Liberty Utilities

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 15-______

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Calendar Year 2014 Reliability Enhancement Plan and
Vegetation Management Plan
Report and Reconciliation Filing

DIRECT TESTIMONY

OF

HEATHER M. TEBBETTS

March 13, 2015

INTRODUCTION

Q. Please state your name, business address and position.

A. My name is Heather M. Tebbetts and my business address is 15 Buttrick Road, Londonderry, NH 03053. I am a Utility Analyst for Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH") which provides services to Liberty Utilities (Granite State Electric) Corp. ("Granite State" or "the Company") and in this capacity, am responsible for providing rate-related services for the Company.

Q. Please briefly describe your educational background and training.

A. I graduated from Franklin Pierce University in 2000 with a Bachelor of Science degree in Finance. I received a Master's of Business Administration from Southern New Hampshire University in 2007.

Q. What is your professional background?

A. In October of 2014, I joined Liberty Energy NH as a Utility Analyst. Prior to my employment at Liberty Energy NH, I was employed by Public Service Company of New Hampshire ("PSNH") as a Senior Analyst in NH Revenue Requirements from 2010 to 2014. Prior to my position in NH Revenue Requirements, I was a Staff Accountant in the PSNH Property Tax group from 2007 to 2010, and a Customer Service Representative III in the PSNH Customer Service Department from 2004 to 2007.

Q. Have you previously testified or participated in proceedings before the Commission?

A. Yes. I have testified on numerous occasions before the Commission.

I. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. This testimony supports Granite State's request for Commission approval to recover the incremental operating and maintenance ("O&M") expense and capital investment associated with the Reliability Enhancement Program ("REP") and Vegetation Management Program ("VMP"). The program was implemented during calendar year 2014 ("CY 2014") resulting from the Company's CY 2014 REP and VMP Report ("CY 2014 REP/VMP Report") included in this filing.

The Company seeks to recover $35,166 of O&M costs from CY 2014, which is the incremental spending above the base amount of $1,360,000 that is included in distribution rates, consistent with Attachment F to the Settlement Agreement in Docket No. DE 13-063 (and included as Appendix 8 to the REP/VMP Report contained in this filing). Included in those costs are only VMP O&M costs, as the Company did not have any O&M related to capital expenditure costs for 2014.

The Company also seeks to recover the revenue requirement associated with a total of $2,201,899 in capital investment, broken down between two program years CY 2013 and CY 2014. The total carryover from CY 2013 was $1,230,601, as discussed in the CY 2014 REP/VMP Report on pages 6 and 7, while the total capital investment for 2014 was $971,298.

II. SUMMARY OF SCHEDULES

Q. Please describe Schedule HMT-1 attached to this testimony.

A. Schedule HMT-1 provides the calculation of the revenue requirements for the capital and O&M expenditures for CY 2014. Schedule HMT-1 Page 1 provides the summary of the revenue requirements calculation. The total program spend for CY 2014 for O&M was $1,395,166, with $1,360,000 currently in base rates, resulting in an incremental $35,166 of O&M expenses to be recovered. The total REP capital investment was $2,201,899. The revenue requirement associated with that investment is $381,523. In summary, the total revenue requirement to be recovered is $416,689, as shown on line 5 of Schedule HMT-1, page 1 of 11.

Q. Please describe the calculation of tax depreciation expense that underlies the calculation the deferred tax reserve described above.

A. Tax depreciation expense for federal and state taxes for each year is comprised of three components: (1) a capital repairs tax deduction; (2) bonus depreciation for federal tax only; and (3) accelerated depreciation based on the Internal Revenue Service's ("IRS") Modified Accelerated Cost Recovery System ("MACRS") rates for 20-year utility property.

The calculation of the components of tax depreciation expense described above for each year is shown on Pages 4 and 11 of Schedule HMT-1. The capital repairs deduction component of tax depreciation is shown on Lines 1 through 4 of Pages 4 through 11.

During 2009, the IRS issued guidance under Internal Revenue Code ("IRC") Section 162 related to certain expenditures that could be deemed to be repair and maintenance expenses, and thus eligible for immediate tax deduction for income tax purposes, but were capitalized by the Company for book purposes. This tax deduction has the effect of increasing deferred taxes and lowering the revenue requirement that customers will pay under the REP. The percentage of REP capital expenditures that could be classified as repair expense varies by year. For calendar years 2013 and 2014, none of the REP capital work performed was in the nature of capital repairs, so zero percent (0%) was used in the calculation of the revenue requirement.

Bonus depreciation for federal tax purposes was then calculated on the REP capital additions, net of additions subject to the capital repairs deduction. During 2008, Congress passed the Economic Stimulus Act of 2008 which established a 50 percent bonus depreciation deduction for certain eligible plant additions. Congress has subsequently passed additional laws that have extended and changed the bonus depreciation rate. The bonus depreciation deduction rate is 100 percent for capital additions eligible for bonus depreciation for the period April 1, 2011 to December 31, 2011, while that rate is 50 percent for capital additions during CY 2012 and CY 2013. The calculation of bonus depreciation expense is shown in the like-named section of Pages 4 through 10.

For federal tax purposes, any capital additions not subject to the capital repairs deduction or bonus depreciation are then subject to 20 Year MACRS depreciation rates as shown in the Remaining Tax Depreciation (Federal) section of Pages 4 through 11. For state tax purposes, any capital additions not subject to the capital repairs deduction are then subject to 20 Year MACRS depreciation rates as shown in the Remaining Tax Depreciation (State) section of Pages 4 through 11. Total tax depreciation for federal and state taxes is shown on the last two lines of Pages 4 through 11. In addition, on Pages 8 and 9, Lines 42 through 45, is the FY 2012 and FY 2013 Safe Harbor True Up for federal and state tax depreciation.

