

Schedule 3.9  
Capitalization Study Update 2020

1    **Analysis and Methodology**

2    From time to time since 2010, EGNB/Liberty management has reviewed and undertaken studies  
3    to understand the drivers of O&M costs and to establish the appropriateness of the rates used to  
4    capitalize some of its costs. Since 2012, O&M has been allocated based on two categories:  
5    “Capital” and “Existing Customer Base” with capitalization rates set according to a methodology  
6    adopted at that time and approved by the Board. Revisions of the study and rates have occurred  
7    and been filed with the Board regularly, most recently in 2013 and in 2015. The methodology for  
8    allocating O&M costs has remained consistent with the Capitalization Study since then.

9    In July 2020 under Liberty ownership, the utility reviewed the operations and departments and  
10   prepared a revised Capitalization Study to capture operational changes. The results are reflected  
11   in the 2021 Budget. The July 2020 study has resulted in the overall increase in capitalization  
12   percentage resulting from the utility’s return to growth activities since 2015 and continued focus  
13   on growth under the new Liberty ownership. The methodology for allocating O&M costs has  
14   remained consistent with the capitalization study prepared in 2015. Capitalization of corporate  
15   allocations has been revised to 32.08% based on the Liberty Utilities 2018 & 2019 Indirect  
16   Overhead Capitalization Study Results provided as Appendix B in Schedule 3.7 – Corporate  
17   Allocations Report. The 2020 study is submitted to the Board for approval as part of the 2021 rate  
18   application and 2021 Budget.

Table 1

Cost Centre Name	Cost Centre	Capitalization	Expense	Total	Employees by Dept	
		% Allocated to Capital	% Allocated to Existing Customer Base		2021	2021 EUB Budget
Marketing & Communications	25329	60.9%	39.1%	100.0%	2	\$ 408,694
Sales	25330	61.8%	38.2%	100.0%	6	\$ 826,588
Trade Ally	25332	100.0%	0.0%	100.0%	3	\$ 212,643
Workforce Management	25337	35.7%	64.3%	100.0%	6	\$ 337,106
Procurement	25350	26.9%	73.1%	100.0%	2	\$ 1,455,632
Construction & Maintenance	25351	2.4%	97.6%	100.0%	17	\$ 1,788,267
Metering & Regulation	25352	16.5%	83.5%	100.0%	4	\$ 444,134
Service	25353	34.5%	65.5%	100.0%	14	\$ 1,085,455
Planning & Operational Reliability	25354	50.4%	49.6%	100.0%	4	\$ 485,945
Regulatory & Forecast	25361	0.0%	100.0%	100.0%	1	\$ 513,785
Customer Care	25362	16.8%	83.2%	100.0%	9	\$ 872,605
Upstream	25363	0.0%	100.0%	100.0%	0	\$ 156,296
Business Development	25330-BD	56.2%	43.8%	100.0%	1	\$ 55,840
Tech Training & QA	25354-TT	34.3%	65.7%	100.0%	1	\$ 249,699
Enviro Health & Safety	25354-EHS	30.5%	69.5%	100.0%	1	\$ 300,829
<b>Step 1: average</b>		<b>28.0%</b>	<b>72.0%</b>	<b>100.0%</b>	<b>71</b>	<b>\$ 9,193,519</b>
IT	25312	32.1%	67.9%	100.0%	6	\$ 1,656,242
Financial Reporting	25311	31.9%	68.1%	100.0%	12	\$ 2,192,869
<b>Step 2: average</b>		<b>29.2%</b>	<b>70.8%</b>	<b>100.0%</b>	<b>89</b>	<b>\$ 13,042,631</b>
Human Resources	25320	31.9%	68.1%	100.0%	0	\$ 2,726,617
<b>Step 3: average</b>		<b>29.7%</b>	<b>70.3%</b>	<b>100.0%</b>	<b>89</b>	<b>\$ 15,769,248</b>
Senior Management	25300	29.7%	70.3%	100.0%	6	\$ 889,742
<b>Totals</b>		<b>29.7%</b>	<b>70.3%</b>	<b>100.0%</b>	<b>95</b>	<b>\$ 16,658,990</b>

  

