Liberty Utilities

EXHIBIT
#1
DG 16-812

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 16-___

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities Keene Division
Winter 2016-2017 Cost of Gas Filing

DIRECT TESTIMONY

OF

FRANCISCO C. DAFONTE
DAVID B. SIMEK

September 15, 2016

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I. <u>INTRODUCTION</u>

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

A. My name is Francisco C. DaFonte. My business address is 15 Buttrick Road, Londonderry, New Hampshire 03053. My title is Vice President, Energy Procurement.

A. My name is David B. Simek. My business address is 15 Buttrick Road, Londonderry, New Hampshire 03053. My title is Regulatory Lead Utility Analyst.

Q. By whom are you employed?

A. We are employed by Liberty Utilities Service Corp., which provides services to Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth" or "the Company") and Liberty Utilities (Granite State Electric) Corp.

Q. On whose behalf are you testifying?

A. We are testifying on behalf of EnergyNorth's Keene Division ("Keene Division").

Q. Please describe your educational background, and your business and professional experience.

A. Mr. DaFonte:

I attended the University of Massachusetts at Amherst where I majored in Mathematics with a concentration in Computer Science. In the summer of 1985 I was hired by Commonwealth Gas Company (now Eversource Energy), where I was employed primarily as a supervisor in gas dispatch and gas supply planning for nine years. In 1994, I joined Bay State Gas Company (now Columbia Gas of Massachusetts) where I held various positions including Director of Gas Control and Director of Energy Supply Services. At the end of October 2011, I was hired as the Director of Energy Procurement by Liberty Energy Utilities (New Hampshire) Corp. and promoted to Sr. Director in July 2013 and Vice President in July 2014. I now work for Liberty Utilities Service Corp. and in this capacity, I provide gas procurement services to EnergyNorth.

A. Mr. Simek:

I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I received a Master's of Science in Finance from Walsh College in 2000. I also received a Master's of Business Administration from Walsh College in 2001. In 2006, I earned a Graduate Certificate in Power Systems Management from Worcester Polytechnic Institute. In August of 2013, I joined Liberty Energy Utilities (New Hampshire) Corp.as a Utility Analyst and I was promoted to a Regulatory Lead Utility Analyst in December 2014. I now work for Liberty Utilities Service Corp. and in this capacity, I provide rate related services to EnergyNorth. Prior to my employment at Liberty Utilities Service Corp., I was employed by NSTAR Electric & Gas (now Eversource Energy) as a Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy Supply, I was a Senior Financial Analyst within the NSTAR Electric & Gas Investment Planning group from 2004 to 2008.

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

A. Yes, we both have testified on numerous occasions before the Commission.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to explain the Company's proposed cost of gas rates for its Keene Division for the 2016-2017 Winter ("Peak") Period to be effective beginning November 1, 2016. Our testimony will also address bill comparisons and other items related to the winter period.

II. COST OF GAS FACTOR

Q. What is the proposed 2016-2017 winter firm cost of gas rate?

A. The Company proposes a firm cost of gas rate of $1.5152 per therm for the Keene Division as shown on proposed Eighth Revised Tariff Page 18.

Q. Please explain the calculation of the Cost of Gas Rate on the proposed Eighth Revised Tariff Page 18.

A. The proposed Eighth Revised Tariff Page 18 contains the calculation of the Winter 2016-2017 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of the propane sendout from November 1, 2016 through April 30, 2017 is $1,130,275. The information presented on the tariff page is supported by Schedules A through J that will be described later in this testimony.

To derive the Total Anticipated Cost, the following adjustments have been made:

1) The prior period under-collection of $394,761 is added to the anticipated cost of the propane sendout.
2) Interest of $11,757 is added to the anticipated cost of the propane sendout. Schedule H shows this forecasted interest calculation for the period May 2016 through April 2017. Interest is accrued using the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates.

The Non-Fixed Price Option ("Non-FPO") cost of gas rate of $1.5152 per therm was calculated by dividing the Total Anticipated Cost of $1,536,793 by the Projected Gas Sales of 1,014,258 therms. The Fixed Price Option ("FPO") rate of $1.5352 per therm was established by adding a $0.02 per therm premium to the Non-FPO rate.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 1,168,327 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $0.8655 per therm represents the weighted average cost per therm for the winter period sendout as detailed on Schedule F, Line 55.

