

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 23-039

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty
Distribution Service Rate Case
Revenue Requirement, Multi-Year Rate Plan, and Permanent Rates

DIRECT TESTIMONY

OF

KRISTIN M. JARDIN

AND

DANIEL S. DANE

May 5, 2023



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1 **I. INTRODUCTION**

2 **Q. Please state your name, title, and business address.**

3 A. My name is Kristin M. Jardin. I am the Director of Rates and Regulatory Affairs for
4 Liberty Utilities Service Corp. (“LUSC”), which provides service to Liberty Utilities
5 (Granite State Electric) Corp. d/b/a Liberty (“Liberty” or the “Company”).

6 My business address is 465 Sykes Road, Fall River, Massachusetts.

7 **Q. On whose behalf are you submitting this testimony?**

8 A. I am submitting testimony in this proceeding before the New Hampshire Public Utilities
9 Commission (“Commission”) on behalf of Liberty.

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

11 A. I graduated from Boston University in 2006 with a Bachelor of Science in Management
12 Studies. I received a Master of Science in Administrative Studies concentrated in
13 Financial Economics and a Graduate Certificate in Project Management from Boston
14 University in 2008. I also received a Juris Doctor from New England Law Boston in
15 2018.

16 From 2008 to 2010, I was employed by National Grid USA Service Company, Inc. as a
17 Regulation and Pricing Analyst. From 2010 to 2013, I was employed by TransCanada
18 Power Marketing Ltd. and Engie f/k/a GDF Suez Energy Resources, respectively, as a
19 Retail Market Analyst and a Sales Manager for NEISO and NYISO. From 2014 to 2019,
20 I was employed by the Massachusetts Department of Public Utilities as an Economist II
21 and promoted to an Economist III in the Natural Gas Division. From 2019 to June 2020,

1 I was employed by Columbia Gas of Massachusetts as a Manager of Regulatory Affairs.

2 In June 2020, I was hired by LUSC as Manager, Regulatory Strategy; in 2022, I was
3 promoted to Senior Manager of Rates and Regulatory Affairs, and in 2023, I was
4 promoted to Director of Rates and Regulatory Affairs.

5 **Q. Please describe your duties at Liberty.**

6 A. As Director of Rates and Regulatory Affairs, I am responsible for rates and regulatory
7 affairs for Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty and
8 I also provide assistance to Liberty.

9 **Q. Have you previously testified in regulatory proceedings before this Commission?**

10 A. Yes. I have testified in a regulatory proceeding before the Commission in Granite State
11 Electric Company d/b/a National Grid's Petition for Temporary Increase to its Storm
12 Fund, Docket No. DE 10-096.

13 **Q. Have you testified in other regulatory jurisdictions?**

14 A. Yes. I have submitted testimony before the Massachusetts Department of Public Utilities
15 and the Iowa Utilities Board.

16 **Q. Mr. Dane, please state your name and business address.**

17 A. My name is Daniel S. Dane. My business address is 293 Boston Post Road West, Suite
18 500, Marlborough, Massachusetts.

1 **Q. By whom are you employed and in what position?**

2 A. I am an Executive Vice President with Concentric Energy Advisors, Inc. (“Concentric”)
3 and the Financial and Operations Principal of CE Capital, Inc. (“CE Capital”), a FINRA-
4 member subsidiary of Concentric. My curriculum vitae and testimony listing are
5 included in Appendix A to this testimony.

6 **Q. Please describe Concentric’s and CE Capital’s services, and your professional**
7 **background, education, and professional licenses.**

8 A. Concentric provides financial and economic advisory services to many and various
9 energy and utility clients across North America. Concentric’s regulatory, economic, and
10 market analysis services include utility ratemaking and regulatory advisory services;
11 energy market assessments; market entry and exit analysis; corporate and business unit
12 strategy development; demand forecasting; resource planning; and energy contract
13 negotiations. As an Executive Vice President at Concentric, my responsibilities include
14 assisting clients in identifying and addressing business issues. My primary areas of focus
15 have been regulatory, financial, and accounting-related issues.

16 I have an MBA from Boston College in Chestnut Hill, Massachusetts, and a BA in
17 Economics from Colgate University in Hamilton, New York. I am a Certified Public
18 Accountant, and a licensed securities professional (FINRA series 7, 28, 63, 79, and 99
19 licenses).

