EXHIBIT
#72
DG 17-048

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

DG 17-048
Distribution Service Rate Case

Staff Data Requests – Technical Session Set 1

Date Request Received: 8/29/17
Request No. Staff Tech 1-45

Date of Response: 9/13/17
Respondent: Steven Mullen

REQUEST:

Reference Staff 5-48. Mr. Normand discusses the recommendation that the depreciation reserve variance be amortized over 12 years. On Schedule RR-EN-3-6 (Bates 052), the Company proposes to amortize the variance over 3 years. In the technical session Liberty referred to additional considerations outside of the depreciation study that gave rise to the 3 year amortization proposal. Please describe these considerations in more detail.

RESPONSE:

There are many considerations that must be taken into account when any amount is either to be recovered from customers or flowed back to customers over a period of years. Those considerations include such things as: the length of time over which the amount accumulated, the total duration of time from the first creation of the item until its planned disposition using the proposed amortization period, the magnitude of the amount, inter-generational equity issues, and the expected period of time between rate cases.

In this case, we are dealing with an approximate $10 million depreciation reserve deficit that started as a $12.4 million depreciation reserve surplus in an earlier rate case docket, DG 08-009. Per agreement among the settling parties in that docket, that surplus has been flowed back to customers at an annual rate of $933,588 since July 1, 2009. That agreed amortization period was a little over 13 years. However, seven-and-a-half years later (i.e., through December 31, 2016), the reserve variance is now a deficit of approximately $10 million, meaning that the Company has under-recorded depreciation expense for a number of years, with a significant portion due to the amount that has annually been flowed back to customers (approximately $7 million). Although the depreciation reserve surplus of $12.4 million was an agreed upon amount in DG 08-009, it is clear that a significant correction is now needed. Since the current depreciation reserve deficit has been incurred over seven-and-a-half years, extending the period of time by another 12 years to address the existing imbalance would lead to a situation where significant inter-generational equity issues would exist for an extended period of time rather than being addressed in the near future. Although inter-generational equity issues are inherent in ratemaking, an extended amortization period would exacerbate those issues. Assuming a three-year rate case cycle, the Company's proposed amortization period would address the current reserve imbalance by the time of the next rate case and the Company would consider performing an updated comparison of the theoretical-versus-actual depreciation reserves at that time without the necessity and expense of filing a new depreciation study. Revisiting the status of the depreciation reserves in that relatively short period of time would help avoid the accumulation of a large reserve imbalance, either a surplus or a deficit, which could otherwise accumulate over an extended amortization period.