State of New Hampshire
Public Utilities Commission

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities

Docket No. DG 17-048

Agreement Regarding Permanent Rates

This Agreement Regarding Permanent Rates (the "Agreement") is entered into this 27th day of February, 2018, by Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty" or the "Company") and the Office of the Consumer Advocate ("OCA") (together, the "Settling Parties"). This Agreement resolves all issues between the Settling Parties in this proceeding, the approval of which would discharge the Commission's duty to "be the arbiter between the interests of the customer and the interests of the regulated utilities." RSA 363:17-a.

I. INTRODUCTION

On March 28, 2017, Liberty filed its notice of intent to file rate schedules seeking an increase in its annual distribution revenues. The Company filed its proposed rate schedules on April 28, 2017, seeking, as updated later in the proceeding and through its rebuttal testimony, a $14.5 million permanent increase in annual distribution revenues and a $5.2 million step increase to recover an annual revenue deficiency based on additional net rate base of approximately $252 million for the twelve-month period ending December 31, 2017. The Company requested approval of a 10.3% return on equity (ROE), and a capital structure consisting of 50% equity and 50% debt. Liberty also proposed consolidating the Keene Division's distribution rates into EnergyNorth's distribution rates (while maintaining a separate cost of gas ("COG") rate for Keene) and implementing a full decoupling mechanism to sever the connection between sales and revenue. The Company supported its filing with the direct testimony of a number of witnesses from the Company and expert consultants. The Commission suspended the rate schedules by Order No. 26,015 (May 8, 2017).

The OCA notified the Commission that it would participate in the docket on behalf of residential customers consistent with RSA 363:28. No party sought intervention.

The Company's filing also included a request for a temporary rate increase of $7.8 million. The Settling Parties and Staff reached a settlement as to temporary rates, and the Commission approved the agreed $6.75 temporary rate increase, effective July 1, 2017. Order No. 26,035 (June 30, 2017). The order provides that any permanent rates approved by the Commission would be fully reconcilable back to the July 1, 2017, effective date of temporary rates.

Following the temporary rate order, the Company responded to numerous sets of data requests from the parties, the Commission's Audit Staff reviewed the Company's filing and issued its audit report, and the OCA and Staff filed testimony.

Staff's testimony recommended the following: (1) an ROE of 8.55%; (2) a capital structure of 49.85% long term debt, 0.95% short term debt, and 49.21% equity; (3) a permanent increase to distribution revenue of $4.045 million; (4) a step increase of $4.1 million for 2017 capital additions and recovery of certain costs related to pensions, benefits, and 2017 degradation fees; (5) that the Commission deny the Company's request to consolidate the Keene Division's distribution rates with the rest of the Company; and (6) a limited decoupling mechanism to account only for energy efficiency gains, as opposed to the Company's (and OCA's) proposed "full" decoupling proposals that remove all incentives for the Company to encourage higher sales per customer.

The OCA's testimony recommended an ROE of 8.4%, a 50/50 capital structure, a permanent increase to distribution revenue of $9.2 million, a separate rate proceeding for the Keene Division, and a full "real time" decoupling proposal that adjusts each customer's bill based on their actual use and actual heating degree days during the current billing month and periodically adjusts for other decoupling variables.

The Company conducted discovery on Staff's and OCA's testimony, and the Company filed rebuttal testimony. The parties then engaged in settlement discussions that resulted in this Agreement, which is intended to resolve all issues in this case as between the OCA and Liberty. The Settling Parties recommend and request that the Commission approve this Agreement without modification.

II. TERMS OF AGREEMENT

A. Revenue Requirement, Rate Base, Rate of Return

The Settling Parties agree and recommend that the Commission authorize an annual distribution revenue increase of $10.3 million effective May 1, 2018, based on an overall cost of capital of 6.85%. The overall cost of capital was calculated utilizing a cost of equity of 9.4%, the actual weighted average cost of long-term debt, and a capital structure of 0.945% short-term debt, 49.845% long-term debt, and 49.209% common equity capital, which is the Company's proforma capital structure based on the recent long-term debt issuance and short-term debt approved in Order No. 26,084 (Dec. 15, 2017). The calculation of the overall cost of capital is as follows:

Description	Capital Structure	Cost of Capital	Weighted Cost of Capital
Common Stock	49.21%	9.40%	4.63%
Long-Term Debt	49.85%	4.42%	2.20%
Short-Term Debt	0.95%	2.49%	0.02%
	100.00%		6.85%