1 **Q. Have you previously testified before the Commission or any other regulatory**
2 **agencies?**

3 A. Yes. Appendix A provides a listing of my previous testimony before the Commission
4 and other regulatory agencies.

5 **II. PURPOSE OF TESTIMONY AND EXECUTIVE SUMMARY**

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

7 A. The purpose of our testimony is to present the Company's overall revenue requirement
8 for permanent base distribution rates during the Company's requested multi-year rate
9 plan. Specifically, our testimony and exhibits present the Company's revenue
10 requirement analysis and calculate the existing revenue deficiency based on a test year
11 ending December 31, 2022 (the "Test Year"), and for the rate years ending June 30, 2024
12 ("Rate Year 1"), June 30, 2025 ("Rate Year 2"), and June 30, 2026 ("Rate Year 3")
13 (together, the "Rate Years"). We are also filing separate testimony to present the
14 Company's request for a temporary rate increase in this proceeding.

15 **Q. Are you sponsoring any required schedules or Exhibits?**

16 A. Yes, we are sponsoring Attachment KMJ/DSD-1, which includes the schedules listed
17 below, in accordance with Puc 1604.07 and 1604.08.

Schedule	Description
Schedule RR-1	Computation of Revenue Deficiency and Revenue Requirement
Schedule RR-2	Operating Income Statement
Schedules RR-2.1 through RR-2.13	Operating Income Statement Detail Schedules
Schedule RR-3	Summary of Test Year Adjustments
Schedule RR-3.1	Summary of Rate Year Adjustments
Schedules RR-3.2 through RR-3.15	Adjustment Details
Schedule RR-4	Rate Base Summary
Schedule RR-4.1 through RR-4.6	Rate Base Details
Schedule RR-5	Overall Rate of Return
Schedule RR-5.1	Weighted Average Cost of Long-Term Debt
Schedule RR-6	Test Year and Rate Year Plant and Depreciation Schedules

1

2 **Q. Has Liberty filed other material as required by Puc 1604.01?**

3 A. Yes. The material required by Puc 1604.01 is included with this filing in a separate
4 volume.

5 **III. PROPOSED RATE RELIEF**

6 **Q. Please summarize the rate relief the Company is seeking in this proceeding.**

7 A. As discussed in the testimony of Company Witnesses DeCoursey and Therrien, the
8 Company is proposing a three-year forward-looking multi-year rate plan. The revenue
9 requirement, therefore, calculates revenue deficiencies in each Rate Year based on a
10 comparison of projected revenues at current rates to the Company's projected Rate Year
11 cost of service, adjusted for income taxes and uncollectible expense. The table below
12 summarizes the incremental and cumulative revenue increases being sought by the

1 Company in each Rate Year, along with the associated percentage increases in
2 distribution revenue.

3 *Table 1. Liberty Proposed Revenue Increase*

	Rate Year 1	Rate Year 2	Rate Year 3
Revenue Increase	\$15,487,002	\$2,637,497	\$2,975,178
Cumulative	\$15,487,002	\$18,124,498	\$21,099,676
Distribution % Change ¹	33.3%	5.7%	6.5%

4
5 Attachment KMJ/DSD-1 provides a summary of the different components of the
6 Company's cost of service and revenue requirements.

7 **Q. Does the Company's rate request include a proposal to moderate the customer**
8 **impact of the revenue requirement increase in Rate Year 1?**

9 A. Yes. In order to moderate the customer impact of the required revenue increase, Liberty
10 proposes to levelize the rate increase over the three-year period. The proposal will defer
11 a portion of the first-year increase and spread recovery of the overall increase over the
12 three years of the rate plan. The proposal will result in levelized revenue requirement
13 increases of \$9,246,552 in each Rate Year. The deferred portion of the revenue increase
14 would accumulate carrying charges through the end of Rate Year 3 of \$768,135. The
15 Company's levelization proposal is calculated such that the Company will recover the
16 same amount of total revenue over the three-year rate plan as under the non-levelized

¹ Percent changes are based on a comparison to Rate Year 1 revenue at current rates excluding Other Operating Revenue.

1 scenario, plus carrying charges. A summary of the levelized rate proposal is shown in the
2 table below:

3 *Table 2. Levelized Liberty Proposed Revenue Increase*

	Rate Year 1	Rate Year 2	Rate Year 3
Revenue Increase	\$9,246,552	\$9,246,552	\$9,246,552
Cumulative	\$9,246,552	\$18,493,104	\$27,739,656
Distribution % Change ²	20.1%	20.1%	20.1%

4
5 **Q. What is the primary driver of the Company’s need for an increase in base**
6 **distribution rates?**

7 A. As shown in Attachment KMJ/DSD-1, Schedule RR-1, the Company’s earned return on
8 rate base for the Test Year was 4.80%. When adjusted to reflect Test Year normalization
9 adjustments, the earned return on rate base is 4.29%. Both the unadjusted and adjusted
10 returns are significantly below the Company’s requested Rate Year 1 weighted average
11 cost of capital of 8.41%. Further, when continued investments in plant and other pro
12 forma adjustments are considered in each of the Rate Years, the Company’s projected
13 returns decline further to 2.65%, 2.18%, and 1.44% in Rate Year 1, Rate Year 2, and Rate
14 Year 3, respectively.

