NORTHERN UTILITIES, INC.

DIRECT TESTIMONY

OF

JONATHAN A. GIEGERICH, CPA

EXHIBIT JAG-1

New Hampshire Public Utilities Commission

Docket No. DG 21-104

TABLE OF CONTENTS

List of Exhibits

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jonathan A. Giegerich. My business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. What is your position and what are you responsibilities?

A. I am the Tax Manager of Unitil Service Corp. ("Unitil Service"), a subsidiary of Unitil Corporation that provides a variety of administrative and professional services including, regulatory, financial, accounting, human resources, engineering, operations, information systems technology and energy supply management services to Unitil Corporation's (the "Company") utility subsidiaries, including Northern Utilities, Inc. ("Northern").

Q. Please describe your business and educational background.

A. I have over 10 years of professional experience in public accounting and the utility industry focused in the tax and regulatory areas. I completed my public accounting requirements at Wager & Associates, LLC in 2009 and I am a Certified Public Accountant in the Commonwealth of Massachusetts, the State of New Hampshire, and the State of Maine. I joined Unitil Service in 2009 as a Corporate Tax Specialist. In 2016 I assumed my current responsibilities as Tax Manager. I hold a Bachelor of Science degree from Bob Jones University and a Master's of Science degree in Taxation from the Sawyer Business School at Suffolk University.

Q. Have you previously testified before this Commission or other regulatory agencies?

A. Yes, most recently I have provided expert written and oral testimony, on behalf of the Company and its regulated utility subsidiaries, in litigation regarding property tax assessments in New Hampshire. I have also represented the Company numerous times in federal income tax matters before the Internal Revenue Service (IRS") and I have represented the Company in Maine on state income tax and sales and use taxes audits. Additionally, I have testified before the Main Public Utilities Commission and before the New Hampshire Public Utilities Commission on behalf of the Company.

II. SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purposes of my testimony is to describe the effect of the Tax Cuts and Jobs Act of 2017 ("TCJA"), the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and the Families First Coronavirus Response Act ("FFCRA") on Northern's accounting for income taxes and how those effects are presented in the current rate case cost of service schedules. My TCJA, CARES Act, and FFCRA discussion will include four topics: (1) the effect of the new federal corporate income tax rate, which was lowered to 21% from 34% effective January 1, 2018 by the TCJA, on Northern's revenue requirements presented in the cost of service in this proceeding, (2) the effect of the flow back of excess Accumulated Deferred Income Taxes ("ADIT") created by the revaluation of ADIT balances at December 31, 2017 at the new 21% rate which is recognized as a Regulatory Liability to be amortized in Northern's cost of service, (3) the effect of other excess ADIT related to reconciling ratemaking mechanisms outside of the cost of service, and (4) the pandemic tax relief provided in the CARES Act and FFCRA. Additionally, the amortization of the excess ADIT Regulatory Liability will reduce Northern's operating expenses in the cost of service and the Regulatory Liability amount will be included in the determination of rate base in the new calculation of base rates. My testimony will report the effect of the TCJA on the Company's cash flow, rate base, and actual return on equity ("ROE"). Finally, I will report the current status of the Company's rate base adjustment for predecessor ADIT as stipulated in *Docket No. DG 08-048 Article 3.5*.

Q. Please briefly explain the economic effect of the TCJA on the Company?

A. The TCJA lowered the top federal corporate income tax rate from 35% to 21%. Additionally, the TCJA ended certain utility tax provisions including bonus depreciation. The combination of these two changes significantly reduces the Company's cash flows from base rates and reduces the availability of tax deferred funding advantages previously available from the federal government in the form of accelerated tax deductions.

III. TAX CUTS AND JOBS ACT OF 2017

Q. Please explain the significance of the TCJA.

A. The TCJA is the most recent extensive federal tax code reform and corporate income tax rate reduction since the Tax Reform Act of 1986. While congressional tax changes were administered after the Tax Reform Act of 1986, none of them changed the tax rate structure and tax deduction provisions as significantly as the TCJA. The most significant corporate effect of the TCJA is reducing the top federal corporate tax rate from 35% to 21%. Please see Exhibit JAG-2 for the Company's internal analysis of the TCJA and quarterly tax accounting updates.

