



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

Docket No. DG 19-161

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

**DIRECT TESTIMONY
OF
KENNETH A. SOSNICK**

November 27, 2019

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TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND 1

II. SCOPE OF TESTIMONY 2

III. FUNCTIONAL COST OF SERVICE STUDY 3

IV. RESULTS AND CONCLUSIONS 6

ATTACHMENTS

Attachment	Title
KAS-1	Sosnick Resume
KAS-2	Summary of the Functional Cost Study
KAS-3	Functional Cost Study – Account Level Detail

1 **I. INTRODUCTION AND BACKGROUND**

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

3 A. My name is Kenneth A. Sosnick. My business address is 200 State Street, 9th Floor,
4 Boston, Massachusetts.

5 **Q. By whom are you employed, and in what position?**

6 A. I am employed by FTI Consulting (“FTI”), which is an independent global business
7 advisory firm dedicated to helping organizations manage change, mitigate risk and
8 resolve disputes: financial, legal, operational, political & regulatory, reputational and
9 transactional. My title is Managing Director.

10 **Q. Please describe FTI’s Power and Utilities practice.**

11 A. FTI is an independent global business advisory firm dedicated to helping organizations
12 manage change, mitigate risk, and resolve disputes: financial, legal, operational, political
13 and regulatory, reputational and transactional. Individually, each practice is a leader in
14 its specific field, staffed with experts recognized for the depth of their knowledge and a
15 track record of making an impact. FTI’s Power and Utilities practice provides a wide
16 array of advisory services that address the strategic, financial, reputational, and regulatory
17 needs of energy and utility clients involved in the production and transmission of crude
18 oil, natural gas, refined products, chemicals, coal, electric power, emerging technologies,
19 and renewable energy.

1 **Q. What are your responsibilities in your current position?**

2 A. As a member of the Power & Utilities practice, my responsibilities include providing
3 advisory services that address the strategic, financial, reputational, and regulatory needs
4 of energy and utility clients. My primary areas of focus are regulatory, accounting, civil
5 litigation, and financial analysis.

6 **Q. Please describe your education.**

7 A. I have a Bachelor of Arts in Accounting from Indiana University of Pennsylvania in
8 Indiana, Pennsylvania. I have included my résumé as Attachment KAS-1.

9 **Q. On whose behalf are you submitting testimony in this proceeding?**

10 A. I am testifying on behalf of Liberty Utilities (EnergyNorth Natural Gas) Corp.
11 (“EnergyNorth” or “the Company”).

12 **II. SCOPE OF TESTIMONY**

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. The purpose of my testimony is to discuss the functional cost of service study performed
15 by FTI and used as support for the rates proposed by EnergyNorth in this proceeding.

16 **Q. Are you sponsoring any exhibits to support your testimony?**

17 A. Yes, two attachments are provided with my testimony. Attachment KAS-2 is a summary
18 of the functional cost of service study. Attachment KAS-3 provides the detailed study at
19 the individual account level.

1 **III. FUNCTIONAL COST OF SERVICE STUDY**

2 **Q. What is a functional cost of service study and why was such a study performed for**
3 **this case?**

4 A. A cost of service study provides a measure of the cost responsibility based on cost
5 causation principles of a company's respective functions and various rate classes. A
6 functional cost study is necessary to arrive at the cost responsibility for each of the
7 functions because many of the company's costs are common, or indirect, and incurred to
8 provide service to all customers. In general, costs are first identified based on the
9 function for which they are incurred, then those costs are classified, typically as demand,
10 customer, and commodity, and finally directly assigned or allocated to the various
11 functions.

12 The functional cost of service study separates EnergyNorth's revenue requirement into
13 four functions: delivery, direct gas cost, propane and Liquefied Natural Gas ("LNG")
14 costs, and miscellaneous indirect costs. The direct costs of purchasing gas, including
15 propane and LNG costs, as well as related indirect costs, collectively referred to as
16 production costs, are recovered through the Cost of Gas ("COG") mechanism rather than
17 through base distribution rates. The costs of delivering gas are recovered through base
18 distribution rates.

19 Therefore, the purpose of a functional cost study is to ensure that there is neither
20 duplication of cost recovery through both distribution rates and the COG mechanism nor
21 stranded costs that are not recovered at all.

