

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

Docket No. DG 20-XXX

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Winter 2020/2021 Cost of Gas
Summer 2021 Cost of Gas

DIRECT TESTIMONY

OF

DAVID B. SIMEK

AND

CATHERINE A. MCNAMARA

September 1, 2020

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1 **I. INTRODUCTION**

2 **Q. Please state your full name and business address.**

3 A. (DS) My name is David B. Simek. My business address is 15 Buttrick Road,
4 Londonderry, New Hampshire.

5 (CM) My name is Catherine A. McNamara. My business address is 15 Buttrick Road,
6 Londonderry, New Hampshire.

7 **Q. Please state by whom you are employed.**

8 A. We are employed by Liberty Utilities Service Corp. (“Liberty”), which provides service
9 to Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
10 (“EnergyNorth” or “the Company”).

11 **Q. Please describe your educational background and your business and professional
12 experience.**

13 A. (DS) I graduated from Ferris State University in 1993 with a Bachelor of Science in
14 Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also
15 received a Master’s of Business Administration from Walsh College in 2001. In 2006, I
16 earned a Graduate Certificate in Power Systems Management from Worcester
17 Polytechnic Institute. In August 2013, I joined Liberty as a Utility Analyst and I was
18 promoted to Manager, Rates and Regulatory Affairs in August 2017. Prior to my
19 employment at Liberty, I was employed by NSTAR Electric & Gas (“NSTAR”) as a
20 Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy

1 Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment
2 Planning group from 2004 to 2008.

3 (CM) I graduated from the University of Massachusetts, Boston, in 1993 with a Bachelor
4 of Science in Management with a concentration in Accounting. In November 2017, I
5 joined Liberty as an Analyst in Rates and Regulatory Affairs. Prior to my employment at
6 Liberty, I was employed by Eversource as a Senior Analyst in the Investment Planning
7 group from 2015 to 2017. From 2008 to 2015, I was a Supervisor in the Plant
8 Accounting department. Prior to my position in Plant Accounting, I was a Financial
9 Analyst/General Ledger System Administrator within the Accounting group from 2000 to
10 2008.

11 **Q. Have you previously testified in regulatory proceedings before the New Hampshire
12 Public Utilities Commission (the “Commission”)?**

13 A. (DS) Yes. I have testified on numerous occasions before the Commission.

14 (CM) Yes. I have testified on multiple occasions before the Commission.

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of our testimony is to explain the Company’s proposed firm sales cost of gas
17 rates for the 2020/2021 Winter (Peak) Period and the Company’s proposed 2020/2021
18 Local Delivery Adjustment Clause, both effective November 1, 2020. Our testimony
19 also explains the Company’s proposed firm sales cost of gas rates for the 2021 Summer
20 (Off-Peak) Period.

1 **II. WINTER 2020/2021 COST OF GAS FACTOR**

2 **Q. What are the proposed firm Winter sales and firm transportation cost of gas rates?**

3 A. The Company proposes a firm sales cost of gas rate of \$0.5571 per therm for residential
4 customers, \$0.5552 per therm for commercial/industrial high winter use customers, and
5 \$0.5660 per therm for commercial/industrial low winter use customers as shown on
6 Proposed Eleventh Revised Page 92 (Bates 047). The Company proposes a firm
7 transportation cost of gas rate of \$0.0001 per therm as shown on Proposed Fourth
8 Revised Page 94 (Bates 049).

9 **Q. Please explain tariff page and Proposed Eleventh Revised Page 92 (Bates 047).**

10 A. Proposed Eleventh Revised Page 92 contains the calculation of the 2020/2021 Winter
11 Period Cost of Gas Rate and summarize the Company's forecast of firm gas costs and
12 firm gas sales. As shown on Page 92, the proposed 2020/2021 Average Cost of Gas of
13 \$0.5571 per therm is derived by adding the Direct Cost of Gas Rate of \$0.5319 per therm
14 to the Indirect Cost of Gas Rate of \$0.0252 per therm. The estimated total Anticipated
15 Direct Cost of Gas, derived on Page 92, is \$46,922,854. The estimated Indirect Cost of
16 Gas, also derived on Page 92, is \$2,220,114. The Direct Cost of Gas Rate of \$0.5319 and
17 the Indirect Cost of Gas Rate of \$0.0252 are determined by dividing each of these total
18 cost figures by the projected winter period firm sales volumes of 88,213,529 therms.