The Settling Parties agree that the above distribution revenue increase represents a reasonable compromise of all the issues relating to the revenue requirement pending before the Commission for the purpose of permanent rates, as itemized below. Because the above revenue increase is the result of compromise and settlement, it is a liquidation of all revenue requirement issues. The Settling Parties agree that the revenue requirement recommended to the Commission in this Agreement results in permanent rates for Liberty's customers that are just and reasonable. The permanent rate increase described in this Section A shall be reconcilable to the effective date of temporary rates in this case, July 1, 2017, per Order No. 26,035, in accordance with Section C below.

The liquidated revenue requirement in this Agreement reflects consideration, negotiation, and resolution as between the Settling Parties of all the issues raised by the OCA and by Staff in their direct testimony that impacted the revenue requirement. Some of the more significant topics are discussed below.

1. Prepayments Included in Cash Working Capital

The Company included prepayments of certain costs (mostly property taxes and insurance) in its cash working capital calculation. Staff recommended that the Company remove all prepayments claiming those costs were double counted because they were included in rate base and were also used to determine cash working capital. The Company acknowledged that there may be some double-counting in theory, but it did not warrant a dollar-for-dollar offset as Staff testified. The Settling parties have negotiated and compromised this issue in reaching this Agreement.

2. Materials and Supplies

Staff recommended that Liberty move $3.66 million in "materials and supplies" (which consists of fuel supply inventories) from rate base and instead recover the associated revenue requirement through the Company's COG rate. The Settling Parties agree with this adjustment and these costs were removed from the distribution revenue requirement.

3. Concord Training Center

The Training Center located on the Company's property in Concord has been in use since March 2015. The facility provides a centralized location for simultaneous training of multiple employees in a controlled environment and has been and is being used to, among other things, train and test gas field workers and supervisors whose Operator Qualification requirements continue to increase, train electrical field workers and supervisors, and train office staff so they may better perform their jobs (e.g., training call center employees on the basics of the Company's gas and electric systems makes them better able to respond to customer questions) The Training Center also serves as a call center back-up facility, has been used for industry training in conjunction with other utilities, has been used to host meetings with first responders, and for other related purposes. With respect to electric training, the Company currently receives revenue from its affiliate, Granite State Electric, pursuant to a lease agreement that is on file with the Commission in Docket No. DA 16-560, which docket was consolidated into the current docket. The Settling Parties agree that the lease should continue under its existing terms and conditions.

The revenue requirement in this Agreement allows the Training Center costs and revenues to be included in the determination of the revenue requirement, but also reflects consideration and compromise of the issues related to the Training Center raised by Staff and the OCA in their testimony.

4. **Depreciation and Amortization**

   a. The depreciation and amortization rates to be used by Liberty on a going-forward basis are the rates set forth in Attachment A.

   b. The depreciation and amortization rates applied to the assets for EnergyNorth and the Keene Division will be aligned so they conform with the rates in Attachment A.

   c. Plant assets for the Keene Division will become subject to group depreciation.

   d. As a housekeeping matter, certain EnergyNorth plant assets that are currently recorded in transmission-related plant accounts will be reclassified to distribution-related plant accounts.

   e. The depreciation reserve variance is an under-recovery of $8.9 million, and will be amortized over a five-year period, resulting in annual amortization of $1,780,000.

   f. As part of its next rate case, Liberty will prepare an updated analysis of the status of the depreciation reserve variance, with determination of the disposition of the updated variance and the appropriate amortization period to be determined in that proceeding.

5. iNATGAS

In Docket No. DG 14-091 the Commission approved a special contract with iNATGAS, which included the construction of a CNG facility in Concord. The Company ultimately built a larger facility, at greater cost, essentially accelerating the construction of Phase 2. Staff recommended that the Company not recover some of the costs of the facility because, in Staff's view, it was not appropriate to build Phase 2 so soon, because the actual costs exceeded the original budget, and because the current revenue from the project did not support the costs. Liberty explained how the higher costs were reasonable, that it was more cost effective to complete Phase 2 early, and that iNATGAS is now buying CNG from the facility at a rate that exceeds the minimum take-or-pay amounts in the Special Contract so as to support all the direct costs of the facility.

The revenue requirement in this Agreement reflects a compromise of these issues related to iNATGAS.