1 **Q. What is the relationship between this functional cost study and the marginal cost**
2 **study that is being filed with this case?**

3 A. The marginal cost study provides the basis for determining the level of distribution
4 revenues to be recovered from the various rate classes as well as the components that are
5 used to design rates. In contrast, this functional cost study divides the Company's total
6 revenue requirement into the costs to be recovered through base rates and those that are
7 recovered through the COG mechanism.

8 **Q. What is included in each of the categories of costs?**

9 A. Purchased gas costs including supplier, storage, and pipeline demand and commodity
10 costs, as well as commodity costs for propane gas and LNG, all of which are considered
11 direct costs. Indirect gas costs include the propane and LNG facility costs and expenses
12 required to provide the supply service. The costs associated with supplying the gas
13 commodity to customers that are not included in direct gas costs are indirect costs.
14 Indirect costs consist of the bad debt expense related to the supply function, working
15 capital related to the supply function, and other operations and maintenance expenses
16 including gas acquisition, dispatching, and administrative and general expenses related to
17 the supply function but not included in direct gas costs.

18 **Q. How are costs allocated in the functional cost of service study?**

19 A. Cost are directly assigned to the greatest extent possible or allocated based on certain
20 factors. Allocation factors can be developed using external factors or internal factors.
21 External factors, such as the number of customers or sales and transportation revenues,

1 are based on data from a separate independent analysis. An internal factor is calculated
2 within the functional cost study based on the combination of previously allocated costs.

3 **Q. How are facilities costs treated in the functional study?**

4 A. The Company's propane and LNG facilities provide a dual service, gas supply and
5 pressure support for the distribution system. Company witness Matthew DeCoursey
6 examined this dual functionality and determined that 8.7% of the Tilton LNG facility is
7 required for the pressure support and the remaining 91.3% of the propane and LNG is
8 utilized for gas supply for the system. These percentages are used to allocate the propane
9 and LNG facilities costs between pressure support and supply service. All distribution
10 facility costs, which are identified on page 1 of Attachment KAS-2, are directly assigned
11 to delivery service. Intangible and general facility costs, which are set forth on page 1 of
12 Attachment KAS-2, are allocated to the functions based on labor, an indirect allocation
13 factor.

14 **Q. How are other rate base items treated in the functional study?**

15 A. Materials and supplies and accumulated deferred income taxes are allocated to the
16 functions based on plant. Cash working capital is allocated on Operation and
17 Maintenance ("O&M") expenses, excluding gas costs and bad debt.

18 **Q. How are O&M expenses treated in the functional study?**

19 A. Production expenses related to gas acquisition are directly assigned to the supply function
20 and the remaining expenses are allocated between supply and delivery services. All
21 distribution, customer account, customer service, and sales expenses are directly assigned

1 to delivery service. Uncollectible expense is allocated between delivery and production
2 on a revenue basis.

3 **Q. How are Administrative and General expenses treated in the functional study?**

4 A. Administrative and General (“A&G”) expenses are allocated on labor except for
5 transferred costs and regulatory commission expense. Regulatory commission expenses
6 are allocated between delivery and production on a revenue basis and the transferred
7 costs are allocated based on all other A&G costs.

8 **Q. How are depreciation and taxes other than income expenses treated in the
9 functional study?**

10 A. Depreciation expenses are directly assigned to the functions based on the specific plant
11 accounts for each function. General and intangible depreciation expense follows
12 intangible and general facility costs. Taxes other than income are allocated on specific
13 plant or specific labor factors.

14 **IV. RESULTS AND CONCLUSIONS**

15 **Q. Please describe the results of the functional study.**

16 A. Attachment KAS-2, page 1, presents a summary of the results of the functional study, at
17 current rates and shows the earned return for each function. Pages 2 and 3 present a more
18 detailed summary of the production costs, separating the costs into LPG and LNG costs,
19 miscellaneous production costs, and bad debt costs at current and proposed rates of
20 return. The net result of the analysis is that a revenue requirement of \$1,919,612
21 associated with the supply function should be recovered through the COG mechanism.

1 Attachment KAS-3 provides a detailed view of the allocation of the revenue requirement
2 by each account and the external and internal allocation factors used in the study.

3 **Q. Does this complete your testimony?**

4 A. Yes.

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