19 To calculate the total Anticipated Direct Cost of Gas, the Company adds a list of
20 allowable adjustments from deferred gas cost accounts to the projected demand and
21 commodity costs for the winter period supply portfolio. These allowable adjustments,
22 shown on Page 92.1, total \$1,012,447. These adjustments are added to the Unadjusted

1 Anticipated Cost of Gas of \$45,910,407 to determine the Total Anticipated Direct Cost of
2 Gas of \$46,922,854.

3 **Q. What are the components of the Unadjusted Anticipated Cost of Gas?**

4 A. The Unadjusted Anticipated Cost of Gas shown on Proposed Original Page 92.1 consists
5 of the following components:

6	1.	Purchased Gas Demand Costs	\$12,022,922
7	2.	Purchased Gas Commodity Costs	28,276,980
8	3.	Storage Demand and Capacity Costs	955,766
9	4.	Storage Commodity Costs	3,064,149
10	5.	Produced Gas Cost	<u>1,590,589</u>
11		Total	** <u>\$45,910,406</u>

12 **Slightly off due to rounding

13 **Q. What are the components of the allowable adjustments to the Cost of Gas?**

14 A. The allowable adjustments to gas costs, listed on Proposed Original Page 92.1, are as
15 follows:

16	1.	Deferred Gas Cost Prior Period Under Collection	\$2,227,421
17	2.	Interest	72,812
18	3.	Fuel Inventory Revenue Requirement	441,037
19	4.	Broker Revenues	(32,725)
20	5.	Transportation COG Revenue	(4,516)
21	6.	Capacity Release Margin	(1,736,581)
22	7.	Fixed Price Administrative Cost	<u>45,000</u>
23		Total Adjustments	** <u>\$1,012,448</u>

24 **Slightly off due to rounding

1 These allowable adjustments are standard adjustments made to the deferred gas cost
2 balance through the operation of the Company's cost of gas adjustment clause. We
3 discuss the factors contributing to the prior period under collection later in this testimony.

4 **Q. How does the proposed average cost of gas rate in this filing compare to the average**
5 **cost of gas rate approved by the Commission in Docket No. DG 19-145 for the**
6 **2019/2020 winter period?**

7 A. The average cost of gas rate proposed in this filing of \$0.5571 per therm is \$0.0632 per
8 therm less than the initial rate of \$0.6203 per therm approved by the Commission in
9 Order No. 26,306 (October 31, 2019) in Docket No. DG 19-145. The \$0.0632 per therm
10 decrease in the rate reflects a \$6,025,265 decrease in the Total Unadjusted Direct Cost of
11 Gas.

12 **Q. How does the proposed firm transportation winter cost of gas rate compare to the**
13 **rate approved by the Commission for the 2019/2020 winter period?**

14 A. The proposed firm transportation winter cost of gas rate is \$0.0001 per therm. The rate
15 approved in Docket No. DG 19-145 was \$0.0009 per therm. The decrease in the rate
16 relates primarily to an estimated \$29,483 decrease in commodity costs and the difference
17 between the winter season 2019/2020 beginning balance of \$29,161 (an over-collection)
18 and the winter season 2020/2021 beginning balance of \$40,053 (an over-collection).

1 **Q. In the calculation of its firm transportation winter cost of gas rate, has the Company**
2 **updated the estimated percentage used for pressure support purposes?**

3 A. No. The Company used, for pressure support purposes, a rate of 8.7% based on the
4 marginal cost study used for the rate design approved in Docket No. DG 17-048.

5 **Q. Did the Company include a fuel inventory revenue requirement calculation in this**
6 **filing?**

7 A. Yes (Bates 198). The Company is proposing to collect \$441,037 in fuel inventory
8 revenue requirement consistent with Order No. 26,156 (July 10, 2018) in Docket No. DG
9 17-048. The impact of this amount to the overall Cost of Gas rate is \$0.0050 per therm
10 which is determined by dividing the \$441,037 by the estimated November 2019 through
11 October 2020 COG sales volumes of 87,788,508 therms.