15 The primary driver of the Company’s Rate Year rates of return and the resulting need for
16 an increase in base distribution rates is the amount of capital the Company has invested
17 since the end of the test year in the Company’s last rate case (Docket No. DE 19-064) and

² Percent changes are based on a comparison to Rate Year 1 revenue at current rates excluding Other Operating Revenue.

1 will continue to invest through the Rate Years. The Company has invested over \$117
2 million in its system since December 31, 2018,³ but the Company has only begun
3 recovery of a portion of that investment through step increases approving plant in service
4 through 2021. Additionally, the Company plans to place over \$268 million of system
5 improvements in service through 2027.⁴

6 **Q. What approach did you use to determine the revenue requirement and revenue**
7 **deficiencies?**

8 A. The Company began with the unadjusted Test Year financial results and made the
9 adjustments described below to calculate pro forma Test Year and Rate Year revenue
10 requirements and revenue deficiencies.

11 **A. Test Year**

12 Our analysis began with the Company's financial results in the Test Year (i.e., the twelve
13 months ending December 31, 2022). From those results, we removed flow-through items
14 (e.g., purchased power and transmission wheeling revenues and expenses), and made pro
15 forma known and measurable adjustments. The resulting Test Year pro forma net
16 operating income reflects normalized revenues at current rates, expenses, and net
17 operating income for ratemaking purposes, as presented in Schedule RR-2.

³ Calculated by subtracting \$232.5 million in gross plant as of December 31, 2018 (see, DE 19-064, Exhibit RR-5) from \$349.9 million in gross plant as of December 31, 2022 (see RR-4).

⁴ Attachment AS-2.

1 **B. Interim Period**

2 For presentation purposes, the Company’s revenue requirement also provides data for the
3 “Interim Period” from January 1, 2023, through June 30, 2023, prior to the beginning of
4 Rate Year 1.

5 **C. Multiyear Rate Plan**

6 As described in the direct testimony of Mr. DeCoursey and Mr. Therrien, the Company is
7 proposing a three-year multi-year rate plan in this proceeding. To calculate the revenue
8 requirement and revenue deficiency in each Rate Year, we made incremental adjustments
9 to the pro forma Test Year financial results to calculate pro forma Rate Year financial
10 results. In general, those adjustments were comprised of specific known and measurable
11 changes to revenue, expense, and plant figures to calculate revenue requirements
12 reflective of conditions expected in each Rate Year, including the application of a general
13 inflation factor or labor escalation factor, depending on the type of expense, for those
14 operation and maintenance (“O&M”) expenses not specifically adjusted elsewhere. To
15 calculate the Rate Year revenue deficiencies, pro forma Rate Year net operating income
16 was compared to the Company’s operating income requirement. The difference between
17 pro forma net operating income and the required net operating income is equal to the
18 after-tax net operating income deficiency. The net operating income deficiency was then
19 grossed up for Federal and New Hampshire state income taxes and incremental
20 uncollectible expense to determine the Rate Year revenue deficiencies, as shown on
21 Schedule RR-1.

1 **IV. DEVELOPMENT OF THE DISTRIBUTION REVENUE REQUIREMENT**

2 **A. Calculation of Rate Base**

3 **Q. What are the components of the Company's Test Year rate base in this case?**

4 A. The Company's Test Year rate base is comprised of: (1) utility plant in service as of
5 December 31, 2022, including the amount in Federal Energy Regulatory Commission
6 ("FERC") account 106, Completed Construction not Classified, net of accumulated
7 depreciation; (2) the 13-month average balance in supplies and inventory; (3) the 13-
8 month average of prepaid expenses; (4) an allowance for cash working capital; (5) a
9 deduction for the 13-month average balance of customer deposits; (5) regulatory assets
10 and liabilities; (5) a deduction for accumulated deferred income taxes ("ADIT"); and (6)
11 a rate base adjustment per Docket No. DG 11-040. The rate base components are
12 summarized in Schedule RR-4. As shown in those schedules, the adjusted Test Year rate
13 base was calculated to be \$187,944,145.

14 **Q. What adjustments were made to calculate rate base in each Rate Year?**

15 A. Adjustments were made to reflect the Company's projected plant in service additions
16 from the end of the Test Year through the Rate Years, as well as associated impacts to
17 accumulated depreciation and ADIT. Cash working capital was adjusted to reflect Rate
18 Year levels of O&M expenses, as well as the lead-lag factors determined in the lead-lag
19 study presented by Company Witness Todd Schavrien. Regulatory assets and liabilities
20 were amortized over a one-year period in Rate Year 1. Rate base in each Rate Year is
21 presented based on a 13-month average balance of each rate base component.