Q. Did the Company reduce the federal tax rate to 21% in determining its revenue requirements?

A. Yes, the Company reduced the federal tax rate to 21% in 2018 as part of Northern's settlement agreement in Docket No. DG 17-070. The Company has reflected this change in its annual cost of service, revenue requirements and base rates and in accordance with the principles and requirements contained in the Company's tax sharing agreement, attached as Exhibit JAG-3.

Q. What determines the amount of Accumulated Deferred Income Taxes ("ADIT") reported on Northern's balance sheet?

A. ADIT represents future taxes payable or receivable to federal and state taxing authorities. ADIT are recognized as the tax effect of book/tax temporary differences occurring in the reporting period and measured at the balance sheet date.

Q. What are book/tax temporary differences?

A. Book/tax temporary differences are revenue and expense reporting differences between Generally Accepted Accounting Principles ("GAAP") used by most companies and what the Internal Revenue Code ("IRC") requires most companies to report on their tax returns. Generally, companies follow GAAP and record a provision for current income taxes on its book earnings before income tax or "Pre-Tax Income." At companies that are taking advantage of accelerated tax deductions in the IRC, those companies also record a deferred tax benefit in the period. In those cases, the sum of the current provision and the deferred benefit is the company's tax expense for the period.

Q. Please give an example of a book/tax temporary difference.

A. A common book/tax temporary difference is the differences between GAAP and tax depreciation rates. Tax depreciation rates are generally more accelerated under the IRC's Modified Accelerated Cost Recovery System ("MACRS") as compared to GAAP depreciation rates. Book/tax temporary depreciation rate differences cause Net Income for GAAP and Taxable Income reported to the IRS to be different.

Q. What effect, if any, do book/tax temporary differences have on the Company's financial statements?

A. If current book/tax temporary differences cause Taxable Income to be lower than Net Income, a Deferred Tax Liability will be recorded as part of ADIT because payment of current taxes is being deferred into a future period. If current book/tax temporary differences cause Taxable Income to be higher than Net Income, a Deferred Tax Asset will be recorded as part of ADIT because the payment of taxes is being accelerated and lower taxes will be paid in the future.

Q. Why does ADIT need to be revalued when income tax rates change?

A. ADIT represents future taxes payable or receivable. ADIT is calculated as accumulated book/tax temporary differences amounts multiplied by the current federal and state tax rate. If the federal or state tax rate changes, the amount of future taxes payable or receivable will change. For example, if the federal tax rate decreases and ADIT is a liability, the Company will owe less taxes in the future under the lower tax rate. When tax rates change, GAAP requires all ADIT to be revalued to represent future taxes payable/receivable at the tax rate they are expected to be paid/received.

Q. Has the Company revalued all ADIT balances as of December 31, 2017 to reflect a 21% federal tax rate?

A. Yes, the Company revalued all ADIT balances as of December 31, 2017 to reflect a 21% federal tax rate. The corresponding entry to reduce net ADIT Liabilities was recorded as a Regulatory Liability according to FERC guidance, *Docket No. AI93-5-000*. According to FERC guidance; once a utility's ADIT are no longer owed to the government under the new rates, and the ADIT balance represents amounts previously collected from customers in utility rates; the Liability for excess ADIT no longer exists and, instead, a Regulatory Liability for the amounts to be returned to customers does now exist and will be properly classified that way in the FERC chart of accounts, *Docket No. AI93-5-000*. Please see Exhibit JAG-4 for AI93-5-000 and other FERC guidance documents the Company relied on when revaluing the federal tax rate change.

Q. Please describe how the Company calculated excess ADIT as of December 31, 2017.

A. The Company scheduled out into future periods the timing of the turning of its ADIT balances and reconciled all of its ADIT underlying book/tax temporary differences as of December 31, 2017. Once the underlying book/tax temporary differences were reconciled, the Company adjusted, or "revalued," the federal ADIT accounts at the new federal corporate tax rate.

Q. What is the total amount of excess ADIT calculated by the Company?

A. As shown on Exhibit JAG-5, the total excess ADIT calculated by the Company is $6,572,092. These calculations, with gross-up, conform to FERC guidance, Docket No. AI93-5-000. Until this Regulatory Liability is returned to customers it will continue to act as a reduction to rate base.