12 **Q. How was the statutory tax rate of 27.08% calculated (Bates 198)?**

13 A. The statutory rate of 27.08% was calculated by using a 21% federal tax rate and a 7.7%
14 tax rate for the State of New Hampshire ($0.21 + 0.077 - (0.21 \times 0.077) = 0.27083$).

15 **Q. How was the common equity pre-tax rate of 6.280% calculated (Bates 198)?**

16 A. The common equity pre-tax rate of 6.280% was calculated by dividing the 9.30% rate of
17 return on common equity, approved in Docket No. DG 17-048, by 0.72917 ($1 - 0.27083$)
18 [statutory tax rate – see previous question]) and multiplied by 49.20% (equity component
19 of the capital structure approved in DG 17-048) [$0.093 / 0.72917 \times 0.4920 = 0.0628$].

1 **Q. Has the bad debt percentage in this filing of 1.11% changed from the bad debt**
2 **percentage calculated in the Winter 2019/2020 Cost of Gas Reconciliation?**

3 A. No. The bad debt percentage of 1.11% used in this filing is the calculated rate for the
4 period of May 2019–April 2020.

5 **Q. What was the actual weighted average firm sales cost of gas rate for the 2019/2020**
6 **winter period?**

7 A. The weighted average cost of gas rate was \$0.4632 per therm (Bates 085 Line 54). This
8 was calculated by applying the actual monthly cost of gas rates for November 2019
9 through April 2020 to the monthly therm usage of an average residential heating
10 customer using 667 therms for the six winter period months.

11 **III. PRIOR WINTER PERIOD UNDER-COLLECTION**

12 **Q. Please explain the prior period under collection of \$1,863,956.**

13 A. The prior period under-collection is detailed in the 2019/2020 winter period
14 reconciliation that was filed with the Commission on July 31, 2020. The \$1,863,956
15 under-collection is the sum of the deferred gas cost, bad debt, and working capital over-
16 and under-collection balances as of April 30, 2020. The under-collection was driven
17 mainly by the lag in the timing of monthly cost of gas rate adjustments as compared to
18 changes in the underlying costs.

1 **IV. FIXED PRICE OPTION**

2 **Q. Has the Company established a winter period fixed price pursuant to its Fixed Price**
3 **Option Program?**

4 A. Yes. Pursuant to Order No. 24,515 in Docket No. DG 05-127, the Fixed Price Option
5 Program (“FPO”) rates are set at \$0.0200 per therm higher than the initial proposed COG
6 rate. Proposed Third Revised Page 91 (Bates 046) contains the FPO rate for the
7 2020/2021 winter period, which is \$0.5771 per therm for residential customers. This
8 compares to the FPO rate approved for the 2019/2020 winter period of \$0.6403 per therm
9 for residential customers. This represents a \$0.0632 per therm or 9.87% decrease in the
10 residential FPO rate. The total bill impact on the winter period bills for an average FPO
11 heating customer using 667 therms is a decrease of approximately \$34.21 or 3.67%
12 compared to last winter. The total bill impact reflects the overall rates in effect following
13 implementation of the increases approved in Docket No. DG 20-049, effective July 1,
14 2020, relating to the cast iron/bare steel main replacement program. The estimated
15 winter period bill for an average residential heating customer opting for the FPO would
16 be approximately \$13.32 (or 1.51%) higher than the bill under the proposed cost of gas
17 rates, assuming no monthly adjustments to the COG rate during the course of the winter.
18 Schedule 23 (Bates 195) contains the historical results of the FPO program.

19 **V. LOCAL DELIVERY ADJUSTMENT CLAUSE (“LDAC”)**

20 **Q. What are the surcharges that will be billed under the LDAC?**

21 A. As shown on Proposed Third Revised Page 97 (Bates 052), the Company is submitting
22 for approval an LDAC of \$0.0603 per therm for the residential non-heating class and

1 residential heating class, and \$0.0549 per therm for the commercial/industrial bundled
2 sales classes, effective November 1, 2020. The surcharges proposed to be billed under
3 the LDAC are the Energy Efficiency Charge, the Revenue Decoupling Adjustment
4 Factor, the Environmental Surcharge for Manufactured Gas Plant (“MGP”) remediation,
5 the Residential Gas Assistance Program charge, and the rate case expense reconciliation
6 surcharge from Docket No. DG 17-048.

