



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

Liberty Utilities (Granite State Electric) Corp.
d/b/a Liberty Utilities

Distribution Service Rate Case

Docket No. DE 16-383

Technical Statement of Steven E. Mullen and Howard S. Gorman

November 18, 2016

A. Purpose of Technical Statement

On April 29, 2016, Liberty Utilities (Granite State Electric) Corp. ("Liberty" or "the Company") filed testimony and schedules requesting changes to the Company's permanent rates. As stated in the testimony of Steven E. Mullen and Howard S. Gorman, the Company planned to update its revenue requirement schedules at the end of the discovery period to reflect any new or updated information that becomes available, and to include any changes that are identified during the discovery process. As a result of the discovery process and the recently completed PUC Staff audit, changes or modifications were identified that require revision to the Mullen/Gorman Direct Testimony, to Attachment SEM/HSG-2 (Revenue Requirement Schedules), and to Attachment SEM/HSG-3 (Step Increase Revenue Requirement). This technical statement addresses those revisions and provides an updated version of Attachments SEM/HSG-2 and 3. The revised schedules are identified with "(CU)" in the schedule reference.

B. Impact of the Changes

The net impact of all of the changes is an annual increase of \$356,723 to the proposed change in permanent rates (from the \$5,328,583 annual increase proposed in the April 29, 2016 filing to a \$5,685,306 annual increase) and an increase of \$315,156 to the revenue requirement for the step increase (from \$2,420,717 to \$2,735,873), resulting in a combined net annual increase of \$671,879.

C. Description of Revisions to Attachment SEM/HSG-2

The changes to Attachment SEM/HSG-2 are listed on Attachment SEM/HSG-2 Summary (CU). This schedule shows the source of the change, the schedule on which the change is reflected, a brief description of the change, the amount of the adjustment with separate columns for amounts affecting (i) revenue and expenses and (ii) rate base, and the resulting change in the revenue requirement. A detailed description of each change is provided below:

1. Correct Amortization of Pension Expense Debit on Acquisition

This item is discussed in the response to Staff 8-7.

In Granite State's most recent rate case, DE 13-063, Section II.D of the settlement agreement provided that beginning April 1, 2014, the Company would amortize its pension deferred debit related to the acquisition of the Company from National Grid over 10.52 years. The test year amount of \$2,014,135 in the revenue requirement schedules (Schedule RR-3-03, page 2 of 2, line 38) was calculated using a beginning asset balance of \$21,188,697, the amount in the Company's schedules in DE 13-063. However, the beginning balance had been subsequently updated during the discovery phase of DE 13-063 to \$21,636,697 (see Attachment Staff 8-7.a), based on the testimony of Staff's witness, James J. Cunningham, in DE 13-063. Thus, the test year amount was premised on an incorrect beginning asset balance.

Using the updated amount of \$21,636,697, the annual amortization expense is \$2,056,720 ($\$21,636,697 / 10.52$ years). As a result, the test year amortization amount was increased by \$42,585. The change is shown on (Schedule RR-3-03 (CU), page 2 of 2, line 38).

The change increased the revenue requirement by \$42,971.

2. Include Portion of Account 925 in Historic Year Expense

This item is discussed in the response to Staff 10-14.

Schedule RR 3-04 computes the adjustment to Insurance Expense by comparing the pro forma amount (line 22) to the expense in the historic test year (line 23). The historic test year expense includes Account 924 plus a portion of Account 925. The portion of Account 925 that reflects insurance premiums expense, \$685,417, was not included on line 23.

The total in Account 925 was \$800,379, and the balance of the account (other than insurance premiums expense) represents insurance claims and claim reserves.

The change to reflect the appropriate portion of Account 925 in the historic test year Insurance expense is shown on (Schedule RR-3-04 (CU), line 23).

The change decreased the revenue requirement by \$691,622.

3. Remove double count of Workers Compensation insurance

This item is discussed in the response to Staff 9-13.

Workers Compensation insurance was included twice in the revenue requirement, once on Schedule RR 3-04, line 15 (cost of \$201,170, and charged to expense after capitalization \$130,848) and once on Schedule RR 3-03, line 9 (cost of \$130,784, and charged to expense after capitalization \$73,911).

Schedule RR 3-04 (CU), line 15 is set to zero, to remove the double count, which reduced expense by \$130,848 change decreased the revenue requirement by \$132,033.

4. Update Historic Year 2015 Contract Labor expense

This item is discussed in the response to Staff 12-10.

Schedule RR 3-05 computes the adjustment to Contract Labor costs by comparing the pro forma amount To be Charged to GSEC in 2016 (\$25,200) to the expense in the historic test year. The historic test year expense amount of \$421,421 was understated.

Schedule RR 3-05 (CU), line 8 shows the correct historic test year amount of \$442,047, which is higher than the original test year amount by \$20,626.

The change decreased the revenue requirement by \$20,813.

