

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION**

Docket No. DE 21-xxx

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

Calendar Year 2020 Reconciliation Filing

**DIRECT TESTIMONY**

**OF**

**DAVID B. SIMEK**

**AND**

**ADAM M. HALL**

March 15, 2021



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1 **I. INTRODUCTION**

2 **Q. Please state your full name and business address.**

3 A. (DS) My name is David B. Simek. My business address is 15 Buttrick Road,  
4 Londonderry, New Hampshire.

5 (AH) My name is Adam M. Hall. My business address is 15 Buttrick Road,  
6 Londonderry, New Hampshire.

7 **Q. Please state by whom you are employed.**

8 A. We are employed by Liberty Utilities Service Corp. (“LUSC”), which provides service to  
9 Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty (“Liberty” or “the  
10 Company”).

11 **Q. Please describe your educational and professional background.**

12 A. (DS) I graduated from Ferris State University in 1993 with a Bachelor of Science in  
13 Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also  
14 received a Master’s of Business Administration from Walsh College in 2001. In 2006,  
15 earned a Graduate Certificate in Power Systems Management from Worcester  
16 Polytechnic Institute. In August 2013, I joined LUSC as a Utility Analyst and I was  
17 promoted to Manager, Rates and Regulatory Affairs in August 2017. Prior to my  
18 employment at LUSC, I was employed by NSTAR Electric & Gas (“NSTAR”) as a  
19 Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy  
20 Supply at NSTAR, I was a Senior Financial Analyst with the NSTAR Investment  
21 Planning group from 2004 to 2008.

1 (AH) I graduated from Siena College in 2014 with a Bachelor of Science in Finance. I  
2 also received a Master's of Business Administration from Franklin Pierce University in  
3 2016. I joined LUSC as an Analyst, Rates and Regulatory Affairs in January 2019. Prior  
4 to this, I was employed by Southern New Hampshire University from 2016 to 2019.

5 **Q. Have you previously testified in regulatory proceedings before the New Hampshire**  
6 **Public Utilities Commission (the "Commission")?**

7 (DS) Yes, I have testified on numerous occasions before the Commission.

8 (AH) Yes, most recently I testified in Docket No. DE 20-053.

9 **II. PURPOSE OF TESTIMONY**

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

11 A. This testimony supports Liberty's request for Commission approval to recover the  
12 incremental operating and maintenance ("O&M") expense and the revenue requirement  
13 for capital investment associated with the Reliability Enhancement Program ("REP") and  
14 Vegetation Management Program ("VMP") for 2020. The programs were implemented  
15 during calendar year 2020 ("CY2020") as described in the Company's CY2020 REP and  
16 VMP Report ("CY2020 REP/VMP Report") included in this filing.

17 The Company seeks to recover \$570,000 of CY2020 O&M costs. This amount is  
18 incremental allowed CY2020 O&M spend above the Base Plan O&M amount of  
19 \$1,850,000. The Base Plan O&M amount is derived by using half of the base spending  
20 level of \$1,500,000 for the first six months of 2020, and half of the base spending level of  
21 \$2,200,000 for the last six months of 2020, the increased amount having been approved

1 in Liberty's last rate case by Order No. 26,376 (June 30, 2020). The Company also seeks  
2 to recover the revenue requirement of \$213,246, associated with a total of \$1,566,370 in  
3 capital investment.

4 **III. SUMMARY OF SCHEDULES**

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

6 A. Schedule DBS-AMH-1 consists of 17 pages and provides the calculation of the revenue  
7 requirement for the capital and O&M expenditures for CY2020. Schedule DBS-AMH-1,  
8 Page 1 provides the summary of the revenue requirement calculation. Schedule DBS-  
9 AMH-1, Page 2 shows that the total program spend for CY2020 for O&M was  
10 \$2,461,057. As compared to the base level in rates of \$1,850,000, the net result is an  
11 incremental recovery for CY2020 in the amount of \$570,000. The total REP capital  
12 investment during CY2020 was \$1,566,370. The revenue requirement associated with  
13 that investment is \$213,246, and the calculation of which is detailed on Schedule DBS-  
14 AMH-1, Page 3. The remaining pages of Schedule DBS-AMH-1 provide supporting  
15 detail for the tax depreciation associated with the annual capital investment.

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

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

1 The calculation of the components of tax depreciation expense described above for each  
2 year is shown on Pages 4 through 17 of Schedule DBS-AMH-1. The capital repairs  
3 deduction component is shown on Lines 1 through 4 of Pages 4 through 17. During  
4 2009, the IRS issued guidance under Internal Revenue Code (“IRC”) Section 162 related  
5 to certain expenditures that could be deemed to be repair and maintenance expenses, and  
6 thus eligible for immediate tax deduction for income tax purposes, but were capitalized  
7 by the Company for book purposes. This tax deduction has the effect of increasing  
8 deferred taxes and lowering the revenue requirement that customers will pay under the  
9 REP. The percentage of REP capital expenditures that could be classified as repair  
10 expense varies by year. For calendar years 2013 through 2020, none of the REP capital  
11 work performed was in the nature of capital repairs, so zero percent (0%) was used in the  
12 calculation of the revenue requirement.

13 Bonus depreciation, as allowed in the respective years, for federal tax purposes was then  
14 calculated on the REP capital additions, net of additions subject to the capital repairs  
15 deduction. During 2008, Congress passed the Economic Stimulus Act of 2008 which  
16 established a 50 percent bonus depreciation deduction for certain eligible plant additions.  
17 Congress subsequently passed additional laws that extended and changed the bonus  
18 depreciation rate over the succeeding years. The Tax Cuts and Jobs Act of 2017  
19 eliminated the eligibility of utility property for bonus depreciation beginning in 2018. As  
20 such, the bonus depreciation deduction rate applicable to capital additions made in  
21 CY2020 is zero percent (0%) percent.