1 **Q. In which schedule is the Company's calculation of Rate Year plant and accumulated**
2 **depreciation provided?**

3 A. Schedule RR-6 and its sub-schedules provide the Company's calculations associated with
4 Rate Year plant and accumulated depreciation. Schedule RR-6 provides a summary of
5 those calculations.

6 **Q. What information is provided in Schedules RR-6.1 and Schedule RR-6.2?**

7 A. Schedule RR-6.1 provides detailed monthly plant additions for the period January 1,
8 2023, through June 30, 2026. Schedule RR-6.2 provides plant additions over that same
9 period, summarized by FERC account.

10 **Q. What information is provided in Schedule RR-6.3 and Schedule RR-6.4?**

11 A. Schedule RR-6.3 provides detailed monthly plant retirements for the period January 1,
12 2023, through June 30, 2026. Schedule RR-6.4 provides plant retirements over that same
13 period, summarized by FERC account.

14 **Q. What information is provided in Schedule RR-6.5?**

15 A. Schedule RR-6.5 provides gross plant by FERC account for the period December 31,
16 2022 (the end of the Test Year) through June 30, 2026. Gross plant is equal to the prior
17 month's gross plant, plus plant additions, less retirements.

18 **Q. What information is provided in Schedule RR-6.6?**

19 A. Schedule RR-6.6 provides projected monthly depreciation expense by FERC account.

1 **Q. Please describe the adjustments to depreciation expense.**

2 A. Except for FERC account 303 assets (i.e., miscellaneous intangible plant), depreciation
3 factors for each FERC plant account were updated to reflect the depreciation factors
4 developed in the depreciation study performed by Mr. John Spanos of Gannett Fleming,
5 and depreciation was applied using a group depreciation approach where all assets in
6 each account were depreciated at the same percentage. For assets in FERC account 303,
7 each miscellaneous intangible plant asset on the Company's books as of December 2022
8 was individually amortized. Additions to FERC account 303 after the Test Year were
9 amortized using a 29.16% annual amortization rate.

10 **Q. What information is provided in Schedule RR-6.7?**

11 A. Schedule RR-6.7 provides monthly accumulated depreciation expense by FERC account
12 for the period December 31, 2022, through June 30, 2026.

13 **Q. What information is provided in Schedule RR-6.8?**

14 A. Schedule RR-6.8 provides monthly net plant by FERC account for the period December
15 31, 2022, through June 30, 2026.

16 **Q. Why did the Company use a 13-month average when calculating Rate Year rate
17 base?**

18 A. The 13-month average for Rate Year rate base is consistent with other jurisdictions that
19 allow for future rate year revenue requirement calculations, and it smooths out
20 fluctuations that may occur during the year. Additionally, since the Company will

1 continue to invest in plant over the course of each Rate Year, a 13-month average reduces
2 the impact to the revenue deficiency relative to a year-end measurement of rate base.

3 **Q. Does the Company continue to hold customers harmless for the elimination of the**
4 **historical ADIT liabilities resulting from the acquisition of Liberty approved in**
5 **Docket No. DG 11-040?**

6 A. Yes. Consistent with its approach in Docket No. DE 19-064 (the Company's last rate
7 case), the Company is including as a reduction to rate base the ADIT for the plant assets
8 that existed at the time of acquisition consistent with the schedule of balances agreed to
9 as part of the Settlement Agreement in Docket No. DE 16-383. The agreed-upon
10 ratemaking adjustment amount for the Test Year is \$21 million, which continues annually
11 but reduces to \$20 million in 2025 and \$19 million in 2026.⁵ Those amounts, as pro-
12 rated across the Rate Years, serve as ratemaking adjustments to reduce rate base. The
13 rate base reduction amounts are shown on Schedule RR-4, line 14.

14 **Q. Has the full impact of the Tax Cuts and Jobs Act of 2017 been reflected in the**
15 **Company's revenue requirement?**

16 A. Yes. The full impact of the Tax Cuts and Jobs Act of 2017, which reduced the federal
17 corporate income tax rate from 35% to 21%, has been reflected in the Company's
18 revenue requirement. Specifically, as described below, income taxes in the revenue
19 requirement are calculated based on the post-2017 21% federal corporate income tax rate,
20 and Test Year and Rate Year rate bases reflect the unamortized balance of excess

⁵ See Docket No. DE-16-383 Settlement Agreement, Attachment 7.

