STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 14-086

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Calendar Year Stub 2013 Reliability Enhancement Plan and
Vegetation Management Plan
Report and Reconciliation Filing

REVISED - DIRECT TESTIMONY

OF

DAVID B. SIMEK

May 7, 2014

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Schedule DBS-4:	Typical Bill Impacts
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I. INTRODUCTION

Q. Please state your name and business addresses.

A. My name is David B. Simek. My business address is 11 Northeastern Boulevard, Salem, NH 03079.

Q. Please state your position?

A. I am a Utility Analyst for Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH") which is the sole shareholder of Liberty Utilities (Granite State Electric) Corp. ("Granite State" or the "Company") and provides services to Granite State. 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 of 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 of 2013, I joined Liberty Energy NH as a Utility Analyst. Prior to my employment at Liberty Energy NH, 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 recently provided written and oral testimony before the Commission in Dockets DE 13-327 and DE 14-013.

II. PURPOSE OF TESTIMONY

Q. On whose behalf are you sponsoring this testimony?

A. I am sponsoring this testimony on behalf of Granite State.

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") and capital investment allowance expense associated with the Reliability Enhancement Program ("REP") and Vegetation Management Program ("VMP") and implemented during calendar year stub 2013 ("CYS 2013"). The details of the Company's REP/VMP activities are described further in the Company's CYS 2013 REP and VMP Report ("CYS 2013 REP/VMP Report") included in this filing.

Specifically, the Company seeks Commission approval for a refund to customers $252,627 commencing June 1, 2014 based on the following four components. First, the Company seeks to refund customers $275,840 through the REP/VMP Adjustment Factor (plus interest), which is the amount of incremental O&M expense incurred in CYS 2013 below the base pro-rated O&M amount of $1,020,000, after reimbursements of $311,701 from FairPoint Communications ("FairPoint"), as discussed later in my testimony. Second, the Company seeks to refund $5,767 to customers through the REP/VMP Adjustment Factor (plus interest), which is the final over collection balance related to the REP/VMP Adjustment Factor which was in effect July 1, 2012 through June 30, 2013. Third, the Company seeks to recover a REP Capital Investment Allowance of $37,374, which is the difference in the cumulative revenue requirement for the program since inception including the $416,755 of capital investment for CYS 2013. Finally, the Company seeks to refund the carrying charge to customers on the interest-bearing items above which is $8,394.

Q. Are there any schedules accompanying your testimony?

A. Yes, there are. Attached to my testimony are the following schedules:

Schedule DBS-1	REP/VMP Revenue Requirement
Schedule DBS-2	REP/VMP Rate Design
Schedule DBS-3	Reconciliation of Recovery of FY 2012 Incremental O&M Expense Below Base O&M Expense and FY 2013

	Incremental O&M Expense Below Base O&M Expense
Schedule DBS-4	Typical Bill Impacts
Schedule DBS-5	Revised Tariff Pages

III. SCHEDULE SUMMARY

Q. Would you please summarize Schedule DBS-1 to your testimony?

A. Yes. Schedule DBS-1 provides the data supporting the REP/VMP Adjustment, REP Capital Investment Allowance, and net increase in annual distribution rates proposed in this reconciliation filing. In particular, Schedule DBS-1, Page 1 provides a summary of estimated rate adjustments for the Incremental VMP/REP O&M spend and REP capital investment allowance. The amounts in columns (a) through (f) represent actual data for the fiscal years 2008 through 2013. Column (g) is actual data for the CYS 2013 and the basis for the rate adjustment on June 1, 2014 and shows the Company's net change of recovery from the prior year.

In summary, for CYS 2013, the Company is proposing a net decrease to its annual distribution rates of $200,546 commencing June 1, 2014. This decrease in rates is composed of the following: (i) ($186,385), as shown on Page 1, Column (g), Line 9; (ii) less a refund of $5,767, as shown on Schedule DBS-2, Page 3, Line 2; and (iii) less interest of $8,394, as shown on Schedule DBS-2, Page 3, Line 4. This resulting amount is the proposed rate adjustment effective for usage on and after June 1, 2014 associated with the REP Capital Investment Allowance and the REP/VMP Adjustment Provision.

IV. INCREMENTAL REP/VMP O&M EXPENSE

Q. Is the Company's request to recover/refund the incremental REP/VMP O&M expense incurred during CYS 2013 consistent with the Secretarial Letter issued on April 3, 2013 in Docket No. DE 13-039?