Q. How will the Company flow back the excess ADIT to ratepayers?

A. The TCJA has identified two methods of flowing back excess ADIT to ratepayers, TCJA §13001(d). If sufficient records exist, the utility is required to use the Average Rate Assumption Method ("ARAM") to flow back excess ADIT to ratepayers. The ARAM formula flows back excess ADIT on an "average" rate as the book/tax temporary differences reverse. If sufficient records do not exist, the Reverse South Georgia Method ("RSGM") is to be used. The RSGM looks at the remaining estimated life of the book/tax temporary difference and reverses on a straight line basis according to the remaining temporary difference life.

Q. Does the Company have sufficient records to utilize the ARAM method?

A. Yes, the Company uses fixed asset software created by PowerPlan, Inc. which tracks book/tax temporary differences and projects the reversal of these temporary differences.

Q. Has the Company performed the ARAM calculation for the excess ADIT?

A. Yes, the Company has performed the ARAM calculation for the excess ADIT. The Company has calculated the flow back period to be 19 years as shown on Exhibit JAG-6.

Q. How does the Company propose to flow back the excess ADIT through base distribution rates?

A. The Company is proposing an annual ARAM flow back of $308,218 through base distribution rates as provided in Schedule RevReq-3-18.[1]

Q. How does the Company propose to flow back the excess ADIT related to the 2019-2020 flow back period?

A. As described the in the prefiled testimony of Messrs. Goulding and Nawazelski, the Company is proposing to offset the 2021 deferral balance of the Company's property taxes associated with House Bill 700. Applying the annual excess ADIT flow back for the years 2019-2020, or $515,202, would materially reduce the Company's property tax deferral balance that would have to be recovered as part of the proposed Regulatory Cost Adjustment Mechanism effective November 1, 2022.

IV. PANDEMIC TAX RELIEF PROVIDED IN THE CARES ACT AND THE FFCRA

Q. Briefly summarize the pandemic tax relief enacted in the CARES Act.

---

[1] References to Schedule RevReq-3-18 in my testimony are to the RevReq schedules provided in the testimony of UES witnesses Christopher J. Goulding and Daniel T. Nawazelski.

A. The CARES Act included tax relief for affected taxpayers. Notably, the relief provisions were primarily temporary suspensions of limitations enacted in the TCJA. The CARES Act relief made changes to Net Operating Loss ("NOL") Carryback period, NOL carryforward limitations, interest limitation deductibility, Alternative Minimum Tax refunds, extended timeline for first quarter 2020 estimated tax payments and employment related tax credits.

Q. What pandemic tax relief items did the Company utilize?

A. The Company utilized the extended timeline for first quarter 2020 estimated tax payments and one of the employee related tax credits, the Employee Retention Credit ("ERC").

Q. Why didn't the Company utilize the other pandemic tax relief items enacted in the CARES Act.

A. The Company did not have qualifying NOL carryforwards under the Cares Act to utilize the expanded carryback window and also did not have any NOL carryforwards previously limited by the TCJA. Additionally, the Company's interest deductions were not previously limited by the TCJA.

Q. What is the ERC and how did the Company utilize it?

A. The CARES Act enacted the ERC to incentivize companies to retain employees. The ERC is a 50% credit on employee wages for employees that are retained and cannot perform their job duties at 100% capacity as a result of coronavirus pandemic restrictions. The ERC is taken as a credit on employment tax form 941. In the third quarter of 2020, Northern and Unitil Service recorded ERCs of approximately $87,364 and $279,213, respectively as reductions to employment tax expense.

Q. What pandemic tax relief was enacted in the FFCRA?

A. The FFCRA provided paid sick leave for employees who had to quarantine, care for a quarantined individual, or care for a child whose school or child care provider is closed or unavailable for reasons related to COVID-19. The FFCRA is taken as a credit on employment tax form 941. In the fourth quarter of 2020, Northern recorded an FFCRA of approximately $20,000 as a reduction to employment tax expense.

V. EFFECTS OF THE TCJA ON UTILITY CASH FLOWS AND RATE BASE

Q. What effect does the lower federal income tax rate and the return of excess ADIT to customers have on the Company's cash flows and sources of funding from tax deferrals?

