rendered basis, and that they be applied by increasing all rates under the existing rate design by a uniform percentage.

Q. How did you calculate the temporary rate deficiency of $15,287,114?

A. We calculated the temporary rate deficiency by multiplying the 7.10% rate of return on rate base (described above) by rate base as of December 31, 2022, and then subtracting from that product the Company's actual return for the test year, with certain adjustments described below.

Q. Please provide an overview of Schedule T (Attachment TJC/CDC-TEMP-1).

A. Schedule T (Attachment TJC/CDC-TEMP-1) provides the Company's Temporary Revenue Requirement of $117,614,312. The Company has calculated a distribution revenue deficiency of $15,287,114 based on adjusted Test Year revenues of $102,327,198. The computation of the revenue deficiency reflects total rate base of $527,760,229 and assumes a weighted cost of capital of 7.10%.

Q. Did you make any adjustments?

A. Yes, we made the following adjustments:

1) Removed revenue related to the cost of gas and the Local Delivery Adjustment Charge ("LDAC") (Schedule T, line 2).
2) Removed revenue related to decoupling (Schedule T, line 3).
3) Removed the expenses associated with the cost of gas from the historical test year (Schedule T, line 8).

4) Adjusted distribution revenue (Schedule T, line 2) to agree with the separately computed cycle operating revenue presented in the testimony of Company witness Kenneth A. Sosnick.
5) Adjusted the amortization of certain ongoing regulatory assets including Costs to Achieve (“CTA”) interest and NHDAS contract (Schedule T, line 30).
6) Included the excess accumulated deferred income tax liability amortizations as a credit to amortization expense. This amortization is reflective of the regulatory liability grossed-up for income taxes, as calculated using the Reverse South Georgia method (Schedule T, line 32). This item is also discussed in our direct testimony regarding the revenue requirement for permanent rates, as well as Schedule RR-EN-3-6 to that testimony.
7) Adjusted income tax expense for the adjusted information, based on statutory rates and synchronized interest expense (Schedule T, line 15 with the calculation provided on lines 59–89, Schedule T).

Q. Why is the Company proposing normalizing adjustments to the cost of service in this filing?

A. Although the Company relies substantially on unadjusted 2022 test year data in the development of the cost of service, it is important to make normalizing adjustments to the cost of service. One reason is that included in any representative test year are cost or revenue elements that are non-recurring, out-of-period, or otherwise not appropriate to be reflected in the revenue requirement. Similarly, to the extent that the test year excludes certain known-and-measurable cost or revenue elements that are understood to be incurred on a continuing basis, those elements are appropriate for inclusion in the revenue requirement.

Q. Are the proposed normalizing adjustments consistent with the statute governing temporary rates?

A. Yes. Pursuant to RSA 378.27, temporary rates "shall be sufficient to yield not less than a reasonable return on the cost of the property of the utility used and useful in the public service less accrued depreciation, *as shown by the reports of the utility filed with the commission, unless there appears to be reasonable ground for questioning the figures in such reports"* (emphasis added). The adjustments described above are items that are necessary to reflect the results of distribution operations from a regulatory perspective; thus, they are appropriate for inclusion in the calculation of temporary rates.

IV. BILL IMPACTS

Q. Has the Company calculated the bill impacts from the proposed temporary rates?

A. Yes. The bill impacts are shown in Attachment TJC/CDC-TEMP-2.

Q. Please describe the customer bill impacts of the temporary rates.

A. The annual bill impacts (as a percentage of the total bill) to various classes of customers are as follows:

- For a residential heating customer (Rate R-3) using 765 therms per year, the annual increase is $103.94 or 10.64% on a total bill basis.

- For a low annual use, high winter use commercial/industrial customer (Rate G-41) using 2,560 therms per year, the annual increase is $270.48, or 10.37% on a total bill basis.
- For a medium annual use, high winter use commercial/industrial customer (Rate G-42) using 23,949 therms per year, the annual increase is $1,694.05, or 8.45% on a total bill basis; and
- For medium annual use, low winter use commercial/industrial customer (Rate G-52) using 21,644 therms per year, the annual increase is $1,013.67, or 5.04% on a total bill basis.

Additional information showing the bill impacts by rate class is provided in Attachment TJC/CDC-TEMP-2.

Q. Is the Company proposing any rate design changes associated with temporary rates?

A. Not at this time.

V. <u>CONCLUSION</u>

Q. Please summarize why the Company is requesting a temporary rate increase.

A. The Company is seeking a temporary rate increase because its return on rate base for the historical test year ended December 31, 2022, as adjusted on Schedule T, was only 4.99%, as compared to its allowed return of 7.1%. This is significantly less than the rate of return on equity approved by the Commission in the Company's last rate case filing (computed as described above) and is driven by the cost of capital investments since the last rate case. Without a temporary rate increase, the Company will not have the opportunity to earn a reasonable return until a permanent rate order becomes effective.

Q. How does the request for temporary rates relate to the Company's request for a permanent rate increase?

A. The Company has requested a permanent rate increase of $27,549,837; and the calculated deficiency for temporary rate purposes is $15,287,114 or 55.49% of that amount, which demonstrates that the deficiency is driven predominantly by test year results. Temporary rates are proposed to be in effect until the establishment of permanent rates pursuant to the Commission's final order in this rate case. The temporary rate increase will reduce, but not eliminate, regulatory lag while providing the Commission and parties to the proceeding with sufficient opportunity to fully evaluate the Company's permanent rate request. The temporary rate increase will also allow the Company to begin returning excess accumulated deferred income tax dollars related to recent New Hampshire Business Profits Tax reductions to customers before permanent rates go into effect. The temporary rates as requested will also provide a gradual transition to the permanent rates ultimately approved by the Commission.

Q. Do the proposed temporary rates provide no more than a reasonable return on the cost of the property of the Company that is used and useful in the public service less accrued depreciation, as shown by the reports of the Company filed with the Commission?

A. Yes. With the proposed temporary rates, the Company will earn no more than a reasonable return on its investment calculated on the books and records on file with the Commission. As demonstrated in Attachment TJC/CDC-TEMP-1, Schedule T, the Company's required level of temporary rates yields a rate of return equal to 7.1%.

Q. Are customers protected from being overcharged by temporary rates if the final rate decision is less than the temporary rates?

A. Yes, customers are protected because of the reconciling nature of temporary rates once permanent rates are established by the Commission.

Q. Does this conclude your testimony?

A. Yes, it does.