

EMERA MAINE

Proposed Increase in Distribution Rates

Docket No. 2015-00360

Testimony of Alan Richardson

March 21, 2016

Introduction and Overview



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1 **Q. Please state your name, employment position, and business address.**

2 A. My name is Alan C. Richardson. I am President and Chief Operating Officer of Emera
3 Maine. My business address is 970 Illinois Avenue, Bangor, Maine.

4 **Q. Please summarize your professional qualifications**

5 A. I was appointed President & Chief Operating Officer of Emera Maine in May of 2015. I
6 joined the executive team of Bangor Hydro and Maine Public Service (now Emera Maine) in
7 September 2012 as Vice President, Sustainability, and in April of 2014 was appointed Vice
8 President, Transmission, where I was responsible for operation and maintenance of Emera
9 Maine's transmission system, as well as strategy and business development, including large
10 transmission development opportunities.

11 I have more than twenty-nine years of industry experience within Emera and Nova Scotia
12 Power. Prior to joining Emera Maine, I was VP Strategy and Innovation for Emera Inc., where I
13 was focused on development of Emera's strategic plans. This followed five years as VP of
14 Integrated Customer Services at NSPI, where I was responsible for distribution, transmission,
15 and system operations; customer service and related functions; as well as information
16 technology.

17 I have a Certificate in Applied Science from Acadia University and a Bachelor of
18 Electrical Engineering from the Technical University of Nova Scotia (now Dalhousie
19 University).

20 **Q. Have you previously filed testimony in a regulatory proceeding before the Maine
21 Public Utilities Commission ("MPUC")?**

22 A. Yes. I previously filed testimony in Emera Maine's recent petition for a Certificate of
23 Public Convenience and Necessity in Docket No. 2014-00048, and in GridSolar, LLC's Petition

1 for Designation as the Smart Grid Coordinator for the State of Maine and for Approval of
2 GridSolar's Initial Five-Year Smart Grid Implementation Plan in Docket No. 2013-00519.

3 **Q. Please describe Emera Maine.**

4 A. Emera Maine is an investor-owned electric transmission and distribution utility serving
5 approximately 159,000 customers in northern, central and eastern Maine. Emera Maine's service
6 territory covers approximately 8,902 square miles, with approximately 6,068 miles of
7 distribution lines (and approximately 1,265 miles on transmission lines). Emera Maine's service
8 territory is currently composed of two districts, the Bangor Hydro District and the Maine Public
9 District, which reflect the historical service territories of the prior Bangor Hydro Electric
10 Company and Maine Public Service Company. On January 1, 2014, the two companies merged
11 into a single corporate entity, now known as Emera Maine.

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

13 A. In this application, Emera Maine seeks an increase in distribution rates for electricity
14 delivery service to its customers. The increase in rates is necessary for the company to continue
15 to provide safe and reliable service. The company will show that the rates proposed are just and
16 reasonable and should be approved by the Commission.

17 The purpose of my testimony is to provide some overall context for this request, and to
18 highlight the key reasons the increase is necessary.

19 **Q. Why is a distribution rate increase necessary in 2017?**

20 A. Electricity distribution rates (for the most part quoted in cents/kWh are generally a
21 function of two things – costs associated with financing and operating assets needed to carry the
22 electricity and support customer services – and the amount of electricity delivered. For a
23 distribution utility, depreciation and financing costs provide for the return of and on capital,

1 which the company must raise and invest to ensure a distribution system that is safe for
2 employees and the public, and provides a reasonable level of reliability and customer service.
3 Distribution service is a capital intensive business, where these costs represent a significant
4 portion of the overall cost of delivery (revenue requirement). In Emera Maine's case, asset
5 investments used to provide Emera Maine distribution service today include more than \$500
6 million of electric plant¹ (\$300 million net of accumulated depreciation), with asset related costs
7 representing almost two thirds of the total distribution revenue requirement.²

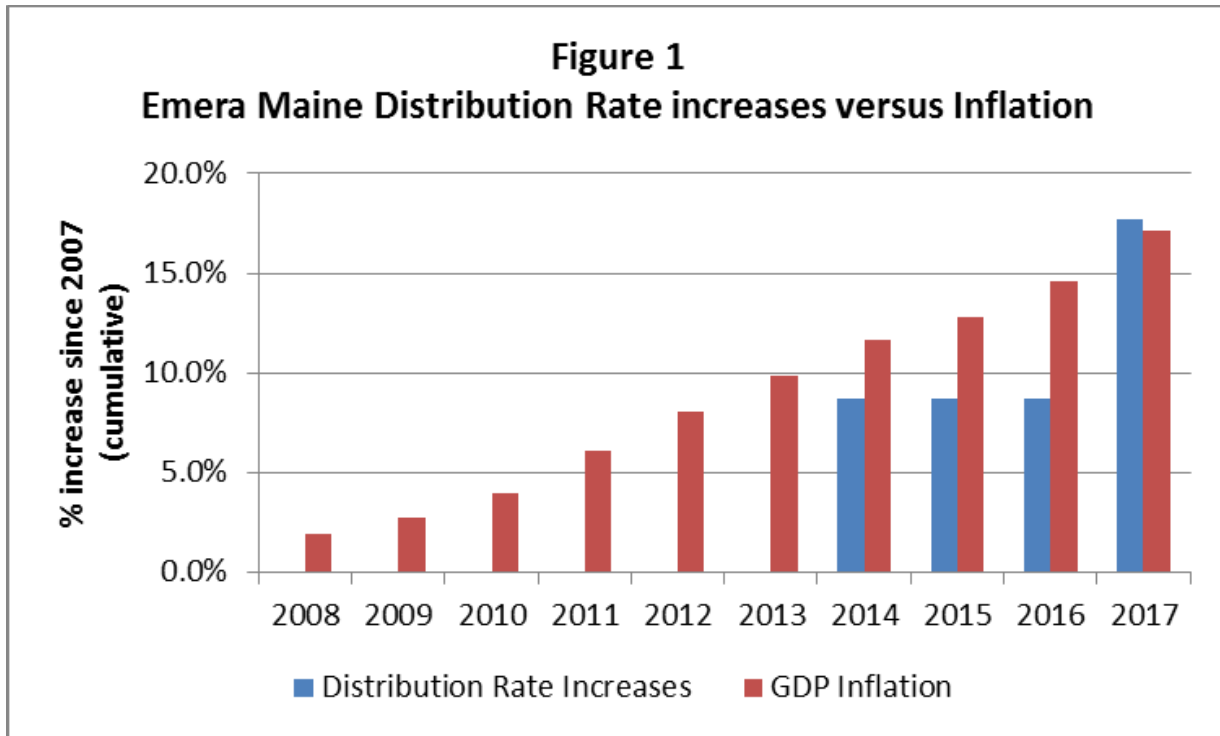
8 Each year, Emera Maine must reinvest in its distribution assets as they reach the end of
9 their useful lives. In the absence of sales growth, by definition, this reinvestment puts upward
10 pressure on distribution rates.