A. Yes. On January 30, 2013, the Company requested Commission approval of its proposed REP/VMP for CYS 2013. The Commission, via Secretarial Letter, authorized a base O&M expense amount of $1,360,000 (pro-rated for CYS 2013 to $1,020,000), and required that actual expenses incurred by the Company in implementing the O&M components of the REP/VMP Plan would be reconciled to the base O&M amount of $1,020,000 and subject to the REP/VMP Adjustment Provision in the Company's tariff. This reconciliation is in column (f) on Schedule DBS-1, Page 2.

For CYS 2013, the Company's total O&M budget of $1,238,200, as shown on Page 2, Line 3, reflects $67,000 for REP-related O&M and $1,171,200 for VMP-related O&M. As indicated in the CYS 2013 REP/VMP Report and shown on Schedule DBS-1, Page 2, Line 1, the Company actually incurred $1,055,861 in REP/VMP O&M expenses during CYS 2013. This is $35,861 greater than the base rate recovery amount of $1,020,000 reflected in rates. Offsetting the CYS 2013 spending is $311,701 in reimbursements from FairPoint related to its share of vegetation management expenses initially incurred by the Company and then billed to FairPoint, which are being passed back to customers on Schedule DBS-1, Page 2, Line 11. The Company is therefore seeking recovery of the total O&M spending, net of FairPoint reimbursements, or $744,160, as shown on Schedule DBS-1, Page 2, Line 15. This incremental O&M expense is below the base recovery amount of $1,020,000 reflected in rates, resulting in a net O&M credit for CYS 2013 of $275,840 on Schedule DBS-1, Page 2, Line 13, which the Company proposes to refund to customers.

V. REP CAPITAL INVESTMENT ALLOWANCE

Q. Is the calculation of the CYS 2013 REP Capital Investment Allowance included in the Company's proposal consistent with prior filings?

A. Yes, it is. The Company is proposing to recover the net incremental revenue requirement of $37,374, which is the difference in the cumulative revenue requirement for program inception including the $416,755 of capital investment for CYS 2013.

Q. Did the Company update or change any component(s) of the revenue requirement calculation?

A. Yes. The Company updated the composite depreciation rate and the property tax rate to reflect the actual data for calendar year 2013 ("CY 2013"). These new rates are included in the calculations shown in column (g) on Schedule DBS-1, page 3, Lines 4 and 51, respectively. The Company has also updated the pre-tax rate of return to reflect the imputed capital structure authorized in the Rate Case Settlement Agreement Order No.

25,638 in Docket DE 13-063. The new rate is in column (g) on Schedule DBS-1, page 3, Line 48. The Company has also updated the adjustment related to the capital repairs tax deduction and bonus deprecation in the tax deprecation calculations and supporting pages.

Q. How has the Company determined the capital investment amount included in the REP Capital Investment Allowance revenue requirement calculation contained on Schedule DBS-1.

A. As indicated in the CYS 2013 REP/VMP Report, the Company invested $416,755 in REP capital investments in CYS 2013. Therefore, the Company is basing the revenue requirement calculation on the $416,755 of actual capital investment for CYS 2013.

Q. Please explain the revenue requirement calculation contained on Page 3 of Schedule DBS-1.

A. Lines 1 through 44 calculate the rate base upon which the Company's return allowance is calculated. As shown on Line 1 in column (g), the CYS 2013 REP program spend is $416,755, as previously discussed, resulting in the cumulative amount of $4,297,988, as shown on Line 2 of that same column. Lines 4 through 38 calculate the deferred tax reserve based on the cumulative depreciation expense timing difference between book and tax depreciation expense for federal and state income taxes. The cumulative book/tax timing difference for federal tax is $2,308,906 as shown on Line 32 and for state tax is $1,241,561 as shown on Line 35. The cumulative deferred tax reserve for each tax jurisdiction equals the cumulative book/tax timing difference times the effective jurisdictional tax rate. The total deferred tax reserve is $890,561 as shown on Line 38. The composite book depreciation rate is 3.72% based on actual data for CY 2013.

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. In addition, a correction to the FY 2012 one-time true-up related to an update of the inclusion of the capital repairs tax deduction and bonus depreciation for fiscal years 2008 through 2011 and the inclusion of an FY 2013 one-time true-up to capture these same effects for fiscal year 2012 were also made.