Senior Management Group (SMG)		% Allocated to Capital	% Allocated to Existing Customer Base	Total	2021	2021 EUB Budget
Distribution Operations		20.2%	79.8%	100.0%	41	\$ 4,510,625
Customer Experience		22.1%	77.9%	100.0%	15	\$ 1,209,712
Marketing & Sales		66.7%	33.3%	100.0%	12	\$ 1,503,766
Finance & Control		30.6%	69.4%	100.0%	20	\$ 5,304,744
Human Resources & Regulatory		26.8%	73.2%	100.0%	1	\$ 3,240,402
Management Group		29.7%	70.3%	100.0%	6	\$ 889,742
<b>Totals</b>		<b>29.7%</b>	<b>70.3%</b>	<b>100.0%</b>	<b>95</b>	<b>\$ 16,658,990</b>

As in previous capitalization studies, Cost Centres have been broken down into four steps.

### Step 1:

Managers of cost centres included in the first level completed forms to allocate O&M costs into the two categories identified above; costs that could be easily identified were allocated accordingly, and other costs were determined based on logical allocators (e.g., employee time).

These cost centres were:

- Marketing and Communications
- Sales
- Trade Ally

- Workforce Management
- Procurement
- Construction and Maintenance
- Metering and Regulation
- Service
- Planning and Operational Reliability
- Regulatory and Forecast
- Customer Care
- Upstream
- Business Development
- Technical Training and Quality Assurance
- Environment, Health and Safety

**Step 2:**

Cost centres (IT and Financial Reporting) whose main function is to provide support or service to other departments must allocate costs based on the results of the “front line” cost centres.

- IT was allocated 32.08% based on the Liberty Utilities 2018 & 2019 Indirect Overhead Capitalization Study Results for capitalization of Corporate Allocations.
- Financial Reporting was allocated based solely on the weighted average of the Level 1 results (weighted by 2021 forecast dollars) and the 32.08% for Corporate Allocations.

**Step 3:**

- Human Resources was allocated by using the total salaries in the cost centres in Levels 1 & 2 and applying the allocations for the respective cost centres. It also used the 32.08% rate for Corporate Allocations.

**Table 2****Capitalization Study Update 2020 - Human Resources**

Cost Centre Name	Cost Centre	Total O&M Salary	Capitalization	Expense	Total
			% Allocated to Capital	% Allocated to Existing Customer Base	
Corp Finance	25311	\$ 896,702	31.9%	68.1%	100.0%
IT	25312	\$ (53,886)	32.1%	67.9%	100.0%
Marketing & Communications	25329	\$ 126,782	60.9%	39.1%	100.0%
Sales	25330	\$ 655,182	61.8%	38.2%	100.0%
Trade Ally	25332	\$ 223,995	100.0%	0.0%	100.0%
Workforce Management	25337	\$ 348,915	35.7%	64.3%	100.0%
Procurement	25350	\$ 111,596	26.9%	73.1%	100.0%
Constr & Main	25351	\$ 1,321,847	2.4%	97.6%	100.0%
Metering & Regulation	25352	\$ 334,203	16.5%	83.5%	100.0%
Service	25353	\$ 1,137,073	34.5%	65.5%	100.0%
Planning & Oper. Reliability	25354	\$ 392,675	50.4%	49.6%	100.0%
Regulatory & Forecast	25361	\$ -	0.0%	100.0%	100.0%
Upstream	25363	\$ -	0.0%	100.0%	100.0%
Customer Care	25362	\$ 469,431	16.8%	83.2%	100.0%
Tech Training & QA	25354-TT	\$ 98,549	34.3%	65.7%	100.0%
Enviro Health & Safety	25354-EHS	\$ 104,309	30.5%	69.5%	100.0%
Business Development	25330-BD	\$ 66,520	56.2%	43.8%	100.0%
<b>Salary Total</b>		<b>\$ 6,233,894</b>	<b>31.9%</b>	<b>68.1%</b>	<b>100.0%</b>

**Step 4:**

- Senior Management were allocated based on the averages of the first three levels. As Senior Management is responsible for the overall organization it was felt that this would be the most appropriate method of allocation.

**Conclusion**

The Capitalization rates resulting from the study are a fair representation of the current business environment and revised business operations. The study maintained the same process and analysis as reviewed by PWC during the 2015 Capitalization Study filed in the Matter 306 during the 2016 Rate Application. Liberty will review the study periodically based on the business environment and operations to verify that the current and projected capitalization rates are still applicable and will make revisions where necessary.