11 Emera Maine, and its predecessor companies Bangor Hydro Electric Company and
12 Maine Public Service Company have successfully managed the life cycles of utility assets,
13 extending their useful lives where possible, and thereby reducing the carrying costs for
14 customers, and avoiding rate increases, which would otherwise have been necessary.

15 In fact, as shown in Figure 1, increases in distribution rates have lagged inflation for the
16 past ten years. Said another way, the real price (inflation adjusted) of distribution service today is
17 lower than it was in 2007 (approximately 6% lower), and with the proposed 2017 increase would
18 be approximately the same as 2007.

¹ Based on 2014 test year amounts of 487m / 292m (gross /net book value), and subsequent additions assumed to exceed \$13 million.

² Based on 2014 test year Financing Costs, depreciation expense and property taxes vs overall revenue requirement.



1 The reason for the proposed 2017 increase is that the lives of certain of our assets could
 2 not be extended further without unacceptable risk to safe and reliable service. These assets had to
 3 be replaced. Emera Maine raised the capital and made these necessary investments (or is in the
 4 process of doing so), and seeks recovery of and on these investments in this application.

5 These investments include a new Hampden operations facility (replacing an 80 plus year
 6 old facility), a new Acadia Substation and associated distribution line and other equipment,
 7 which replaces overloaded and end of life equipment and improves the design of the electricity
 8 delivery system with a looped configuration to address significant reliability issues, and a portion
 9 of the cost of a new Customer Information System not already in rates (replacing a nineteen year
 10 old system).

11 Capital investments are the primary driver of the needed revenue requirement increase. In
 12 its application, Emera Maine has proposed an appropriate estimate of its cost of capital and

1 capital structure to be used for rate making, and has used these estimates in calculating the
2 revenue requirement associated with our assets.

3 **Q. Is the requested increase also driven by operating cost increases?**

4 A. No. The company has been able to largely offset other areas of cost increase through
5 successful management of its largest cost drivers. This includes changes achieved with our
6 retiree medical plan, which generated substantial cost savings and ensured the long-term viability
7 of the plan.

8 **Q. Is the rate increase also driven by lower sales volume?**

9 A. Yes, the other significant driver of the required rate increase is a decrease in Emera
10 Maine's volume of sales, attributed in large part to negative economic factors and continued
11 energy efficiency measures adopted by customers. The reduced sales volume increases the
12 revenue requirement shortfall by approximately \$1.3 million.

13 Emera Maine recognizes and supports cost effective and properly delivered energy
14 efficiency programs. Even though such programs will by definition require fixed costs to be
15 spread over fewer kWh (increasing rates if all other things are equal), the overall cost on
16 customers' electricity bills (volume multiplied by the rate for all components, including supply)
17 should be reduced in the long-term, versus what would otherwise be the case.

18 At the same time, Emera Maine recognizes and supports the customer benefits of
19 growing electricity sales where such sales are the result (or enabler) of economic growth, and/or
20 present a superior environmental and economic option to other fuel choices such as oil and
21 gasoline. Heat pumps are the most significant current example of such benefits and Emera Maine
22 continues to pursue opportunities to support adoption of this technology by our customers.

1 **Q. Do you have any final comments?**

2 A. Yes.

3 When all areas are factored in, the shortfall in Emera Maine's revenue requirement totals
4 approximately \$6.6 million, requiring an average overall rate increase of 8.3%. For a typical
5 residential customer (a customer who uses 500kWh per month), this translates to approximately
6 a 3% increase in the total electricity bill, or approximately \$2.40 per month.

7 In support of its request, the company has provided specific supporting testimony for all
8 major drivers of the requested increase. Ms. Lois Smith addresses the Hampden Operations
9 Center; Ms. Karen Holyoke addresses the new Cayenta Customer Information System; Mr.
10 Stephen Sloan addresses the Acadia Substation and investments on Mount Desert Island and Mr.
11 Peter Dawes addresses the overall Adjusted Test Year Revenue Requirements. Also, Mr.
12 Timothy Olesniewicz and Dr. George Criner address Emera Maine's sales forecast, and Dr. John
13 Perkins addresses Emera Maine's cost of equity.

14 Emera Maine appreciates the opportunity to present its application, and trusts the
15 Commission will find our requested increase in rates for 2017 to be just and reasonable and
16 warranting approval.

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

18 A. Yes.

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