1 For federal tax purposes, any capital additions not subject to the capital repairs deduction  
2 or bonus depreciation are subject to the 20-year MACRS depreciation rates as shown in  
3 the Remaining Tax Depreciation (Federal) section of Pages 4 through 17. For state tax  
4 purposes, any capital additions not subject to the capital repairs deduction are then  
5 subject to 20-year MACRS depreciation rates as shown in the Remaining Tax  
6 Depreciation (State) section of Pages 4 through 17. Total tax depreciation for federal and  
7 state taxes is shown on the last two lines of Pages 4 through 17.

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

10 A. The Company's year-end net rate base of \$10,609,344, on which the Company's return  
11 allowance is calculated, is shown in Schedule DBS-AMH-1, Page 3, Line 58.

12 The return allowance for the REP capital investment for each rate adjustment is based on  
13 the prior year-end rate base times the Company's currently approved pre-tax weighted  
14 average cost of capital of 9.36 percent, determined using the capital structure and equity  
15 found in the Settlement Agreement approved in Docket No. DE 19-064 with an updated  
16 weighted average cost of debt. The resulting return allowance is the fiscal year-end rate  
17 base of \$10,609,344 times the pre-tax return rate of 9.36 percent, or \$992,522 as shown  
18 on Line 63. Annual depreciation expense of \$422,073 and property taxes of \$371,407, on  
19 Lines 64 and 65, respectively, are added to the return amount to arrive at the total revenue  
20 requirement of \$1,786,001 on Line 66. The property tax amount is based on the actual  
21 ratio of municipal tax expense to net plant in service for CY2019, as calculated in DBS-  
22 AMH-5 applied to the year-end net plant in service, or the sum of Lines 55 and 56.

1 **Q. Why did the Company not calculate book depreciation and property tax amounts**  
2 **for CY2020?**

3 A. The Company uses the FERC Form 1 to calculate the book depreciation and property tax  
4 expenses for the REP/VMP reconciliation filing. The FERC Form 1 for 2020 will not be  
5 available until mid-April and, according to the Settlement Agreement in Docket No. DE  
6 13-063, the REP/VMP filing is due March 15 each year. Due to the fact that the  
7 REP/VMP filing is due prior to the FERC Form 1 completion, the property tax and book  
8 depreciation rates for the 2020 calendar year are not available at the time of this filing,  
9 thus Liberty used the 2019 calendar year calculation as seen in Schedules DBS-AMH-5  
10 and DBS-AMH-6. The use of prior year property tax information for the purpose of the  
11 calculation is consistent with what has been approved in prior years' filings.

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

13 A. Schedule DBS-AMH-2 provides the calculation of proposed rates for (i) the capital  
14 expenditures recorded during CY2020 (i.e., the "REP Capital Investment Allowance"),  
15 and (ii) the REP/VMP Adjustment Factor associated with incremental O&M spending.  
16 The total average percentage adjustment proposed for the REP Capital Investment  
17 Allowance is 0.46%. The Company is proposing a REP/VMP Adjustment Factor of  
18 \$0.00064 per kilowatt-hour (kWh), an increase of \$0.00056 per kWh from the \$0.00008  
19 per kWh Adjustment Factor calculated in last year's REP/VMP filing, Docket No. DE  
20 20-036.



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

3 A. The procedure for adjusting distribution rates is in Schedule DBS-AMH-2. On Page 2 of  
4 Schedule DBS-AMH-2, the capital investment allowance related to the REP on Line 1 is  
5 divided by the revenue requirement (Line 2) calculated by using a forecast of billing  
6 determinants, which are then applied to each of the Company's base distribution charge  
7 components.

8 **Q. Please explain how the Company calculated the D-11 and D-12 rates.**

9 A. Customers participating in the battery pilot program (D-11) are required to take time-of-  
10 use (TOU) rates for Distribution and Transmission, and, unless the customer is enrolled  
11 with a competitive electric power supplier, Energy Service charges. The TOU rate  
12 design is cost-based. Customers who enroll in the electric vehicle charging rate (D-12)  
13 are only required to have a separately metered circuit to accommodate charging, the  
14 whole home is not subject to the rate.

15 These rates change periodically when one of the components (energy service,  
16 transmission, or distribution) change, and they change seasonally. In this instance, the  
17 rates are not only changing due to a distribution rate change, but they are changing to  
18 summer rates as approved in Docket No. DE 17-189. The mechanics of the model are  
19 further described in the technical statement of Heather Tebbetts, Lon Huber, and Clifton  
20 Below filed with the Settlement Agreement in that docket.

1 The tariff pages pertaining to these rates provide that summer rates will become effective  
2 May 1, 2021.

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

4 A. Schedule DBS-AMH-3 provides the reconciliation of the CY2019 O&M Expense. The  
5 Company is proposing to refund \$6,259 through the REP/VMP Adjustment Factor  
6 effective May 1, 2021.

7 **IV. EFFECTIVE DATE AND BILL IMPACT**

8 **Q. When is the Company proposing that this rate change be implemented?**

9 A. The Company is proposing that these distribution rate changes be made effective for  
10 service rendered on and after May 1, 2021.

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

13 A. Yes. For an Energy Service residential customer using 650 kWh per month the total bill  
14 impact of the REP/VMP rates proposed in this filing, as compared to rates in effect today,  
15 is a monthly bill increase of \$0.60, or 0.52%.

16 **V. CONCLUSION**

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

18 A. Yes, it does.