



**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DE 16-383

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

**DIRECT TESTIMONY
OF
STEVEN E. MULLEN
AND
HOWARD S. GORMAN
Regarding Temporary Rate Increase**

April 29, 2016

List of Attachments

- Attachment SEM/HSG-TEMP-1: Schedule T – Temporary Rate Increase
- Attachment SEM/HSG-TEMP-2: Rate Design and Bill Impacts – Temporary Rates
- Attachment SEM/HSG-TEMP-3: Residential Monthly Bill Impact – Temporary Rates
- Attachment SEM/HSG-TEMP-4: Clean Tariff Pages – Temporary Rates
- Attachment SEM/HSG-TEMP-5: Redlined Tariff Pages – Temporary Rates

1 **I. INTRODUCTION**

2 **Q. Please state your names and business addresses.**

3 A. My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry,
4 NH 03053.

5 A. My name is Howard S. Gorman. My business address is 45 Hill Park Avenue, Great
6 Neck, NY 11021.

7 **Q. By whom are you employed and in what capacity?**

8 A. (SEM) I am employed by Liberty Utilities Service Corp. as Manager, Rates and
9 Regulatory. I am responsible for rates and regulatory affairs for Liberty Utilities (Granite
10 State Electric) Corp. (“Granite State” or the “Company”) and for Liberty Utilities
11 (EnergyNorth Natural Gas) Corp. (“EnergyNorth”).

12 A. (HSG) I am the President of HSG Group, Inc., a consulting firm specializing in utility
13 rate and regulatory matters.

14 **Q. On whose behalf are you testifying today?**

15 A. We are testifying on behalf of Granite State.

16 **Q. Are you the same Steven E. Mullen and Howard S. Gorman who submitted other
17 testimony in this proceeding?**

18 A. Yes. Our educational backgrounds and qualifications are set forth in the prefiled direct
19 testimony that we submitted in support of Granite State’s permanent rate request.

1 **Q. What is the purpose of your testimony today?**

2 A. Our testimony explains the temporary revenue and rate increase requested by the
3 Company, the reasons for the request and the impact on customers' bills. The Company's
4 current rates are insufficient to allow it to earn a reasonable return on rate base. For the
5 test year that ended December 31, 2015, Granite State's earned return on rate base for the
6 distribution portion of its business was 5.93% (Schedule T, line 23). This is less than the
7 return on rate base of 7.90%, computed using the Company's return on equity of 9.55%
8 and capital structure, which was approved by the Commission in Order No. 25,638 (Mar.
9 17, 2014), and its current cost of debt (Schedule T, lines 125-128).

10 **Q. Are you sponsoring any schedules as part of your filing?**

11 A. We are sponsoring the following attachments and schedules:

- 12 • Attachment SEM/HSG-TEMP-1, which includes the following schedule:
- 13 ○ Schedule T- Temporary Rates Revenue Requirement and Revenue Deficiency (all
14 schedule references in this temporary rates testimony are to Schedule T);
- 15 • Attachment SEM/HSG-TEMP-2, which provides rate design and bill impacts analysis
16 for temporary rates;
- 17 • Attachment SEM/HSG-TEMP-3, which provides the bill impact calculations for
18 temporary rates for a residential customer using 650 kilowatt-hours (kWh) per month;
- 19 • Attachment SEM/HSG-TEMP-4, which are the clean revised tariff pages reflecting
20 the proposed temporary rates; and

- 1 • Attachment SEM/HSG-TEMP-5, which are the redlined revised tariff pages reflecting
2 the proposed temporary rates.

3 **Q. What is the temporary revenue and rate relief requested by Granite State?**

4 A. The Company is requesting temporary rates that would generate additional annual
5 distribution revenue of \$3,180,666 (Schedule T, page 4 of 4, line 122). This represents
6 an increase of 9.01% in total distribution revenues, and an increase of 3.13% in total
7 revenue. The 9.01% differs slightly from the 9.09% increase reflected on the Report of
8 Proposed Rate Changes for temporary rates because the proposed temporary increase was
9 only applied to the base distribution rate component which does not include the current
10 Business Profits Tax and Energy Service Cost Reclassification Adjustment factors.
11 Including revenue from those factors as well as the impact of items such as unbilled
12 revenue causes the revenue in the denominator to change, thereby accounting for the
13 difference in percentages. The Company proposes that the temporary rates take effect
14 July 1, 2016, on a service-rendered basis, and that they be applied by increasing all
15 existing distribution rates and charges by a uniform percentage.

16 The Company acknowledges that a temporary rate request usually does not provide
17 sufficient opportunity for the Commission and other parties to review revenue allocation
18 or rate design changes; therefore, the Company is not proposing any such changes in
19 connection with the temporary rate request.

1 **Q. Why is the Company requesting a temporary rate increase?**

2 A. The Company is requesting a temporary rate increase because its return on distribution
3 rate base for the year ended December 31, 2015, is 5.93% (Schedule T, page 1 of 4, line
4 25). This rate of return is significantly less than the authorized return on rate base of
5 7.90%, computed as discussed above. Without a temporary rate increase, the Company
6 would not have the opportunity to earn a reasonable return until the permanent rate order
7 becomes effective.