6. Keene Production Costs and Emergency Response Costs

The Settling Parties agree that the emergency response costs related to the December 2015 incident and the Keene production costs should be recovered through the Keene specific COG rates over five years during the winter COG period, and beginning November 1, 2018.

B. Step Increase

The Settling Parties agree that the Company shall be permitted to implement a step increase to its distribution revenue, as calculated in Attachment B, effective May 1, 2018, to recover the following items:

1. The revenue requirement associated with 2017 non-growth related capital additions placed in service as of December 31, 2017;

2. The increase to operating expenses resulting from the Financial Accounting Standards Board's ("FASB") issuance in March 2017 of Accounting Standards Update No. 2017-07 ("ASU 2017-07");[1] and
3. The costs incurred during 2017 for degradation fees paid to the City of Manchester and legal costs incurred by the Company associated with a lawsuit that began in 2012 against the Cities of Concord and Manchester to challenge the "degradation fees" that the cities charged Liberty to dig in municipal streets.
4. Certain "carryover' costs related to the Company's Cast Iron/Bare Steel replacement program as discussed during the hearing in Docket No. DG 17-063.[2]

The 2017 non-growth related capital additions referenced in Section B.1. above and included in Attachment B are based on Liberty's 2017 capital budget. On or before March 30, 2018, Liberty will submit its actual capital costs for its 2017 non-growth related capital additions and update Attachment B. In the event that the resulting revenue requirement is lower than $5,044,835, the lower amount will be used for the step adjustment. If the updated calculation of the revenue requirement exceeds $5,044,835, the revenue requirement will be limited to $5,044,835.

C. Effective Date for Permanent Rates and Recoupment

The permanent rate increase agreed to in Section II.A shall be effective for all service rendered on and after May 1, 2018. The difference between the distribution revenues obtained

[1] Among other things, ASU 2017-07 amended the accounting for pension and OPEB costs, effective January 1, 2018, to limit the components of net periodic pension and postretirement benefit costs that are eligible for capitalization to only the service costs component. Previously, all components of net periodic pension and postretirement benefit costs (i.e., service cost, interest cost, expected return on plan assets, etc.) were eligible to be capitalized. The result of the accounting changes prescribed in ASU 2017-07 is that the portions of the costs that are no longer eligible to be capitalized increase the Company's operating expenses as compared to prior accounting.
[2] *See* transcript of June 19, 2017 hearing in Docket No. DG 17-063 at 41, et seq.

from the rates prescribed in the temporary rate order, Order No. 26,035, and the distribution revenues that would have been obtained under the rates finally determined, if applied during the period such temporary rate order was in effect, shall be recovered from customers over a period of twenty months, beginning with service rendered as of May 1, 2018. The total estimated amount of recoupment is $3,590,667 as shown on Attachment C, and shall be recovered through a uniform charge per therm through the Local Delivery Adjustment Clause (LDAC) of the Company's tariff. The estimated amount of recoupment has been calculated using actual billing data for July 1, 2017, through December 31, 2017, and estimated billing data for January 1, 2018, through April 30, 2018. On or before June 30, 2018, Liberty will file with the Commission, for its review and approval, the actual recoupment amount based on actual billing data for the period July 1, 2017, through April 30, 2018. Any difference between the actual recoupment amount and the estimated amount shown on Attachment C will be reconciled through the operation of the reconciling mechanism in the LDAC.

D. Rate Case Expenses

Subject to adjustment for the difference between estimated and actual expense, the Company shall recover $530,000 in rate case expenses over a period of twenty months commencing with service rendered as of May 1, 2018. Details of the actual and estimated rate case expenses are included in Attachment D. The Company agrees to submit by June 30, 2018, an accounting of its rate case expenses, with appropriate supporting documentation, for review by the parties and approval by the Commission. The Company shall recover its just and reasonably incurred rate case expenses through the LDAC in the same manner as it recovers the temporary rate recoupment. Once the final amount of actual, just and reasonable rate case expenses is determined, any difference between the amount recovered commencing May 1, 2018, and the final amount shall be recovered through the operation of the reconciling mechanism in the LDAC. Rate case expenses shall be recovered through uniform charge per therm in accordance with the provisions of the LDAC.

E. Revenue Allocation and Rate Design

The permanent and step increases will be allocated to each class on a proportional basis by increasing each class' revenue responsibility by the same percentage.