# Additional information (2015 vs. 2020 results)

In 2020, higher customer attachments as well as application of the 32.08% Corporate Allocations resulted in increased capitalization rates. The effect was most visible in the following departments:

- Planning and Operational Reliability: The increase in capitalization rate was primarily due to the restructuring of the organization and additional attachment activities versus maintenance activities which were predominant in 2015.
- Customer Care: The increase in capitalization rate was a result of additional Call Center personnel and movement of Billing personnel from Finance to Customer Care.
- Service: The increase in capitalization rate was attributed to more inspection work done of new attachments.

Further, there are four new cost centres which were created namely: Business Development, Trade Ally, Technical Training and Quality Assurance, and Environment, Health and Safety. Construction and Maintenance continues to operate with the in-house model established in 2013. Workforce Management, previously referred to as Work Management Center, was formed in 2013 and includes the costs of the Attachments department.

**Table 3**

Year	Cost Centre Name	Cost Centre	% Allocated to Capital	% Allocated to Existing Customer Base	Employees by Cost Centre	Costs
2015	Engineering, Q&A	25354	14.1%	85.9%	3	\$ 396,607
2020	Planning & Operational Reliability	25354	50.4%	49.6%	4	\$ 485,945

  

Year	Cost Centre Name	Cost Centre	% Allocated to Capital	% Allocated to Existing Customer Base	Employees by Cost Centre	Costs
2015	Customer Care	25362	2.5%	97.5%	4	\$ 1,224,557
2020	Customer Care	25362	16.8%	83.2%	9	\$ 872,605

  

Year	Cost Centre Name	Cost Centre	% Allocated to Capital	% Allocated to Existing Customer Base	Employees by Cost Centre	Costs
2015	Service & Inspection	25353	22.7%	77.3%	15	\$ 955,293
2020	Service	25353	34.5%	65.5%	14	\$ 1,085,455

1 Table 4

Senior Management Group (SMG)		% Allocated to Capital	% Allocated to Existing Customer Base	2021	2021 EUB Budget
Distribution Operations		20.2%	79.8%	41	\$ 4,510,625
Customer Experience		22.1%	77.9%	15	\$ 1,209,712
Marketing & Sales		66.7%	33.3%	12	\$ 1,503,766
Finance & Control		30.6%	69.4%	20	\$ 5,304,744
Human Resources & Regulatory		26.8%	73.2%	1	\$ 3,240,402
Management Group		29.7%	70.3%	6	\$ 889,742
<b>Totals</b>		<b>29.7%</b>	<b>70.3%</b>	<b>95</b>	<b>\$ 16,658,990</b>

## 2015 - Summary

Senior Management Group (SMG)		% Allocated to Capital	% Allocated to Existing Customer Base	2015	2015 EUB Budget
Distribution Operations		18.7%	81.3%	44	\$ 3,827,298
Customer Experience		17.1%	82.9%	14	\$ 3,005,345
Marketing & Sales		71.5%	28.5%	6	\$ 1,349,780
Finance & Control		18.3%	81.7%	27	\$ 3,245,878
Human Resources & Regulatory		18.9%	81.1%	0	\$ 3,524,453
Management Group		23.1%	76.9%	6	\$ 1,132,902
<b>Totals</b>		<b>23.1%</b>	<b>76.9%</b>	<b>97</b>	<b>\$ 16,085,655</b>

## 2020 Changes over 2015

Senior Management Group (SMG)		% Allocated to Capital	% Allocated to Existing Customer Base	2015	2015 EUB Budget
Distribution Operations		1.5%	-1.5%	(3)	\$ 683,327
Customer Experience		5.0%	-5.0%	1	\$ (1,795,633)
Marketing & Sales		-4.8%	4.8%	6	\$ 153,986
Finance & Control		12.3%	-12.3%	(7)	\$ 2,058,866
Human Resources & Regulatory		7.9%	-7.9%	1	\$ (284,051)
Management Group		6.6%	-6.6%	0	\$ (243,160)
<b>Totals</b>		<b>6.6%</b>	<b>-6.6%</b>	<b>-2</b>	<b>\$ 573,335</b>

The overall average Capitalization increased to 29.7% from 23.1% in 2015. The revision is based on changes in operational staffing and departments mainly due to business changes resulting from higher customer attachments as well as application of 32.08% Corporate Allocation across all cost centres.