1 accumulated deferred income taxes (“EADIT”) that arose due to the Tax Cuts and Jobs
2 Act of 2017. Further, annual amortization of EADIT is reflected as a reduction to income
3 tax expense in each of the Rate Years.

4 **Q. Is Liberty proposing an amortization period for state-related EADIT in this case?**

5 A. Yes. Liberty is proposing an amortization period for state-related EADIT of 20.87 years
6 beginning in July 2023 to align with the amortization period applied to Federal EADIT.

7 **Q. What regulatory assets and liabilities are included in rate base?**

8 A. The Company has included two regulatory assets and one regulatory liability in rate base.
9 The first regulatory asset reflects costs incurred by the Company to hire an evaluation,
10 measurement, and verification consultant to assess a battery storage pilot in Docket No.
11 DE 17-189. The second regulatory asset reflects costs incurred by the Company for
12 consultants hired by the Commission, the Department of Energy, and the Consumer
13 Advocate. The regulatory liability relates to the Lost Revenue Adjustment Mechanism
14 which is designed to compensate the Company for lost revenue due to the installation of
15 energy efficiency measures by customers resulting in lower kilowatt-hour sales/revenues.
16 The Lost Revenue Adjustment Mechanism due to Energy Efficiency ended when the
17 Company implemented Revenue Decoupling, however, amounts remain from billing
18 adjustments when the LRAM rate was in effect. The Company proposes to amortize its
19 regulatory assets and liability over a one-year period in Rate Year 1.

1 **B. Calculation of Net Operating Income**

2 **Q. Please summarize the results of the Company’s distribution revenue requirement.**

3 A. Schedule RR-1 provides the requested distribution revenue increase and Schedule RR-1.1
4 provides the distribution revenue requirement. As shown in Schedule RR-1, the revenue
5 deficiency is \$15,487,002, \$18,124,498, and \$21,099,676 in Rate Year 1, Rate Year 2,
6 and Rate Year 3, respectively, based on overall rates of return on a rate base of 8.41%,
7 8.46%, and 8.32% in those years. Schedules RR-2 through RR-6 provide the support for
8 the items presented on Schedule RR-1, including pro forma Test Year and Rate Year net
9 operating income and rate base.

10 **Q. What information is provided in Schedules RR-2 and RR-2-1?**

11 A. Schedule RR-2 provides details of the revenues and expenses of Liberty, including: (1)
12 unadjusted Test Year amounts; (2) normalizing adjustments to the Test Year amounts,
13 including the removal of revenues and costs that are excluded from the base distribution
14 revenue requirement such as purchased power and transmission wheeling revenue and
15 expenses (referred to here as “flow-through items”); and (3) known and measurable
16 adjustments to the Test Year to arrive at Rate Year revenues and expenses. An operating
17 income statement reflecting the proposed revenue increase in each Rate Year, including
18 income tax effects, is presented in Schedule RR-1.1. Schedule RR-2 also provides
19 revenues and expenses by FERC account, along with Test Year and Rate Year
20 adjustments to each account.

1 **Q. What information is provided in Schedules RR-2.1 through RR-2.13?**

2 A. Schedules RR-2.1 through RR-2.13 provide details regarding each category of revenues
3 and expenses, including the General Ledger accounts within each category, and the
4 “forecast method” by which Test Year revenues and expenses were projected into the
5 Rate Years.

6 **Q. What information is provided in Schedule RR-3 and RR-3.1?**

7 A. Schedule RR-3 summarizes the following 13 adjustments to revenue and expense items
8 in the Test Year revenue requirement:

Adjustment	Reference
Adjustment 1 – Adjustment to Normalize Revenues	Schedules RR-2.2 and RR-2.3
Adjustment 2 – Remove Electric Purchase Power Expenses	Company Books and Records
Adjustment 3 – Remove Transmission Expenses	Company Books and Records
Adjustment 4 – Adjustment to Inventory Expense	Company Books and Records
Adjustment 5 – Storm Expense Adjustment	Company Books and Records
Adjustment 6 – Removal of other Transmission Costs	Company Books and Records
Adjustment 7 – Adjust Historical Amortization	Company Books and Records
Adjustment 8 – Adjust Intercompany Rent	Schedule RR-3.8
Adjustment 9 – Adjust Vegetation Management Costs above Authorized Amount	Company Books and Records
Adjustment 10 – Remove other Dues, Lobbying Costs, and Donations	Company Books and Records
Adjustment 11 – Adjust Test Year Benefits to Reflect Labor Escalation and Increase in 401K Matching Expense	Schedule RR-3.15
Adjustment 12 – Reclassify Expense to Regulatory Asset	Company Books and Records
Adjustment 13 – Normalize Customer First Expense	Schedule RR-3.13

9

1 **Q. Please describe Adjustment 1 to normalize revenues.**

2 A. This adjustment was made to normalize Test Year revenues to remove non-base rate
3 revenues, re-state Test Year revenues to current rates, and make other adjustments. The
4 testimony of Company Witness Therrien provides further discussion of the normalization
5 of Test Year revenues.