Q. What is Schedule B?

A. Schedule B presents the under/(over) collection calculation for the Winter 2016-2017 period based on the forecasted volumes, the cost of gas, and applicable interest amounts. The forecasted Total Sendout on Line 3 is the weather normalized 2016-2017 winter period firm sendout and company use. The forecasted Firm Sales on Line 9 represent weather normalized 2016-2017 winter period firm sales. The weather normalization calculations for Sendout and Sales are found in Schedules I and J, respectively.

Q. Are unaccounted-for gas volumes included in the filing?

A. Unaccounted-for gas is included in the Firm Sendout on Schedule B, Line 1, and is separately displayed on Line 4 of that schedule. The Company actively monitors its level of unaccounted-for volumes, which amounted to 3.70% for the twelve months ended June 30, 2016.

Q. Please describe Schedules C, D, and E.

A. Schedule C presents the calculation of the total forecasted cost of propane purchases in the Winter 2016-2017 period, segregated by Propane Purchasing Stabilization Plan (“PPSP”) purchases, available storage deliveries from EnergyNorth’s Amherst facility, spot purchases, and other items. Schedule D presents the structure of PPSP pre-purchases for the winter period, monthly average rates for the pre-purchases, and the resulting weighted average contract price for the winter period as used in Schedule C, Line 7. Schedule E presents the forecast of the unit cost for spot purchases as used in Schedule C, lines 21-31.

Q. Please describe the Propane Purchasing Stabilization Plan.

A. The PPSP, as approved in Order No. 24,617 in Docket DG 06-037, was again implemented for the winter 2016-2017. As shown on Schedule D, the Company pre-purchased 725,000 gallons of propane between April and September at a weighted average price of $0.8399 per gallon ($0.9179 per therm), inclusive of broker, pipeline, Propane Education & Research Council ("PERC") and trucking charges in effect at the time of the supplier's bid (April 2016).

Q. How was the cost of spot purchases determined?

A. The forecasted spot market prices of propane as shown on Schedule E, Column 1 are the Mont Belvieu propane futures quotations as of September 14, 2016. The forecasted delivered cost of these purchases is determined by adding projected broker fees, pipeline fees, PERC fees, supplier charges, and trucking charges.

Q. Please describe Schedule F.

A. Schedule F contains the calculation of the weighted average cost of propane in inventory for each month through April 2017. The unit cost of propane sent out each month utilizes this weighted average inventory cost inclusive of all PPSP purchases, spot purchases, and Amherst storage withdrawals. Schedule F also shows the weighted average cost of inventory in the Amherst facility. The Amherst facility is re-filled each summer in advance of the winter period.

Q. What is Schedule G?

A. Schedule G shows the under-collected balance for the prior Winter 2015-2016 period, including interest calculated consistent with the way NH Gas did the calculation prior to the EnergyNorth acquisition. The under-collected balance of $394,761 (Line 20) is shown on Schedule H, line 1, Column 1.

Q. How is Schedule H represented in the cost of gas calculation?

A. Schedule H presents the interest calculation on (over)/under collected balances through April 2017. The prior period under-collection plus interest on that balance through October 31, 2016, is included on Schedule B, line 15 in the “Prior” column. The forecasted monthly interest for the Winter 2016-2017 period in Column 7 is included on Schedule B, line 14. The prior period under-collection plus the total interest amount is also included on the tariff page.

III. FIXED PRICE OPTION PROGRAM

Q. Will the Company offer an FPO program for the Winter 2016-2017 period?

A. Yes, the Company will offer the FPO program for the upcoming winter period to provide customers the opportunity to lock in their cost of gas rate. Enrollment in the program is limited to 50% of forecasted winter sales, with allotments made available to both residential and commercial customers on a first-come, first-served basis. The Company is forecasting that 25% of total sales volumes will enroll in the FPO program, a level slightly higher than the 24.5% participation rate last winter and somewhat higher than the 23.9% average for the previous four offerings.

Q. Will a premium be applied to the FPO rate?

A. Yes. As approved in Order No. 24,516, Docket DG 05-144, the Company has added a $0.02 per therm premium to the Non-FPO cost of gas rate to derive the FPO rate. The Company is not seeking an increase in the premium because participation, based on prior customer behavior, is expected to remain well below the 50% threshold.