For residential rate design, the R-3 customer charge and the R-1 customer charge will both be set at $14.88 per month, which is $2.00 per month lower than the currently effective customer charge for Rate R-1. Any revenue shortfall resulting from the reduction to the customer charges, plus the increase resulting from the permanent and step increases, will be recovered through the volumetric delivery per therm rates. In addition, the volumetric head and tail block delivery per therm rates for R-3 will be set at the same level.

The distribution rates for the R-4 Low Income Residential Heating rate class were calculated by multiplying the R-3 proposed base distribution rates by 40 percent to reflect a 60 percent discount. This resulted in a customer charge of $5.95 (i.e., $14.88 x 40%) and a volumetric delivery per therm rate of $0.2400 (i.e., $0.6000 x 40%).

Rates for commercial and industrial rate classes will be increased proportionally for each billing rate component (e.g., customer charge and volumetric delivery rate) to recover the allocated revenues for that class. The resulting rates are effective May 1, 2018, and continue without modification to rate design until the Company's next rate proceeding.

F. Decoupling

The Settling Parties agree that the Company should implement a "full" decoupling mechanism that contains the following elements: (1) real-time weather normalization, calculated at the individual customer level; (2) revenue per customer design, with accrual calculations at the rate class level and billing rates aggregated into two rates – Residential and C&I; (3) Managed Expansion Program customers are subject to decoupling, but the expansion surcharge dollars (i.e., the 30% distribution premium) are excluded from the decoupling calculation; and (4) special contract customers are not subject to decoupling and will be excluded entirely from the decoupling calculation.

The real-time weather normalization adjustment is calculated as the difference between actual distribution revenue billed to each customer in each billing cycle for each month, and what distribution revenue for each customer's bill would have been based on normalized therm deliveries. The resulting charge or credit will be added to or subtracted from each customer's bill at the time the bill is rendered (i.e., "real time").

The annual revenue per customer adjustment will be determined by calculating the difference between actual annual distribution revenue per customer and approved annual distribution revenue per customer for two groups of customers: (a) the residential classes and (b) the commercial and industrial classes. Approved annual distribution revenue per customer for each of these two groups will be based on the approved distribution revenues and test year average customer counts for each group. The difference in total distribution revenues is calculated using this revenue per customer variance multiplied times the actual average annual customer count. This amount will be recovered from or refunded to each group over the subsequent 12-month period through a uniform charge per therm for each group.

The Settling Parties agree that the Company may recover up to $50,000 in costs incurred to upgrade its billing system and related software to implement this decoupling mechanism. Any costs above $50,000 will be absorbed by the Company.

The Settling Parties agree that the decoupling mechanism shall take effect beginning on November 1, 2018. On that date, decoupling will replace the Lost Revenue Adjustment Mechanism established in Order No. 25,932 (Docket No. DE 15-137), and the Company will cease any and all recovery of lost revenues attributable to energy efficiency programs outside of the decoupling mechanism.

G. Keene Consolidation

The Settling Parties agree that Keene Division customers will pay the same distribution rates and be served under the same terms and conditions as all other Liberty customers, effective May 1, 2018.

Liberty will not commence construction on any phase of its proposed Keene expansion unless a discounted cash flow ("DCF") analysis of the revenue requirement of the direct cost versus the incremental revenue of the additional load for that phase shows a positive value over a 10-year period.

Liberty agrees to a target amount of additional revenue due to growth in excess of the revenue requirement associated with the direct cost of the investment. If the cumulative excess revenue is less than $200,000 annually, Liberty will reduce its revenue requirement in its next rate case by the difference between $200,000 and the excess revenue. Excess revenue shall be based on actual load added as of the effective date of permanent rates following the end of the next rate case, plus reasonably anticipated revenue based on customer commitments to take service, both pro-formed for one year following the effective date of permanent rates in the next rate case. This provision is conditioned on Liberty's receipt of the Safety Division's authorization to commence construction of Phase I no later than May 1, 2018, and on acquiring appropriate authorization to construct a permanent compressed natural gas ("CNG")/liquefied natural gas ("LNG") facility by May 1, 2019.

Keene customers will begin paying the LDAC as of May 1, 2018.

Keene shall have a separate COG, which will include: (1) propane purchases; (2) CNG/LNG purchases; (3) production costs; (4) revenue requirement associated with CNG/LNG facilities; and (5) revenue requirement associated with fuel inventory.