The calculation of the components of tax depreciation expense described above for each year is shown on Pages 4 and 10 of Schedule DBS-1.

The capital repairs deduction component of tax depreciation is shown on Lines 1 through 4 of Pages 4 through 10. 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 example, thirty-one percent (31%) of REP capital work performed during FY 2013 was eligible for the capital repairs deduction, as shown on Line 3 of Page 9 and zero percent (0.0%) of REP capital work performed during CYS 2013 was eligible for the capital repairs deduction, as shown on Line 3 of Page 10.

Bonus depreciation for federal tax purposes is 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 passed further laws that have extended and changed the bonus depreciation rate at different periods of time. 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 10. 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 10. Total tax depreciation for federal and state taxes is shown on the last two lines of Pages 4 through 10. 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. What are the FY 2012 and FY 2013 Safe Harbor True Ups and how were they determined?

A. During 2011, the IRS issued Rev. Proc. 2011-43, which provided a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under IRC Section 263(a) or deducted as a repair expense under IRC Section 162. Rev. Proc. 2011-43 in effect clarified the 2009 guidance on the capital repairs deduction, among other things, and provided a prescribed accounting method for taxpayers to determine the deduction in a manner that the IRS would not challenge in a subsequent audit.

The FY 2012 Safe Harbor True Up adjustments for federal and state taxes shown on Lines 42 through 45 of Page 8 represents the comparison of tax depreciation including capital repairs deductions actually taken on REP capital investment during FY 2008 through FY 2011 as compared to tax depreciation including capital repairs deductions for those years at the updated FY 2012-13 rate of 31%, as calculated on Page 11 of Schedule DBS-1. The FY 2013 Safe Harbor True Up adjustments on Lines 42 through 45 of Page 9 were calculated in like fashion. The Safe Harbor True Up adjustments are applied to the previously determined federal and state tax depreciation to derive the net FY 2012 and FY 2013 tax depreciation, which is carried forward to Lines 10 and 11 (Federal), and Lines 21 and 22 (State), columns (e) and (f) on Page 3 of Schedule DBS-1.

Q. Please describe the remainder of the revenue requirement calculation on Page 3 of Schedule DBS-1.

A. The Company's year-end net rate base of $2,749,272, upon which the Company's return allowance is calculated, is shown on Line 44 and consists of the cumulative REP capital investment through CYS 2013, or $4,297,988, less accumulated book depreciation of $658,155 and accumulated deferred tax reserves of $890,561, as shown on Lines 41 through 43, respectively.

The return on 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 on Lines 69 through 73 of Page 3 of Schedule DBS-1, or 11.51 percent. The resulting return equals the fiscal year-end rate base of $2,749,272 times the pre-tax return rate of 11.36 percent, or $312,413, as shown on Line 49. Annual depreciation expense of $119,933 and property taxes of $149,961, on Lines 50 and 51, respectively, are added to the return amount to arrive at the total revenue requirement of $582,307 on Line 52. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2013 applied to the year-end net plant in service, or the sum of Lines 41 and 42.

Q. What is the amount of the incremental revenue requirement for CYS 2013 REP capital investment?

A. The incremental CYS 2013 revenue requirement amount of $37,374 is equal to the cumulative revenue requirement less the previous year's cumulative revenue requirement and shown on Line 58 in column (h).

VI. RATE DESIGN AND RECONCILIATION

Q. Is the procedure for adjusting distribution rates for the REP Capital Investment Allowance and REP/VMP Adjustment Provision consistent with previous filings?

A. Yes. The rate design in Schedule DBS-2 of my testimony is consistent prior procedures used to adjust base distribution rates associated with the REP Capital Investment

Allowance in the Company's prior REP/VMP reconciliation filings.

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. Page 1 of Schedule DBS-2, the Company simply divides the capital investment allowance related to the REP on Line 1 by the forecasted annual distribution revenue for the twelve month period ended May 31, 2015 on Line 2 to calculate the percentage increase on Line 3 which is then applied to each of the Company's base distribution charge components. The calculation of the forecasted annual distribution revenue is on Page 2 of Schedule DBS-2.

