SECTION 4.0

2019 Regulatory Financial Statements

4.0 2019 Regulatory Financial Statements

Liberty's 2019 Actuals have been filed as part of this Application and Liberty is seeking the Board's approval of the 2019 Regulatory Financial Statements. Liberty recommends replacing certain documents from the filings to date in Matter 467 with the comparable files in this application.

Liberty has prepared the 2019 Regulatory Financial Statements in a similar format and manner to previous reviews.

Return on Equity and the Gas Distribution Act

As provided by section 52.03(2) of the GDA, Liberty is required to calculate any over-earnings in 2019. Liberty's earnings in 2019 have resulted in an actual return on equity in excess of 12.9%. Liberty is required to share half of that excess with customers in rate classes other than the SGS class. The details of the calculation are found in the table below.

Return on Equity Check
(in thousands of dollars)

Line		2019A
1	Actual return on equity as per Statement of Income	17,621
2	AEDC - allowance for funds used during construction (equity component)	14
3	Allowed Rate of Return (Note 1)	13,078
4	Excess earnings (Line 4 = Line 1 - Line 2 - Line 3)	$ 4,529
	Excess Earnings Mechanism	
5	<=200bps (12.9%) - LUGNB keeps excess (Note 2)	2,400
6	> 200bps balanced shared 50/50	2,129
7	Excess Earnings applied to regulatory deferral account (line 5 + 50% of line 6)	3,464
8	Excess Earnings Sharing with customers (50% of line 6)	$ 1,065
9	Average Rate Base	$ 266,630
10	Allowed Rate of Return (Rate Base x 45% x 10.9%)	$ 13,078
11	Average Rate Base	$ 266,630
12	Allowed Rate of Return (Rate Base x 45% x 12.9%)	$ 15,478
13	Average Rate Base	$ 266,630
14	Rate Base funded by equity (Average Rate Base x 45%)	$ 119,984
15	Actual percentage return on equity	14.69%

Liberty is required to share half of the excess *"to reduce the revenue requirement of the general franchise holder for the following year and this reduction shall be applied to decrease rates and tariffs for one or more classes of customers other than the Small General Service class of customers for that year."* (section 52.03(2)(b)(ii)(B)). Liberty is to return $1.065M to customers as determined in the table above.

The full amount of $1.065M is being applied to reduce revenue requirement as required by the GDA and applied to individual rate classes to reduce 2021 rates. The sharing methodology is based on an objective approach considering the percentage of revenues earned from each rate class in 2019. The revenue percentage was used to divide the $1.065M among the rate classes as shown in the table below and helped guide the rate design process in order to reduce rates and revenues per rate class.

Rate Class	% of 2019 Revenue	Portion of Excess Earnings	Approximate % Rate Reduction Range	2020 Distribution Rates
MGS	36.46%	$ 388,302	2-4%	$ 11.3235
LGS	32.79%	$ 349,236	2-4%	$ 8.5005
CGS	14.53%	$ 154,754	2-4%	$ 5.8830
ICGS	15.71%	$ 167,338	5-7%	$ 1.6850
OPS	0.50%	$ 5,370	2-4%	$ 5.8905
TOTAL		**$ 1,065,000**		

This is the same methodology used for Liberty's 2018 excess earnings which was approved by the Board during the pre-hearing conference for Matter 443 and 453 on August 27, 2019 and confirmed by the Board in its December 19, 2019 Decision in Matter 453 where it stated:

> "[20] The Board determined that in the circumstances of this matter, "the following year", as found in that provision, refers to 2020. The Board accordingly ordered EGNB to apply that portion of the 2018 surplus to reduce the revenue requirement for 2020 for the purposes of determining 2020 rates.

Liberty indicated that it intended to use the same methodology for the 2019 excess earnings if the 2018 methodology was approved by the Board.

SEP test

Based on the revised three year methodology approved by the Board in Matter 398, the SEP test revenue to cost ratio for 2017 to 2019 is 119% on a target of 104%. Details can be found in Note 16 of Schedule 4.1 – 2019 Actuals.

The following information has been provided in support of the requested approval of the 2019 Regulatory Financial Statements:

- Schedule 4.1 - 2019 Actuals
- Schedule 4.2 - 2018 and 2019 Budgets
- Schedule 4.3 - 2019 Actuals to Budget Explanations
- Schedule 4.4 – Non Expansion Capital