7 **Q. Which customers are billed an LDAC?**

8 A. All EnergyNorth customers including those in Keene are billed an LDAC charge. When
9 calculating the LDAC charge, the November 1, 2020, through October 31, 2021,
10 forecasted Keene therm sales of 1,442,013 are added to the EnergyNorth therm sales
11 forecast of 178,132,666 for a total therm sales forecast of 179,574,679.

12 **Q. Please explain the Energy Efficiency Charge.**

13 A. The Energy Efficiency Charge is designed to recover the projected expenses associated
14 with the Company’s energy efficiency programs for the November 2020–October 2021
15 period that will be filed with the Commission in the near future. In the calculation of the
16 Energy Efficiency Charge, the Company has also included the projected prior period
17 under-recovery of the Company’s residential and commercial energy efficiency programs
18 as of October 2020. As shown on Schedule 19 Energy Efficiency (Bates 124-126), the
19 proposed Energy Efficiency charge is \$0.0831 per therm for Residential customers and
20 \$0.0441 per therm for commercial and industrial customers.

1 **Q. Please explain the Revenue Decoupling Adjustment Factor (“RDAF”).**

2 A. The purpose of the RDAF is to recover or refund, on an annual basis, the difference
3 between the Actual Base Revenue per Customer and the Benchmark Base Revenue per
4 Customer. Schedule 19 RDAF (Bates 109-123) shows the proposed Actual Base
5 Revenue per Customer and the Benchmark Base Revenue per Customer calculation of a
6 total over-collection of \$4,965,947 effective November 1, 2020, through October 31,
7 2021. Schedule 19 RDAF also includes a proposed September 2019 through August
8 2020 reconciliation. The reconciliation is new to this filing and calculates a remaining
9 refund of \$1,010,099 effective November 1, 2020, through October 31, 2021.

10 **Q. What is the proposed Residential Gas Assistance Program charge?**

11 A. As shown on Schedule 19 Gas Assistance (Bates 127-128), the proposed Residential Gas
12 Assistance charge is \$0.0121 per therm. It is designed to recover administrative costs,
13 revenue shortfall, and the prior period reconciliation adjustment relating to this program.
14 For the 2020/2021 winter period, the Company is providing a 45% base rate and cost of
15 gas discount, consistent with the settlement agreement approved by the Commission in
16 Order No. 26,397 (August 27, 2020) in Docket No. DG 20-013. The proposed
17 Residential Gas Assistance charge is designed to recover \$2,165,954, of which
18 \$1,689,200 is for the revenue shortfall resulting from 4,880 customers receiving a 45%
19 discount off their base and cost of gas rates, and \$476,754 for the prior year reconciling
20 adjustment.

21 **Q. In Order No. 24,824 (Feb. 29, 2008) in Docket No. DG 06-122 relating to short-term**
22 **debt issues, the Company agreed to adjust its short-term debt limits each year as**

1 **part of the Company's Winter Period Cost of Gas filing. Did the Company**
2 **calculate the short-term debt limit for fuel and non-fuel purposes in accordance**
3 **with this settlement?**

4 A. Yes, the Company included in Schedule 24 (Bates 196) the short-term debt limit for fuel
5 and non-fuel purposes for the 2020/2021 winter period. As shown, the short-term debt
6 limit for fuel inventory financing for the period November 1, 2020, through October 31,
7 2021, is calculated to be \$14,702,768 and the limit for non-fuel purposes is calculated to
8 be \$105,567,204.

9 **Q. Has the Company updated the Environmental Surcharge (Tariff Page 95)?**

10 A. Yes, it has. The costs submitted for recovery through the MGP remediation cost recovery
11 mechanism, as well as the third party recoveries, are included in the Environmental Cost
12 Summary in Schedule 20 (Bates 130) of this filing. The environmental investigation and
13 remediation costs that underlie these expenses are the result of efforts by the Company to
14 respond to its legal obligations with regard to these sites, as described by Ms. Casey in
15 her pre-filed direct testimony in this proceeding and as set forth in the MGP site
16 summaries included in this filing under Schedule 20. The Summary included in Schedule
17 20 shows the remediation cost pools for the Concord Pond, Concord MGP, Manchester,
18 Nashua, and Laconia sites, and a General Pool for costs that cannot be directly assigned
19 to a specific site.