Q. Please describe the procedure for calculating the REP/VMP O&M Adjustment Factor.

A. The procedure for calculating the REP/VMP O&M Adjustment Factor is also in Schedule DBS-2. As presented on Page 3 of Schedule DBS-2, the Company first adds the incremental O&M expense above Base O&M expense for CYS 2013 of ($275,840) and the final balance of ($5,767) related to the REP/VMP Adjustment Factor which was designed to recover FY 2012 Incremental O&M expense. Next, the Company simply divides this sum, including interest, on Line 5, by the Company's estimated kWh deliveries for the twelve month period ended May 31, 2015 on Line 6 to calculate the adjustment factor of ($0.00030) on Line 7 which is then applied to all kWh's billed to customers. The calculation of interest is on Page 4 of Schedule DBS-2. The calculation of the new base distribution rates is on Page 5 of Schedule DBS-2.

Q. Has the Company included a reconciliation of the REP/VMP O&M Adjustment Factor which was in effect July 1, 2012 through June 30, 2013?

A. Yes. This reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is on Page 1 of Schedule DBS-3. Of the $339,699 of FY 2012 incremental O&M expense below base O&M expense to be refunded through the REP/VMP Adjustment Factor, $342,452 was refunded through June 2013, resulting in an under refund. The Company is proposing to refund the balance of $5,767 through the REP/VMP Adjustment Factor proposed effective June 1, 2014.

Q. Has the Company included a reconciliation of the existing REP/VMP O&M Adjustment Factor for the prior year?

A. Yes. This reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is on Page 2 of Schedule DBS-3. Of the $100,074 of FY 2013 O&M expense below base O&M expense to be refunded through the currently effective REP/VMP Adjustment Credit Factor, $70,758 has been refunded through February 2014. Any remaining balance after the end of the recovery period, positive or negative, will be reflected as an adjustment in the calculation of a future proposed REP/VMP Adjustment Factor.

VII. 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 June 1, 2014.

Q. Has the Company determined the impact of these rate changes on customer bills?

A. Yes. These bill impacts are included as Schedule DBS-4. Schedule DBS-4, Page 1, shows that for a typical residential 500 kilowatt-hour Energy Service customer, the bill impact of the rates proposed for June 1, 2014, as compared to rates in effect today, is a bill decrease of $0.07, or 0.1 percent, from $85.11 to $85.04. In addition, a bill comparison for an Energy Service residential customer with an average kilowatt-hour usage of 679, which is the average monthly usage over the 12 months ending February 2014, has also been included on Page 1 of Schedule DBS-4. For an Energy Service residential customer using 679 kWh, the total bill impact of the rates proposed in this filing, as compared to rates in effect today, is a bill decrease of $0.09, or 0.1 percent, from $112.75 to $112.66. For other customers, decreases range from 0.1 percent to 0.2 percent.

Q. Has the Company prepared revised tariff pages reflecting the proposed rates?

A. Yes. The revised tariff pages are set forth in Schedule DBS-5.

VIII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

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I. INTRODUCTION

Q. Please state your name and business addresses.

A. My name is David B. Simek. My business address is 11 Northeastern Boulevard, Salem, NH 03079.

Q. Please state your position?

A. I am a Utility Analyst for Liberty Energy Utilities (New Hampshire) Corp. ("Liberty Energy NH") which is the sole shareholder of Liberty Utilities (Granite State Electric) Corp. ("Granite State" or the "Company") and provides services to Granite State. I am responsible for providing rate-related services for the Company.

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A. This testimony supports Granite State's request for Commission approval to recover the incremental operating and maintenance ("O&M") and capital investment allowance expense associated with the Reliability Enhancement Program ("REP") and Vegetation Management Program ("VMP") and implemented during calendar year stub 2013 ("CYS 2013"). The details of the Company's REP/VMP activities are described further in the Company's CYS 2013 REP and VMP Report ("CYS 2013 REP/VMP Report") included in this filing.