Q. How will customers be notified of the availability of the FPO program?

A. A letter will to be mailed to all customers on October 1 advising them of the program and the procedure to enroll.

IV. COST OF GAS RATE AND BILL COMPARISONS

Q. How does the proposed Winter 2016-2017 cost of gas rate compare with the previous winter's rate?

A. The proposed Non-FPO COG rate of $1.5152 per therm is an increase of $0.6364 or 72.4% from the Winter 2015-2016 beginning rate of $0.8788 per therm. The proposed FPO rate is $1.5352 per therm, representing an increase of $0.6364 per therm or 70.8% from last winter's fixed rate of $0.8988.

Q. What are the primary reasons for the change in rates?

A. One primary reason for the higher Non-FPO rate is the inclusion of some production costs in the cost of gas. In its audit findings in Docket Number DG 15-391 (the 2015/2016 Winter Cost of Gas), Audit Staff agreed that Section 17(a) of the Company's tariff allowed for some of the production costs to be recovered under the cost of gas. Those production costs had not been included in the cost of gas in prior years. Some late period accounting adjustments and the timing of unbilled also contributed to the higher rate.

Q. Has there been any impact from pipeline, PERC, supplier or trucking fees on the COG rate?

A. The pipeline tariff rate decreased by 2.0%, the PERC fee is unchanged, the estimated supplier charge decreased 11.1%, and the trucking fee is forecasted to decrease by 12.5% due to a lower diesel fuel surcharge.

Q. What is the impact of the Winter 2016-2017 COG rate on the typical residential heat and hot water customer participating in the FPO program?

A. As shown on Schedule K-1, column 7, lines 32 and 33, the typical residential heat and hot water FPO customer would experience an increase of $339.83 or 70.8% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, and therm delivery charge are factored into the analysis, the typical customer would see a total bill increase of $339.83 or 30.1%, as shown on lines 35 and 36.

Q. What is the impact of the Winter 2016-2017 COG rate on the typical residential heat and hot water customer choosing the Non-FPO program?

A. As shown on Schedule K-2, column 7, lines 32 and 33, the typical residential heat and hot water Non-FPO customer is projected to see an increase of $456.21 or 129.3% in the gas component of their bills compared to the prior winter period. When the monthly customer charge and therm delivery charge are factored into the analysis, the typical customer would see a total bill increase of $456.21 or 45.5%.

Q. Please explain the derivation of the typical residential heating usage per customer of 534 therms for the winter period.

A. The typical usage was determined by defining a residential heating customer as one that uses 60% or more of annual usage in the five winter months, and uses at least 100 therms in that period. The actual usage was adjusted by the normal degree-day difference. This typical usage level is lower than regional norms due to a) the Company's residential customer base containing many apartment units, b) significant use of alternate heating sources to supplement propane-fired furnaces, and c) the tendency of larger homes on larger lots to install propane tanks.

Q. Please describe the impact of the Winter 2016-2017 COG rate on the typical commercial customer compared to the prior winter period.

A. Schedule L-1 illustrates that the typical commercial FPO customer would see a $1,090.49 or 70.8% increase in the gas component of their bill and a 33.2% increase in their total bill. Schedule L-2 shows that the typical commercial non-FPO customer would see increases of $1,455.93 (127.7%) in the gas component of their bill and a 50.5% increase in their total bill.

V. <u>OTHER ITEMS</u>

Q. Please describe how the Company will meet its 7-day on-site storage requirement.

A. The Company has net storage capacity at its plant in Keene for approximately 75,000 gallons of propane. Additionally, as result of its purchase by Liberty Utilities in January 2015, the Company now has approximately 254,000 gallons of propane (net of heel) at the Amherst storage facility located approximately 50 miles from the Keene plant. This storage facility is shared with EnergyNorth, which also stores approximately 254,000 gallons of propane for potential use during the winter period. In addition, the Company will arrange its standard trucking commitment with Northern Gas Transport, Inc. for transportation from this storage facility to the plant.

Q. Is the Company requesting a waiver of N.H. Code Admin. Rule Puc 1203.05, which requires rate changes to be implemented on a service-rendered basis?

A. Yes, the Company is requesting a waiver of N.H. Code Admin. Rule Puc 1203.05 as was granted in previous cost of gas and delivery rate proceedings. First, the Company's customers are accustomed to rate changes on a bills-rendered basis and an alteration in policy may result in customer confusion. Second, the Company's billing system is not designed to accommodate a change to billing on a service-rendered basis, and such a change would necessitate the modification or replacement of the system at a substantial cost.

Q. Does this conclude your testimony?

A. Yes, it does.

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