20 A summary sheet and detailed backup spreadsheets that support the 2019/2020 costs are
21 provided in Schedule 20 of this filing. Ms. Casey's testimony describes the Company's
22 activities with regard to all five sites.

1 **Q. Please describe how the Company calculated the Environmental Surcharge included**
2 **in this filing.**

3 A. The proposed Manufactured Gas Plant Remediation surcharge for the period beginning
4 November 1, 2020, and ending October 31, 2021, is \$0.0197 per therm. Consistent with
5 filings made over the past few years, this surcharge will recover a total of \$2,864,179 in
6 amortized remediation costs. New to this filing are amortized actual to forecast true-up
7 recovery costs through June 2019 of \$341,389 (total amount is \$1,024,167 which is
8 proposed to be amortized over three years). The \$1,024,167 is the recommended amount
9 provided by Audit Staff in the DG 19-145 Final Audit Report dated April 9, 2020. Also,
10 new to this filing are actual to forecast true-up recovery cost for the period July 2019
11 through June 2020 of \$338,564. The costs submitted for recovery are shown in the
12 Environmental Cost Summary included in Schedule 20 of this filing.

13 **Q. Did the Company include a Rate Case Expense (RCE) surcharge in this filing?**

14 A. Yes. As shown on Schedule 19 RCE (Bates 107-108), the Company is proposing to
15 collect \$44,619 in uncollected rate case expense consistent with Order No. 26,122 (April
16 27, 2018) in Docket No. DG 17-048. The RCE rate of \$0.0002 per therm is determined
17 by dividing the \$44,619 by the estimated November 2020 through October 2021 sales
18 volumes of 179,574,679 therms.

1 **Q. Has the Company also updated its Company Allowance percentage for the period**
2 **November 2020 through October 2021 in accordance with Section 8 of the**
3 **Company’s Delivery Terms and Condition?**

4 A. Yes, in Schedule 25 (Bates 197) the Company has recalculated its Company Allowance
5 for the period November 2020 through October 2021. The Company calculated the
6 Company Allowance of 1.61% based on sendout and throughput data for the twelve-
7 month period ending June 2020. The Company proposes to apply this recalculated
8 Company Allowance to all supplier deliveries beginning in November 2020.

9 **VI. CUSTOMER BILL IMPACTS**

10 **Q. What are the estimated impacts of the proposed firm sales cost of gas rate and**
11 **proposed LDAC surcharges on an average heating customer’s winter bill as**
12 **compared to the winter rates in effect last year?**

13 A. The bill impact analysis is presented in Schedule 8 (Bates 085) of this filing. These bill
14 impacts reflect the implementation of the increases approved in Docket No. DG 20-049
15 effective July 1, 2020, relating to the cast iron/bare steel main replacement program. The
16 total bill impact over the winter period for an average residential heating customer is an
17 increase of approximately \$91.21 or 11.51%. The total bill impact over the winter period
18 for an average commercial/industrial G-41 customer is an increase of approximately
19 \$223.46, or 11.0% (Bates 086). Schedule 8 of this filing provides more detail of the
20 impact of the proposed rate adjustments on heating customers.

1 **VII. OTHER TARIFF CHANGES**

2 **Q. Is the Company updating its Delivery Terms and Conditions in the filing?**

3 A. Yes. The Company is submitting Proposed Third Revised Page 147 (Bates 053) relating
4 to Supplier Balancing and Peaking Demand Charges and Proposed Third Revised Page
5 148 (Bates 054) relating to Capacity Allocation.

6 **Q. Please describe the changes to tariff Page 147.**

7 A. In Proposed Third Revised Page 147, the Company is updating the Peaking Demand
8 Charge from \$18.12 per MMBtu of Peak MDQ to \$17.32 per MMBtu of Peak MDQ.
9 This calculation is also presented in Schedule 21 (Bates 178-188).