Specifically, the Company seeks Commission approval for a refund to customers $252,627~~251,285~~ commencing June 1, 2014 based on the following four components. First, the Company seeks to refund customers $275,840 through the REP/VMP Adjustment Factor (plus interest), which is the amount of incremental O&M expense incurred in CYS 2013 below the base pro-rated O&M amount of $1,020,000, after reimbursements of $311,701 from FairPoint Communications ("FairPoint"), as discussed later in my testimony. Second, the Company seeks to refund $5,767 to customers through the REP/VMP Adjustment Factor (plus interest), which is the final over collection balance related to the REP/VMP Adjustment Factor which was in effect July 1, 2012 through June 30, 2013. Third, the Company seeks to recover a REP Capital Investment Allowance of $37,374~~$38,716~~, which is the difference in the cumulative revenue requirement for the program since inception including the $416,755 of capital investment for CYS 2013. Finally, the Company seeks to refund the carrying charge to customers on the interest-bearing items above which is $8,394.

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III. SCHEDULE SUMMARY

Q. Would you please summarize Schedule DBS-1 to your testimony?

A. Yes. Schedule DBS-1 provides the data supporting the REP/VMP Adjustment, REP Capital Investment Allowance, and net increase in annual distribution rates proposed in this reconciliation filing. In particular, Schedule DBS-1, Page 1 provides a summary of estimated rate adjustments for the Incremental VMP/REP O&M spend and REP capital investment allowance. The amounts in columns (a) through (f) represent actual data for the fiscal years 2008 through 2013. Column (g) is actual data for the CYS 2013 and the basis for the rate adjustment on June 1, 2014 and shows the Company's net change of recovery from the prior year.

In summary, for CYS 2013, the Company is proposing a net decrease to its annual distribution rates of $200,546~~199,204~~ commencing June 1, 2014. This decrease in rates is composed of the following: (i) ($186,385~~185,044~~), as shown on Page 1, Column (g), Line 9; (ii) less a refund of $5,767, as shown on Schedule DBS-2, Page 3, Line 2; and (iii) less interest of $8,394, as shown on Schedule DBS-2, Page 3, Line 4. This resulting amount is the proposed rate adjustment effective for usage on and after June 1, 2014 associated with the REP Capital Investment Allowance and the REP/VMP Adjustment Provision.

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For CYS 2013, the Company's total O&M budget of $1,238,200, as shown on Page 2, Line 3, reflects $67,000 for REP-related O&M and $1,171,200 for VMP-related O&M. As indicated in the CYS 2013 REP/VMP Report and shown on Schedule DBS-1, Page 2, Line 1, the Company actually incurred $1,055,861 in REP/VMP O&M expenses during CYS 2013. This is $35,861 greater than the base rate recovery amount of $1,020,000 reflected in rates. Offsetting the CYS 2013 spending is $311,701 in reimbursements from FairPoint related to its share of vegetation management expenses initially incurred by the Company and then billed to FairPoint, which are being passed back to customers on Schedule DBS-1, Page 2, Line 11. The Company is therefore seeking recovery of the total O&M spending, net of FairPoint reimbursements, or $744,160, as shown on Schedule DBS-1, Page 2, Line 15. This incremental O&M expense is below the base recovery amount of $1,020,000 reflected in rates, resulting in a net O&M credit for CYS 2013 of $275,840 on Schedule DBS-1, Page 2, Line 13, which the Company proposes to refund to customers.

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Q. Is the calculation of the CYS 2013 REP Capital Investment Allowance included in the Company's proposal consistent with prior filings?

A. Yes, it is. The Company is proposing to recover the net incremental revenue requirement of $37,374~~38,716~~, which is the difference in the cumulative revenue requirement for program inception including the $416,755 of capital investment for CYS 2013.

Q. Did the Company update or change any component(s) of the revenue requirement calculation?

A. Yes. The Company updated the composite depreciation rate and the property tax rate to reflect the actual data for calendar year 2013 ("CY 2013"). These new rates are included in the calculations shown in column (g) on Schedule DBS-1, page 3, Lines 4 and 51, respectively. The Company has also updated the pre-tax rate of return to reflect the imputed capital structure authorized in the Rate Case Settlement Agreement Order No. 25,638 in Docket DE 13-063. The new rate is in column (g) on Schedule DBS-1, page 3, Line 48. The Company has also updated the adjustment related to the capital repairs tax deduction and bonus deprecation in the tax deprecation calculations and supporting pages.

Q. How has the Company determined the capital investment amount included in the REP Capital Investment Allowance revenue requirement calculation contained on Schedule DBS-1.

A. As indicated in the CYS 2013 REP/VMP Report, the Company invested $416,755 in REP capital investments in CYS 2013. Therefore, the Company is basing the revenue requirement calculation on the $416,755 of actual capital investment for CYS 2013.