8 The Company is requesting a permanent rate increase of \$5,328,583; the proposed
9 temporary rate increase is approximately 60% of that amount. Temporary rates are
10 proposed to be in effect until the permanent rate order becomes effective, which will give
11 the Company the opportunity to earn at least a portion of the return that the Commission
12 ultimately finds to be just and reasonable.

13 A temporary rate increase will mitigate the effect of regulatory lag, while providing the
14 Commission and other parties the opportunity to consider the Company's permanent rate
15 request in full. Implementation of temporary rates at the level requested will also provide
16 a more gradual, smoother transition to the permanent rates ultimately approved by the
17 Commission in this proceeding.

18 **Q. What is the primary driver of the Company's need to increase rates and revenue?**

19 A. The primary driver of the need for an increase is approximately \$50 million in capital
20 investments made by the Company since the last rate case. Lower overall distribution

1 expenses achieved by the Company as compared to the cost levels in the prior rate case
2 have offset over \$2.0 million of the increase.

3 **II. DEVELOPMENT OF THE TEMPORARY INCREASE REQUEST**

4 **Q. How did you calculate the temporary revenue increase?**

5 A. The temporary revenue increase was calculated to produce a return on rate base of 7.90%
6 (discussed above). The calculation is based on information previously submitted to the
7 Commission, with certain adjustments.

8 **Q. What is the information submitted to the Commission on which the temporary rate
9 calculations are based?**

10 A. The temporary rate calculations are based on the Company's financial statements, as of
11 and for the year which ended December 31, 2015.

12 **Q. What adjustments were made to the December 31, 2015 information?**

13 A. The following adjustments were made:

- 14 • Removed non-distribution revenue and costs (Adjustments A, B, C and D, lines 28-
15 53) - Revenue and costs related to purchased power, transmission, adjustments to the
16 step increase from the prior rate case, and reconciling items were removed. In
17 addition, distribution revenues were adjusted to reflect the rates in effect at December
18 31, 2015. The net effect of these adjustments was to increase operating income by
19 \$71,675.

- 1 • Removed other non-recurring items (Adjustment E, lines 55-62) - Non-recurring and
2 out of period items were removed.
- 3 • Computed the Rate Base (Adjustment F, lines 64-75) - The rate base at December
4 31, 2015, is computed based on year-end balances for plant and accumulated
5 depreciation; 5-quarter averages for materials and supplies, prepayments and
6 customer deposits; accumulated deferred income tax computed in compliance with
7 Order 25,370 with regard to acquisition date plant in service; and cash working
8 capital using the 27.50-day lag time calculated by witness Joshua Nowak.
- 9 • Normalized Income Tax Expense (Adjustment G, lines 94-113)- This adjustment
10 computes Income Tax expense for the year 2015 as adjusted, based on current
11 statutory tax rates, and synchronized interest based on the return on rate base
12 developed in Adjustments H and I, below.
- 13 • Computed Temporary Rates Revenue Deficiency (Adjustments H, I lines 115-123)-
14 This is the computation of the appropriate return on rate base for the temporary rates
15 request, and of the temporary rate increase needed to produce that return. The rate of
16 return is based on the Company's actual cost of debt, the capital structure and return
17 on equity as approved by the Commission in the prior rate case; it is computed to be
18 7.90%. The temporary rate increase request is computed to produce the after-tax
19 return on rate base.

1 **Q. Is the computation of the temporary rate increase, including the adjustments,**
2 **consistent with the statute governing temporary rates?**

3 A. Yes. As provided in RSA 378:27, temporary rates should be based on “the reports of the
4 utility filed with the Commission, unless there appears to be reasonable ground for
5 questioning the figures in such reports.” These adjustments are necessary to remove non-
6 distribution items and non-recurring items, and to normalize the computations of rate
7 base, return on rate base and income tax expense. Therefore they are necessary and
8 appropriate for the calculation of temporary rates.

9 **III. RATE IMPACTS**

10 **Q. What are the increases in customer bills that would result from the Company’s**
11 **proposed temporary rates?**

12 A. The monthly bill impact for a residential customer using 650 kWh per month is an
13 increase of \$3.53, or 2.86% as a percentage of the total bill. As shown on Attachment
14 SEM/HSG-TEMP-3, the bill impact was calculated as compared to the rates in effect as
15 of the date of this filing. As additional adjustments to various rate components are
16 expected between the date of this filing and the requested effective date for temporary
17 rates, the actual bill impacts will be different than those reflected above. Additional
18 information regarding customer bill impacts for the various rate classes is presented in
19 Attachment SEM/HSG-TEMP-2.

1 **IV. IMPLEMENTATION**

2 **Q. Do the proposed rates provide not more than a reasonable return on the cost of the**
3 **property that is used and useful for the public service, less accumulated**
4 **depreciation, as shown by the reports that the Company has filed with the**
5 **Commission?**

6 A. Yes. With the proposed temporary rates the Company will earn no more than a
7 reasonable return on its investment, which is calculated based on the books and records
8 on file with the Commission. As demonstrated in Attachment SEM/HSG-TEMP-1,
9 Schedule T, the Company's requested level of temporary rates provides a return of
10 7.90%, which is based on the return on equity approved in the Company's most recent
11 rate case and is less than the 8.31% overall rate of return the Company is requesting in
12 permanent rates.

13 **Q. Are customers protected from being overcharged by temporary rates if the final**
14 **rate case decision is less than the level of temporary rates today?**

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

17 **V. CONCLUSION**

18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.