6 **Q. Please describe Adjustments 2 and 3 to remove purchase power and transmission
7 expenses.**

8 A. These adjustments were made to remove non-base rate expenses from the revenue
9 requirement.

10 **Q. Please describe Adjustment 4 to inventory expense.**

11 A. This adjustment removes non-recurring expenses in the Test Year related to certain year-
12 end inventory valuations.

13 **Q. Please describe Adjustment 5 to storm expense.**

14 A. This adjustment removes the Company's \$1.5 million storm expense allowance from the
15 account to which it was recorded in the Test Year and reclassifies it to a separate account
16 that is not escalated in the Test Year or Rate Years. As such, this adjustment has no
17 impact on the Test Year and maintains a consistent \$1.5 million of storm-related
18 expenses in the Rate Year revenue requirements.

19 **Q. Please describe Adjustment 6 to remove other transmission costs.**

20 A. This adjustment removes transmission-related expenses not captured in Adjustment 3.

1 **Q. Please describe Adjustment 7 to amortization expense.**

2 A. This adjustment removes regulatory amortizations that will not extend beyond the Test
3 Year.

4 **Q. Please describe Adjustment 8 to adjust intercompany rent.**

5 A. This adjustment reflects an increase in the Company's Londonderry lease in 2023.

6 **Q. Please describe Adjustment 9 to vegetation management.**

7 A. This adjustment reduces Test Year vegetation management expense to reflect the
8 Commission-approved level for that expense.

9 **Q. Please describe Adjustment 10 to remove dues, lobbying costs, and donations.**

10 A. This adjustment removes certain dues, lobbying costs, and donations for which the
11 Company is not seeking recovery in this case.

12 **Q. Please describe Adjustment 11 to benefits expense.**

13 A. This adjustment reflects the application of the Company's Test Year labor escalation rate
14 (described below) to 401K expense and other healthcare benefits expense.

15 **Q. Please describe Adjustment 12 to reclassify Test Year expenses to a regulatory asset.**

16 A. This adjustment reclassifies Test Year expenses to a regulatory asset. The Company's
17 proposed regulatory assets and liabilities are discussed earlier in this testimony.

18 **Q. Please describe Adjustment 13 to normalize Customer First expenses.**

19 A. The Customer First program is discussed in the testimony of Company Witness Lauren
20 Preston. The Company incurred Customer First expenses in only a portion of the Test

1 Year. The Company has developed specific projections of Customer First expenses in
2 2023, and this adjustment increases the partial-year expense in the Test Year to this
3 projected amount. The Company’s Customer First projections are provided in RR-3.13.

4 **Q. Were any additional adjustments made to the historical Test Year?**

5 A. Yes. Specifically, the historical Test Year payroll amounts that were charged to expense
6 were adjusted for known and measurable changes to develop a pro forma Test Year
7 salary and wage expense amount. This adjustment reflects the annual cost of the
8 normalized complement of Liberty employees as of December 31, 2022, including wage
9 increases and labor costs for vacancies actively being recruited for during the Test Year.
10 This adjustment is provided in Schedule RR-3.4.

11 **Q. What information is provided in Schedule RR-3.1?**

12 A. Schedule RR-3.1 summarizes the following non-labor adjustments to expense items in
13 the Rate Year revenue requirements:

Adjustment	Reference
Property Taxes	Schedule RR-3.6
Commission Expense	Schedule RR-3.7
Rental Expense	Schedule RR-3.8
Injuries and Damages Expense	Schedule RR-3.9
Bad Debt Expense	Schedule RR-3.10
Fee Free Credit Card Expense	Schedule RR-3.11
Time of Use Rates Education	Schedule RR-3.11
Vegetation Management	Schedule RR-3.12
Storm Fund Collection	n/a
Customer First O&M	Schedule RR-3.13
Cybersecurity	Schedule RR-3.14
Benefits	Schedule RR-3.16
Regulatory Asset/Liability Amortization	Schedule RR-4.4

1 **Q. What information is provided in Schedule RR-3.2?**

2 A. Schedule RR-3.2 provides the Federal and State income tax rates, the composite income
3 tax rate, and the tax gross-up factor in each year from 2022 to 2026. As discussed
4 previously, the Federal tax rate in the revenue requirement is 21% to reflect the reduction
5 to the corporate income tax rate from the Tax Cuts and Jobs Act of 2017.