Q. Please explain the revenue requirement calculation contained on Page 3 of Schedule DBS-1.

A. Lines 1 through 44 calculate the rate base upon which the Company's return allowance is calculated. As shown on Line 1 in column (g), the CYS 2013 REP program spend is $416,755, as previously discussed, resulting in the cumulative amount of $4,297,988, as shown on Line 2 of that same column. Lines 4 through 38 calculate the deferred tax reserve based on the cumulative depreciation expense timing difference between book and tax depreciation expense for federal and state income taxes. The cumulative book/tax timing difference for federal tax is $2,308,906 as shown on Line 32 and for state tax is $1,241,561 as shown on Line 35. The cumulative deferred tax reserve for each tax jurisdiction equals the cumulative book/tax timing difference times the effective jurisdictional tax rate. The total deferred tax reserve is $890,561~~913,650~~ as shown on Line 38. The composite book depreciation rate is 3.72% based on actual data for CY 2013.

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. In addition, a correction to the FY 2012 one-time true-up related to an update of the inclusion of the capital repairs tax deduction and bonus depreciation for fiscal years 2008 through 2011 and the inclusion of an FY 2013 one-time true-up to capture these same effects for fiscal year 2012 were also made.

The calculation of the components of tax depreciation expense described above for each year is shown on Pages 4 and 10 of Schedule DBS-1.

The capital repairs deduction component of tax depreciation is shown on Lines 1 through 4 of Pages 4 through 10. 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 example, thirty-one percent (31%) of REP capital work performed during FY 2013 was eligible for the capital repairs deduction, as shown on Line 3 of Page 9 and zero percent (0.0%) of REP capital work performed during CYS 2013 was eligible for the capital repairs deduction, as shown on Line 3 of Page 10.

Bonus depreciation for federal tax purposes is 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 passed further laws that have extended and changed the bonus depreciation rate at different periods of time. 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 10. 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 10. Total tax depreciation for federal and state taxes is shown on the last two lines of Pages 4 through 10. 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. What are the FY 2012 and FY 2013 Safe Harbor True Ups and how were they determined?

A. During 2011, the IRS issued Rev. Proc. 2011-43, which provided a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve electric transmission and distribution property must be capitalized under IRC Section 263(a) or deducted as a repair expense under IRC Section 162. Rev. Proc. 2011-43 in effect clarified the 2009 guidance on the capital repairs deduction, among other things, and provided a prescribed accounting method for taxpayers to determine the deduction in a manner that the IRS would not challenge in a subsequent audit.

The FY 2012 Safe Harbor True Up adjustments for federal and state taxes shown on Lines 42 through 45 of Page 8 represents the comparison of tax depreciation including capital repairs deductions actually taken on REP capital investment during FY 2008 through FY 2011 as compared to tax depreciation including capital repairs deductions for those years at the updated FY 2012-13 rate of 31%, as calculated on Page 11 of Schedule DBS-1. The FY 2013 Safe Harbor True Up adjustments on Lines 42 through 45 of Page 9 were calculated in like fashion. The Safe Harbor True Up adjustments are applied to the previously determined federal and state tax depreciation to derive the net FY 2012 and FY 2013 tax depreciation, which is carried forward to Lines 10 and 11 (Federal), and Lines 21 and 22 (State), columns (e) and (f) on Page 3 of Schedule DBS-1.

Q. Please describe the remainder of the revenue requirement calculation on Page 3 of Schedule DBS-1.

A. The Company's year-end net rate base of $2,749,272~~2,726,183~~, upon which the Company's return allowance is calculated, is shown on Line 44 and consists of the cumulative REP capital investment through CYS 2013, or $4,297,988, less accumulated book depreciation of $658,155 and accumulated deferred tax reserves of $890,561~~913,650~~, as shown on Lines 41 through 43, respectively.

The return on 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 on Lines 69 through 73 of Page 3 of Schedule DBS-1, or 11.51 percent. The resulting return equals the fiscal year-end rate base of $2,749,272~~2,726,183~~ times the pre-tax return rate of 11.36~~51~~ percent, or $312,413~~313,755~~, as shown on Line 49. Annual depreciation expense of $119,933 and property taxes of $149,961, on Lines 50 and 51, respectively, are added to the return amount to arrive at the total revenue requirement of $582,307~~583,649~~ on Line 52. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2013 applied to the year-end net plant in service, or the sum of Lines 41 and 42.