H. Impact of Tax Reform

Separate from the revenue requirement described in this Agreement, Liberty will reduce annual distribution revenues by $2,394,065 to account for the reduction in federal tax rates included in the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") that was passed by the United States Congress in December 2017 and a reduction to New Hampshire tax rates, and which reduction will be part of the rate adjustments that occur on May 1, 2018. The calculation of this adjustment is shown in Attachment E. In addition, the tax law changes included in the 2017 Tax Act, including the elimination of bonus depreciation for tax purposes, have been taken into account in the calculation of the step adjustment described in Section B above.

The Settling Parties recommend that the Commission find that this provision fully satisfies the Company's obligations with respect to Order No. 26,096 (January 3, 2018) in Docket No. IR 18-001.

I. Bill Impacts

Bill impacts for the various rate classes resulting from the adjustments to revenue and rate design as described above are provided in Attachment F.

J. Tariff Changes

Liberty will file revised tariff language to add Keene as a service territory served by Liberty Utilities (EnergyNorth Natural Gas) Corp., and to add a Keene COG tariff specific to Keene customers, as described above.

Liberty will cancel the Keene Division tariff as of May 1, 2018.

K. Residential Low Income Assistance Program

The Settling Parties agree that the Commission should open a generic proceeding to address changes to the Residential Low Income Assistance Program.

L. Next Distribution Rate Case

Liberty shall file its next distribution rate case using a test year ending no later than December 31, 2020.

III. CONDITIONS

This Agreement is expressly conditioned on the Commission's acceptance of all its terms, without change or condition. If the Commission does not accept this Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Agreement, and either of the Settling Parties notifies the Commission within five business days of its disagreement with any such changes, conditions, or findings, the Agreement shall be deemed to be withdrawn, in which event it shall be deemed to be null and void and without effect, shall not constitute any part of the record in this proceeding, shall not be relied on by any party to this proceeding or by the Commission for any other purpose.

The Settling Parties agree that the Commission's approval of this Agreement will not constitute continuing approval of, or precedent for, any particular principle or issue related to the revenue requirement, but such acceptance does constitute a determination that the adjustments and provisions stated in their totality are just and reasonable and consistent with the public interest and that the revenues contemplated will be just and reasonable under the circumstances.

The discussions that produced this Agreement have been conducted on the understanding that all offers of settlement and settlement discussions relating to this docket shall be confidential, shall not be admissible as evidence in this proceeding, shall be without prejudice to the position of any party or participant representing any such offer or participating in any such discussion, and are not to be used in connection with any future proceeding or otherwise.

As between the Settling Parties, the information and testimony previously provided in this proceeding are not expected to be subject to cross-examination by the Settling Parties, which would normally occur in a fully litigated case. The Settling Parties agree that they shall not object to the admission as full exhibits of their respective direct and rebuttal testimony and supporting documentation. The Settling Parties' agreement to admit all testimony without challenge does not constitute agreement by the Settling Parties that the content of the written testimony is accurate or what weight, if any, should be given to the views of any witness. The identification of the resolution of any specific issue in this Agreement does not indicate any of the Settling Parties' agreement to that resolution for purposes of any future proceeding, nor does the reference to any other document bind the Settling Parties to the contents of, or recommendations in, that document for purposes of any future proceeding. The Commission's approval of the recommendations in this Agreement shall not constitute a determination or precedent with regard to any specific adjustments to the revenue requirement, but rather shall constitute only a determination that the revenue requirement and rates resulting from, and other specific conditions stated in this Agreement are just and reasonable. The Settling Parties agree to forego cross-examining each others' witnesses regarding their pre-filed testimony and, therefore, the admission into evidence of any such witness's testimony or supporting documentation shall not be deemed in any respect to constitute an admission by any party to this Agreement that any allegation or contention in this proceeding is true or false, except that the sworn testimony of any witness shall constitute an admission by such witness.

This Agreement may be executed by facsimile and in counterparts, each of which shall be deemed to be an original, and all of which, taken together, shall constitute one agreement binding on all Settling Parties.

Dated: February 27, 2018

Liberty Utilities (EnergyNorth Natural Gas) Corp.
d/b/a Liberty Utilities

By its Attorney, Michael J. Sheehan

Dated: February 27, 2018

Office of the Consumer Advocate

By the Consumer Advocate, D. Maurice Kreis