STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 18-______

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Reliability Enhancement Program and Vegetation Management Program

Calendar Year 2017Annual Report and Reconciliation and Rate Adjustment Filing

DIRECT TESTIMONY

OF

DAVID B. SIMEK

March 16, 2018

THIS PAGE INTENTIONALLY LEFT BLANK

I. <u>INTRODUCTION</u>

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

A. My name is David B. Simek. I am Manager, Rates and Regulatory Affairs for Liberty Utilities Service Corp. (“Liberty”), which provides services to Liberty Utilities (Granite State Electric) Corp. (“Granite State” or “the Company”). I am responsible for providing rate-related services for the Company.

Q. Please briefly describe your educational background and training.

A. I graduated from Ferris State University in 1993 with a Bachelor of Science in Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also received a Master’s in Business Administration from Walsh College in 2001. In 2006, I earned a Graduate Certificate in Power Systems Management from Worcester Polytechnic Institute.

Q. What is your professional background?

A. In August 2013, I joined Liberty Utilities as a Utility Analyst. I was promoted to a Lead Utility Analyst in December 2014, and to my current position in August 2017. Prior to my employment at Liberty Energy Utilities (New Hampshire) Corp., I was employed by NSTAR Electric & Gas (“NSTAR”) as a Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy Supply at NSTAR, I was a Senior Financial Analyst within the NSTAR Investment Planning group from 2004 to 2008.

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

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

II. 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 the revenue requirement for capital investment associated with the Reliability Enhancement Program ("REP") and Vegetation Management Program ("VMP") for 2017. The programs were implemented during calendar year 2017 ("CY2017") as described in the Company's CY2017 REP and VMP Report ("CY2017 REP/VMP Report") included in this filing.

The Company seeks to recover $552,414 of CY2017 O&M costs. This amount is comprised of: i) $245,902 of 2017 O&M expense above the Base Plan operating and maintenance ("O&M") amount of $1,500,000; and ii) $306,512 of O&M costs incurred during 2016 but paid in 2017. The Company also seeks to recover the revenue requirement of $166,322, the amount associated with a total of $1,699,030 in capital investment, broken down between two program years, CY2016 and CY2017.

III. SUMMARY OF SCHEDULES

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

A. Schedule DBS-1 provides the calculation of the revenue requirement for the capital and O&M expenditures for CY2017. Schedule DBS-1, page 1, provides the summary of the revenue requirement calculation. Schedule DBS-1, page 2 shows the total program spend for CY2017 for O&M was $2,495,406. That amount includes $2,188,894 for CY2017 and $306,512 for CY2016. After subtracting $442,992 for amounts billed to FairPoint for vegetation management, the net O&M spending was $2,052,414. As compared to the base level in rates of $1,500,000, the net result is a recovery from customers in the amount of $552,414. The total REP capital investment was $1,699,030. The revenue requirement associated with that investment is $166,322.

Q. What is the total amount owed to Granite State for 2017 from FairPoint?

A. Granite State invoiced FairPoint $442,992 for CY2017.

Q. Does the Company include accruals in its calculation of total O&M spending for the VMP calculation?

A. Yes. There were $462,392 of 2017 costs that were accrued for in 2017 and are included for recovery in 2017. The Company also included an estimated unbilled accrual of ($1,344) for refund.

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 through 14 of Schedule DBS-1. The capital repairs deduction component is shown on Lines 1 through 4, of pages 4 through 14. 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 through 2017, 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 subsequently passed additional laws that extended and changed the bonus depreciation rate over the succeeding years. The bonus depreciation deduction rate applicable to capital additions made in CY2017 is 50 percent.

For federal tax purposes, any capital additions not subject to the capital repairs deduction or bonus depreciation are subject to the 20-year MACRS depreciation rates as shown in the Remaining Tax Depreciation (Federal) section of pages 4 through 14. 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 14. Total tax depreciation for federal and state taxes is shown on the last two lines of pages 4 through 14.

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

A. The Company's year-end net rate base of $6,896,298, on which the Company's return allowance is calculated, is shown in DBS-1, page 3, Line 48.

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 of 10.04 percent, determined using the capital structure and equity found in Section II A of the Settlement Agreement in Docket No. DE 16-383 with an updated weighted average cost of debt. The resulting return allowance is the fiscal year-end rate base of $6,896,298 times the stipulated pre-tax return rate of 10.04 percent, or $692,548 as shown on Line 53. Annual depreciation expense of $286,205 and property taxes of $323,449, on Lines 54 and 55, respectively, are added to the return amount to arrive at the total revenue requirement of $1,302,202 on Line 56. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY2016, as calculated in DBS-5, applied to the year-end net plant in service, or the sum of Lines 45 and 46.

Q. Why didn't the Company calculate book depreciation and property tax amounts for CY2017?

A. The Company uses the FERC Form 1 to calculate the book depreciation and property tax expenses for the REP/VMP reconciliation filing. The FERC Form 1 for 2017 will not be available until mid-April and according to the Settlement Agreement in Docket No. DE 13-063, the REP/VMP filing is due March 15 each year. Due to the fact that the REP/VMP filing is due prior to the FERC Form 1 completion, the property tax and book depreciation rates for the 2017 calendar year are not available at the time of this filing, thus Liberty uses the 2016 calendar year calculation as seen in Schedules DBS-5 and DBS-6.

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

A. Schedule DBS-2 provides the calculation of proposed rates for: i) the capital expenditures recorded during CY2017 (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 0.40%. The Company is proposing a REP/VMP Adjustment Factor of $0.00059 per kilowatt-hour (kWh), an increase of $0.00063 per kWh from ($0.00004) 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 DBS-2. On page 2 of Schedule DBS-2, the capital investment allowance related to the REP on Line 1 is divided by the revenue requirement (Line 2) calculated by using a forecast of billing determinants, which are then applied to each of the Company's base distribution charge components.

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

A. Schedule DBS-3 provides the reconciliation of the CY2017 O&M expense. The Company is proposing to refund the remaining $9,925 through the REP/VMP Adjustment Factor effective May 1, 2018.

IV. <u>EFFECTIVE DATE AND BILL IMPACT</u>

Q. How and when is the Company proposing that this rate change be implemented?

A. The Company is proposing that these distribution rate changes be made effective for service rendered on and after May 1, 2018.

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 650 kWh per month, based on average usage for a residential customer in 2017, the total bill impact of the REP/VMP rates proposed in this filing, as compared to rates in effect today, is a monthly bill increase of $0.58, or increase of 0.48%.

V. <u>CONCLUSION</u>

Q. Does this conclude your testimony?

A. Yes, it does.

THIS PAGE INTENTIONALLY LEFT BLANK