Q. What is the amount of the incremental revenue requirement for CYS 2013 REP capital investment?

A. The incremental CYS 2013 revenue requirement amount of $37,374~~38,716~~ is equal to the cumulative revenue requirement less the previous year's cumulative revenue requirement and shown on Line 58 in column (h).

VI. RATE DESIGN AND RECONCILIATION

Q. Is the procedure for adjusting distribution rates for the REP Capital Investment Allowance and REP/VMP Adjustment Provision consistent with previous filings?

A. Yes. The rate design in Schedule DBS-2 of my testimony is consistent prior procedures used to adjust base distribution rates associated with the REP Capital Investment Allowance in the Company's prior REP/VMP reconciliation filings.

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. Page 1 of Schedule DBS-2, the Company simply divides the capital investment allowance related to the REP on Line 1 by the forecasted annual distribution revenue for the twelve month period ended May 31, 2015 on Line 2 to calculate the percentage increase on Line 3 which is then applied to each of the Company's base distribution charge components. The calculation of the forecasted annual distribution revenue is on Page 2 of Schedule DBS-2.

Q. Please describe the procedure for calculating the REP/VMP O&M Adjustment Factor.

A. The procedure for calculating the REP/VMP O&M Adjustment Factor is also in Schedule DBS-2. As presented on Page 3 of Schedule DBS-2, the Company first adds the incremental O&M expense above Base O&M expense for CYS 2013 of ($275,840) and the final balance of ($5,767) related to the REP/VMP Adjustment Factor which was designed to recover FY 2012 Incremental O&M expense. Next, the Company simply divides this sum, including interest, on Line 5, by the Company's estimated kWh deliveries for the twelve month period ended May 31, 2015 on Line 6 to calculate the adjustment factor of ($0.00030) on Line 7 which is then applied to all kWh's billed to customers. The calculation of interest is on Page 4 of Schedule DBS-2. The calculation of the new base distribution rates is on Page 5 of Schedule DBS-2.

Q. Has the Company included a reconciliation of the REP/VMP O&M Adjustment Factor which was in effect July 1, 2012 through June 30, 2013?

A. Yes. This reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is on Page 1 of Schedule DBS-3. Of the $339,699 of FY 2012 incremental O&M expense below base O&M expense to be refunded through the REP/VMP Adjustment Factor, $342,452 was refunded through June 2013, resulting in an under refund. The Company is proposing to refund the balance of $5,767 through the REP/VMP Adjustment Factor proposed effective June 1, 2014.

Q. Has the Company included a reconciliation of the existing REP/VMP O&M Adjustment Factor for the prior year?

A. Yes. This reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is on Page 2 of Schedule DBS-3. Of the

$100,074 of FY 2013 O&M expense below base O&M expense to be refunded through the currently effective REP/VMP Adjustment Credit Factor, $70,758 has been refunded through February 2014. Any remaining balance after the end of the recovery period, positive or negative, will be reflected as an adjustment in the calculation of a future proposed REP/VMP Adjustment Factor.

VII. 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 June 1, 2014.

Q. Has the Company determined the impact of these rate changes on customer bills?

A. Yes. These bill impacts are included as Schedule DBS-4. Schedule DBS-4, Page 1, shows that for a typical residential 500 kilowatt-hour Energy Service customer, the bill impact of the rates proposed for June 1, 2014, as compared to rates in effect today, is a bill decrease of $0.0~~5~~7, or 0.1~~7~~ percent, from $85.11~~3.85~~ to $85.04~~3.28~~. In addition, a bill comparison for an Energy Service residential customer with an average kilowatt-hour usage of 679, which is the average monthly usage over the 12 months ending February 2014, has also been included on Page 1 of Schedule DBS-4. For an Energy Service residential customer using 679 kWh, the total bill impact of the rates proposed in this filing, as compared to rates in effect today, is a bill decrease of $0.09~~5~~, or 0.1~~8~~ percent, from $112.75~~4.89~~ to $112.66~~3.94~~. For other customers, decreases range from 0.1 percent to 0.2~~8~~ percent.

Q. Has the Company prepared revised tariff pages reflecting the proposed rates?

A. Yes. The revised tariff pages are set forth in Schedule DBS-5.

VIII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.