10 **Q. Please describe the changes to tariff Page 148.**

11 A. Proposed Second Revised Page 148 updates the Capacity Allocator percentages used to
12 allocate pipeline, storage, and local peaking capacity to high and low load factor
13 customers under the mandatory capacity assignment requirement for firm transportation
14 service. Schedule 22 (Bates 189-194) contains the six-page worksheet that backs up the
15 calculations for the updated allocators.

16 **VIII. SUMMER 2020 COST OF GAS FACTOR**

17 **Q. What are the proposed 2020 summer firm sales cost of gas rates?**

18 A. The Company proposes a firm sales cost of gas rate of \$0.3148 per therm for residential
19 customers, \$0.3109 per therm for commercial/industrial high winter use customers, and
20 \$0.3199 per therm for commercial/industrial low winter use customers as shown on
21 Proposed Eighth Revised Page 89 (Bates 207).

1 **Q. Please explain tariff pages Proposed Third Revised Page 88 and Proposed**
2 **Thirteenth Revised Page 89.**

3 A. Proposed Third Revised Page 88 (Bates 206) and Proposed Thirteenth Revised Page 89
4 (Bates 207) contain the calculation of the 2020 Summer Period Cost of Gas Rate and
5 summarize the Company's forecast of firm gas sales, firm gas sendout, and gas costs. On
6 Proposed Thirteenth Revised Page 89, the 2021 Average Cost of Gas of \$0.3148 per
7 therm is derived by adding the Direct Cost of Gas Rate of \$0.3257 per therm to the
8 Indirect Cost of Gas Rate of (\$0.0109) per therm. The estimated total Anticipated Direct
9 Cost of gas is \$7,386,965 and the estimated Indirect Cost of Gas is (\$246,190). The
10 Direct Cost of Gas Rate and the Indirect Cost of Gas Rates are determined by dividing
11 each of these total cost figures by the projected Summer firm sales volumes of
12 22,681,422 therms. Proposed Thirteenth Revised Page 89 further shows that the
13 Residential Cost of Gas Rate of \$0.3148 per therm is equal to the Average Cost of Gas
14 for all firm sales customers. It also shows the calculation of the Commercial/Industrial
15 High Winter Use Cost of Gas Rate of \$0.3109 per therm and the Commercial/Industrial
16 Low Winter Use Cost of Gas Rate of \$0.3199 per therm.

17 The calculation of the Anticipated Direct Cost of Gas is shown on Proposed Third
18 Revised Page 88. To derive the total Anticipated Direct Cost of Gas of \$7,386,965, the
19 Company starts with the Unadjusted Anticipated Cost of Gas of \$7,284,571 and adds the
20 Net Adjustment totaling \$102,394.

1 **Q. What are the components of the Unadjusted Anticipated Cost of Gas?**

2 A. The Unadjusted Anticipated Cost of Gas consists of the following:

3	1. Purchased Gas Demand Costs	\$2,868,280
4	2. Purchased Gas Supply Costs	4,387,278
5	3. Produced Gas Costs	<u>29,014</u>
6	Total Unadjusted Anticipated Cost of Gas	** <u>\$7,284,572</u>

7 **Slightly off due to rounding

8 **Q. What are the components of the adjustments to the cost of gas?**

9 A. The adjustments to gas costs, listed on proposed Third Revised Page 88, are as follows:

10	1. Prior Period (Over)/Under Collection	\$105,886
11	2. Interest	<u>\$(3,492)</u>
12	Total Adjustments	<u>\$102,394</u>

13 **Q. How does the proposed average Residential Summer cost of gas rate in this filing**
14 **compare to the initial cost of gas rate approved by the Commission for the 2020**
15 **Summer Period?**

16 A. The cost of gas rate proposed in this filing is \$0.1372 per therm lower than the initial rate
17 approved by the Commission for the 2019 Summer Period (\$0.4520 vs. \$0.3148)
18 (Schedule 8, Bates 229). This decrease is primarily due to a \$1,779,560 lower estimated
19 under-collection compared to the under-collection from the prior summer period.

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

21 A. Yes, it does.