Q. Please describe how the return allowance for the REP capital investment allowance was calculated.

A. The Company's year-end net rate base of $4,783,125, upon which the Company's return allowance is calculated, is shown in HMT-1 Page 3, Line 46 and consists of the cumulative REP capital investment through CY 2014, or $6,499,887, less accumulated book depreciation of $839,585 and accumulated deferred tax reserves of $877,177, as shown on Lines 44 through 45, respectively.

The return allowance for the REP capital investment for each rate adjustment is based on the prior year-end rate base times the Company's currently approved pre-tax weighted average cost of capital as shown in HMT-1 Page 3 Lines 70 through 73, or 11.51 percent. The resulting return allowance equals the fiscal year-end rate base of $4,783,125 times the stipulated pre-tax return rate of 11.51 percent, or $550,538, as shown on Line 51. Annual depreciation expense of $181,430 and property taxes of $233,204, on Lines 52 and 53, respectively, are added to the return amount to arrive at the total revenue requirement of $965,172 on Line 54. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2014 applied to the year-end net plant in service, or the sum of Lines 43 and 44.

Q. Please describe Schedule HMT-2 attached to this testimony.

A. Schedule HMT-2 provides the calculation of proposed rates for i) the capital expenditures recorded during CY 2014 (i.e., the "REP Capital Investment Allowance"), and ii) the REP/VMP Adjustment Factor associated with incremental O&M spending. The total percentage adjustment proposed for the REP Capital Investment Allowance is 1.09%. The Company is proposing a REP/VMP Adjustment Factor of $0.00006 per kilowatt-hour (kWh), an increase from ($0.00030) for CY 2013. The primary reason for the increase is that payments from FairPoint Communications, Inc. ("FairPoint") were not received for CY 2014.

Q. What is the total amount owed to Granite State for 2014 from FairPoint?

A. FairPoint owes Granite State $245,751.19 for CY 2014 and $198,691 for CY 2013.

Q. Does the Company expect that it will be paid by FairPoint for these amounts?

A. The Company is in discussions with FairPoint in an effort to resolve this outstanding payable. If the Company is not able to resolve this matter through those discussions, it will initiate a mediation as required by the September 30, 2007 Memorandum between FairPoint and Granite State.

Q. All else being equal, had FairPoint provided payment to Granite State for its portion of VMP O&M expenses, what would the O&M Adjustment Factor have been?

A. The Company would be crediting customers ($0.00017) per kWh, rather than charging customers $0.00006 per kWh.

Q. Please describe the procedure for adjusting distribution rates for the REP Capital Investment Allowance.

A. The procedure for adjusting distribution rates is in Schedule HMT-2. On page 1 of Schedule HMT-2, the capital investment allowance related to the REP on Line 1 is divided by the revenue requirement (line 2) last calculated in the December 1, 2014 step adjustment in Docket No. DE 13-063 to determine the percentage increase on Line 3, which is then applied to each of the Company's base distribution charge components.

Q. Please provide a summary of Schedule HMT-3 attached to this testimony.

A. Schedule HMT-3 provides the reconciliation of the FY 2014 O&M expense. This reconciliation is associated with the refund of $281,607 of incremental O&M determined in Docket No. DE 14-086, of which $247,463 will have been refunded through the end of the FY 2014. The Company is proposing to refund the remaining $32,234 through the REP/VMP Adjustment Factor effective May 1, 2015.

III. EFFECTIVE DATE, BILL IMPACT, AND TARIFF PAGES

Q. How and when is the Company proposing that these rate changes be implemented?

A. The Company is proposing that these distribution rate changes be made effective for service rendered on and after May 1, 2015 along with other rate changes that will be taking effect that same day pursuant to Docket No. DE 14-340.

Q. Has the Company determined the impact of these REP/VMP rate changes on customers' bills?

A. Yes. For an Energy Service residential customer using 655 kWh, the total bill impact of the REP/VMP rates proposed in this filing, as compared to rates in effect today, is a bill increase of $1.21 per month, or 0.8 percent, from $158.01 to $159.22.

Q. Please explain the other rate changes that will occur on May 1, 2015.

A. In its Order No. 25,745 dated December 30, 2014 in Docket No. DE 14-340, the Commission directed the Company to implement revised Transmission and Stranded Cost Charges on May 1, 2015, rather than the originally proposed date of January 1, 2015, because of the Commission's concern over high energy service prices during the winter period. The Commission noted in its Order

> Although the costs subject to recovery will increase due to the addition of carrying costs, the impact of the retail rate reconciliation on monthly bills will be mitigated by the lower energy prices expected in May. Moreover, postponing the effective day of the rate will keep winter rates at their current level, avoiding another increase in this high energy price period. We appreciate the willingness of the Company to consider deferring rate implementation in this proceeding.

As ordered by the Commission, the Company will be implementing these rate changes effective May 1, 2015, along with the REP/VMP rate adjustments.

Q. What is the net effect of the three rate changes?

A. The bill impacts are included as Schedule HMT-4. Schedule HMT-4, Page 1, shows a bill comparison for an Energy Service residential customer with an average monthly kilowatt-hour usage of 655, which is the average monthly usage over the 12 months ending January 2015.The net effect of the three rate changes, as shown on Schedule HMT-4, Page 1, is an increase of $9.15 or 5.8% for an average residential customer taking Energy Service, absent the decrease in the Energy Service rate that is expected to occur. This increase is based on the current energy service rate of $0.15487 for residential customers.

Q. Has the Company prepared a revised tariff Page 68 Summary of Rates reflecting the proposed rates?

A. Yes. The revised tariff page is set forth in Schedule HMT-5.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.