A. Cash flows were decreased in 2018 when the Company reduced the federal income tax rate in its cost of service to 21%. With lower cash flows, the Company now must also seek additional funding through long term debt or equity contributions for the decreased government benefit realized through accelerated tax deductions on utility plant capital investments. The Company's analysis has determined that the lower corporate income tax rate and return of excess ADIT to customers decreases tax deferred funding benefits from the federal government by $0.14 per dollar invested.

Q. How did you calculate the decrease of $0.14 per dollar invested?

A. The $0.14 decreased tax benefit per dollar invested is the difference between the old top corporate income tax rate versus the new top corporate income tax (35%-21%=14%). For each dollar invested, the Company, which is in the top corporate tax rate, loses a 14% tax benefit because of the lower tax rate. This translates to $0.14 per dollar invested.

Q. Do the Company's utility plant assets still qualify for accelerated bonus depreciation?

A. No, utility plant assets no longer qualify for bonus depreciation under the TCJA.

Q. What effect, if any, does the exclusion of utility plant assets from accelerated bonus depreciation have on the Company's cash flows?

A. The Company now receives only 3.75% of the federal income tax benefit for utility plant assets in the year placed in service. Previously when the Company's plant assets qualified for bonus depreciation, it received over 52% of the federal tax benefit in the year the assets were placed in service. Thus, this too significantly decreases the Company's cash flows and availability of tax deferred funding benefits.

Q. How did you calculate the 3.75% federal tax benefit which the Company now receives in the first year under the TCJA?

A. The 3.75% federal benefit is the first year MACRS depreciation rate the Company is allowed to deduct on its utility plant investments.

Q. How did you calculate the 52% federal income tax benefit which the Company was previously allowed to deduct in the first year prior to the TCJA?

A. The 52% is a composite rate of the former 50% first year bonus depreciation plus 3.75% of the remaining non-bonus asset basis.

Q. What other effects does the TCJA have on the Company's cash flows and rate base and actual ROE?

A. The Company's rate base will increase at a higher rate between rate cases because its assets no longer qualify for bonus depreciation. This will occur because the associated ADIT offset to rate base will not increase as rapidly year over year due to the exclusion of bonus depreciation. This increased rate base growth has not been as significant in the Company's rate base calculations for over 10 years when bonus depreciation was first enacted in 2002. The Company's actual ROE will deviate negatively from its authorized ROE as rate base increase more quickly due to fewer accelerated tax deductions.

VI. PRO FORMA ADJUSTMENT FOR PREDECESSOR ADIT

Q. Why does the Company make a pro forma adjustment to plant related ADIT?

A. The Company stipulated in Docket No. DG 08-048 and DG 08-079 as part of the purchase agreement of Northern Utilities, Inc. to pro forma the predecessor ADIT offset in rate base until the successor ADIT is greater than the pro formed predecessor ADIT.

Q. How has the Company been completing the predecessor pro forma ADIT calculation?

A. The Company has been annually tracking the predecessor net tax value and predecessor net plant value adjusted for current year retirements and depreciation to calculate a predecessor pro formed ADIT.

Q. How has the Company been tracking the acquired ADIT calculation?

A. The Company tracks all book and tax fixed assets in a software suite developed by PowerPlan. The tax fixed asset module tracks annual tax activity including additions, retirements, depreciation, and accumulated book/tax temporary differences.

Q. Is the acquired ADIT as calculated in PowerPlan greater than the predecessor pro formed ADIT?

A. Yes, the acquired ADIT is now greater than the predecessor pro formed ADIT. This is shown in Exhibit JAG-7. Both predecessor and successor ADIT amounts have been revalued for the effect of the TCJA. The predecessor pro formed ADIT has been decreasing as all pro formed tax additions had already been depreciated through the accelerated portion of the 20 year MACRS tax depreciation schedule at the acquisition date. The acquired ADIT has reached its peak as a result of all acquired tax additions being depreciated in the accelerated portion of the MACRS depreciation rates. Thus, the Company proposes to no longer pro forma the predecessor ADIT offset in rate base as the Settlement stipulation requiring that calculation be maintained has been met and exceeded.

VII. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does.