6 **Q. What approach did the Company take to project Test Year revenues and expenses
7 into the Rate Years?**

8 A. First, the Test Year data was reviewed to identify the normalizing adjustments identified
9 above. Then, the adjusted historical Test Year amounts were escalated into the Rate
10 Years using one of the following approaches: (1) “specifically forecasted” items were
11 adjusted based on specifically identified known and measurable adjustments; (2) “labor
12 escalator” items were adjusted using the labor escalation rate described below; and (3)
13 “general escalator” items were adjusted using the general inflation rate described below
14 and contained in Schedule RR-3.3.

15 **Q. What information is provided in Schedule RR-3.3?**

16 A. Schedule RR-3.3 is the general expense escalator workpaper. The escalation factors used
17 to escalate Test Year expenses into the Rate Years are based on projected consensus
18 inflation forecasts from Blue Chip Economics.

1 **Q. What adjustments were made to salary and wage expenses in Schedules RR-3.4 and**
2 **RR-3.5?**

3 A. Schedule RR-3.4 first adjusts the historical Test Year payroll amounts that were charged
4 to expense for known and measurable changes, as described above. Next, in Schedule
5 RR-3.5, Rate Year labor expense was calculated by reflecting the escalation of pro forma
6 Test Year salaries to reflect Rate Year conditions. Specifically, the Company applied a
7 payroll escalation factor that reflects a 3.50% per year increase for non-union employees.
8 Liberty's union base pay escalations are based upon the provisions of the Company's
9 current and expected union contracts. Furthermore, the Company will add four new
10 employee positions beginning in Rate Year 2, and the costs associated with these
11 positions were included in the Rate Year 2 and Rate Year 3 labor adjustments. As
12 discussed in the battery storage testimony of Company Witness Dmitry Balashov, the
13 Company has proposed to launch the Emerging Technologies Facilitation Office to assist
14 customers with storage and electric vehicles-related inquiries that would be initially
15 staffed by two individuals, a Program Manager, and a Solutions Engineer. Additionally,
16 the Company will hire two Electric Relay Technicians to perform maintenance testing on
17 relay and protection schemes associated with substation equipment, such as circuit
18 breakers and line reclosers, and will play a part in testing and commissioning new relayed
19 controlled equipment installed on Liberty's electric system.

20 **Q. What adjustments were made to property tax expense in Schedule RR-3.6?**

21 A. The calculation of pro forma Test Year property taxes began with the actual Test Year
22 amount. Next, the Company calculated the municipal and state property tax costs as a

1 percentage of 13-month average net plant in the Test Year. In the Rate Years, municipal
2 property tax expense was maintained at Test Year levels, while state property taxes were
3 calculated by multiplying the Test Year state property tax percentage by the 13-month
4 average net plant balance in each Rate Year. Rate Year municipal property tax expense
5 was maintained at Test Year levels because any municipal property taxes above (or
6 below) the level established in distribution rates are recovered (or refunded) through the
7 Property Tax Adjustment Mechanism, as described in the testimony of Company Witness
8 Erica Menard.

9 **Q. What adjustments were made to regulatory commission expense in Schedule RR-**
10 **3.7?**

11 A. Regulatory commission expense was adjusted to reflect the Company's most recent DOE
12 assessment invoice, less amounts recovered through the Energy Service Rate.

13 **Q. What adjustments were made to intercompany rent expense in Schedule RR-3.8?**

14 A. Intercompany rent expense was adjusted to reflect the Company's 2023 intercompany
15 lease expense, which was then escalated into the Rate Years by applying the general
16 inflation escalator.

17 **Q. What adjustments were made to insurance expense in Schedule RR-3.9?**

18 A. Insurance expense was adjusted to reflect the Company's projected increase in each of its
19 insurance coverage areas.

1 **Q. What is provided in Schedule RR-3.10 regarding uncollectible expense?**

2 A. Schedule RR-3.10 provides the Company's average 2021 to 2022 uncollectible expense
3 as a percentage of total sales of electricity. That percentage (i.e., 0.36%), is then applied
4 to Rate Year revenue and current rates to calculate pro forma uncollectible expense in
5 each of the Rate Years.

6 **Q. What is provided in Schedule RR-3.11 regarding new customer programs?**

7 A. Schedule RR-3.11 provides annual costs for two new customer programs: the fee free
8 credit/debit card program and the time of use education program. The fee free program is
9 discussed in the testimony of Ms. Preston and the time of use education program is
10 discussed in the testimony of Mr. Tillman.

11 **Q. What is provided in Schedule RR-3.12 regarding vegetation management expense?**

12 A. As described in the testimony of Heather Green, the Company is proposing to increase its
13 vegetation management expense in each of the Rate Years. Therefore, the revenue
14 requirement reflects approximately \$3.7 million in vegetation management expense in
15 Rate Year 1, \$4.0 million in vegetation management expense in Rate Year 2, and \$4.3
16 million in vegetation management expense in Rate Year 3.

17 **Q. What is provided in Schedule RR-3.13 regarding Customer First expense?**

18 A. The Customer First program is discussed in the testimony of Lauren Preston. As
19 described by Ms. Preston, the Company has developed specific projections of Customer
20 First expenses in each of the Rate Years, which average \$781,000 annually from 2023 to
21 2026 and which are reflected in RR-3.13.

1 **Q. What adjustment was made to the storm fund expense?**

2 A. The storm fund expense was set to \$1.5 million in each of the Rate Years, consistent with
3 the Company's currently approved level of storm funding.

4 **Q. What is provided in Schedule RR-3.14 regarding cybersecurity expense?**

5 A. The Company anticipates incremental cybersecurity costs will be incurred in Rate Year 3,
6 as discussed in confidential testimony of Mr. Eck. Schedule RR-3.14 provides the
7 projected monthly expenses related to incremental cybersecurity, as well as the allocation
8 of those expenses to Liberty.

9 **Q. What adjustments were made to pension and benefits expense in Schedule RR-3.15?**

10 A. Four adjustments were made to historical pension and benefits expense. First, Test Year
11 pension expense was adjusted to reflect projected pension expense in the Rate Years per
12 the Company's actuarial reports. Second, the Company is currently amortizing prior
13 service costs in accordance with Statement of Financial Accounting Standards No. 158,
14 but that amortization is expected to terminate by the end of Rate Year 2. Therefore, the
15 associated amortization expense was removed from Rate Year 3. Third, the Company's
16 401K matching expense was projected by starting with the Test Year expense and then
17 applying the salaries and wages expense Test Year and Rate Year adjustment
18 percentages. In addition, for periods after 2022, the Company plans to increase its 401K
19 matching percentage from 4% to 5%. Therefore, the Rate Year 401K expense was
20 further adjusted to reflect this projected increase in the 401K expense. Fourth, all other

1 benefits expense amounts were escalated using the labor escalation factor described
2 above.

3 **Q. Please describe the adjustments to income tax expense.**

4 A. Income tax expense in each Rate Year was based on current statutory rates, including
5 synchronized interest expense based on the Rate Year capital structure and cost of debt
6 proposed by the Company in this proceeding. In addition, Rate Year income tax expense
7 includes permanent difference items related to meals expense, as well as the amortization
8 of EADIT, which reduces income tax expense. The Company’s income tax calculations
9 are provided in Schedule RR-2.13.

10 **C. Capitalization**

11 **Q. What is the Company’s proposed rate of return for ratemaking purposes?**

12 A. The table below provides the overall rate of return in each Rate Year, including the
13 capital structure, the embedded cost of debt, and the proposed ROE. The testimony of
14 Company Witnesses Ms. Bulkley and Mr. Wall presents the ROE along with an analysis
15 of the reasonableness of the Company’s proposed capital structure and other key
16 considerations related to the Company’s capitalization.

17 ***Table 3. Rate of Return Summary***

	Rate Year 1	Rate Year 2	Rate Year 3
Debt %	45.00%	45.00%	45.00%
Equity %	55.00%	55.00%	55.00%
Cost of Debt %	6.03%	6.14%	5.84%
ROE %	10.35%	10.35%	10.35%
Rate of Return	8.41%	8.46%	8.32%

18

1 **Q. What is the derivation of the cost of the debt in the Rate Years?**

2 A. The cost of debt in the Rate Years was derived from the interest expense and financing
3 costs of the Company's current outstanding debt, adjusted for anticipated refinancings in
4 the Rate Years.

5 **V. EFFECTIVE DATES**

6 **Q. What is the Company's proposal for the effective date of rates in the proceeding?**

7 A. Consistent with the Commission's rules on the implementation of rate changes, the
8 Company is proposing that rate changes be made effective for usage on and after July 1,
9 2024, retroactive to July 1, 2023. However, we anticipate that the Commission will
10 suspend the rates for investigation, so we are proposing temporary rates effective July 1,
11 2023, as described in our separate testimony.

12 **VI. CONCLUSION**

13 **Q. Were the Exhibits and schedules you are sponsoring prepared by you or under your
14 direction and supervision?**

15 A. Yes, they were.

16 **Q. Does this conclude your pre-filed direct testimony?**

17 A. Yes, it does.