5. Remove double count of Capitalization of Benefits in Update Historic Year

This item is discussed in the response to Staff 9-11.

Schedule RR 3-03 shows the portion of historic year costs capitalized and therefore removed from the revenue requirement, in the column "Capitalized". That amount includes capitalized benefits for employees in the 12/31/2015 Labor Complement. However, the Account 922 account balance at 12/31/2015 (a credit balance) includes (among other items) the same capitalized benefits for employees in the 12/31/2015 Labor Complement, in the amount of \$1,078,098. Please note, neither of these items include capitalization of the Amortization of Pension Expense Debit which is included in account 922.

On Schedule RR 3-03 (CU), line 40, this amount is removed from the historic year expense amount, to eliminate the double removal.

The change increased the revenue requirement by \$1,087,859.

6. Update Book ADIT Balance

This item is discussed in the response to Staff 10-28.

Schedule RR-5-5, line 18 showed ADIT Per Books at 12/31/2015 (Related to Post-Acquisition Additions) of (\$11,065,269). That amount was based on the tax information available at the time the rate case was prepared.

Schedule RR-5-5 (CU), line 18 shows the updated amount of (\$11,730,011), reflecting a lower State Tax Basis / Federal Tax Basis Difference, and a minor update to the Federal Tax Basis. The computations are shown on the response to Staff 10-28. The result was an increase to the ADIT and a decrease to the rate base of \$664,742.

The change reduced the revenue requirement by \$79,928.

7. Correct Book Accumulated Depreciation

This item is discussed in the response to OCA 1-12.

The Accumulated Depreciation shown on Schedule RR 5, line 3 at 12/31/2015, inadvertently excluded balances for Excess Accumulated Depreciation and Accumulated Amortization, totaling (\$191,142).

Schedule RR 5 (CU), line 3 shows the corrected Accumulated Depreciation balance of (\$67,533,352), which reduced the rate base \$191,142.

The change reduced the revenue requirement by \$22,983.

8. Correct Lead / Lag Days

This item is discussed in Staff 3-53.

Schedule RR 5-3, line 7 shows a lead / lag of 27.5 days, or 7.53% of applicable expenses. This has been revised to a lead / lag of 26.82 days 7.35%, as shown on Schedule RR 5-3 (CU), line 7. This change reduced the rate base by \$89,606.

The change reduced the revenue requirement by \$10,774.

9. Update Algonquin / Liberty support costs

This item is discussed in the response to Staff 8-25.

Schedule RR 3-10, line 5 assumed the Historic Year expense for costs allocated from Algonquin / Liberty would not change and would remain \$2,101,212. This was updated to reflect include actuals for January – October 2016 and budgeted and forecasted information for the remaining months in 2016. The updated costs total \$1,971,620, a decrease of \$129,592, as shown on Schedule RR 3-10 (CU) line 5.

The change reduced the revenue requirement by \$130,737.

Item 15 below further updates Algonquin / Liberty support costs.

10. Update Pension and OPEB costs

This item is discussed in the response to Staff 9-7.

Schedule RR 3-03 presents the pro forma pension and OPEB costs, based on the projected ongoing run rate Labor Complement. These costs were updated to reflect the August 2016 actuarial reports, which are based on employees at 12/31/2015. The Pension report showed an increase \$121,131 (an increase of 7.7%) over the costs in the original filing. Pension costs for Granite State employees increased 25.6% and costs for EnergyNorth employees¹ decreased

¹ All employees are employed by Liberty Utilities Service Corp. References to “Granite State” and “EnergyNorth” are to the company with which the employee has primary

2%. The overall adjustment for Granite State employees was applied to each Granite State employee; the overall adjustment for EnergyNorth employees was applied to each EnergyNorth employee.

The OPEB report showed an increase \$100,393 (an increase of 12.4%) over the costs in the original filing. OPEB costs for Granite State employees increased 27% and costs for EnergyNorth employees decreased 5%. The overall adjustment for Granite State employees was applied to each Granite State employee; the overall adjustment for EnergyNorth employees was applied to each EnergyNorth employee.

Portions of these items were also capitalized. Schedule RR 3-03 (CU) reflects the updated costs.

The change increased the revenue requirement by \$142,444.

11. Update Social Security contribution costs

This item is discussed in the response to Staff 8-20.

The total payroll (including Salary, OT and Incentive) in excess of the 2015 Social Security Wage Limit of \$118,500 per employee was \$1,716,670. The total payroll in excess of the 2016 Social Security Wage Limit of \$118,500 per employee was \$1,789,249, an increase of \$72,579. These amounts are different than the amounts in the response to Staff 8-20 because they reflect the employee changes identified in #10 above. The revenue requirement was reduced by this amount times the Employer Social Security contribution rate of 6.2%, and a portion of that was capitalized, as shown on Schedule RR 3-02 (CU), lines 10-13.

The change reduced the revenue requirement by \$2,923.

12. Update Labor costs

This item is discussed in the responses to Staff 10-1, 10-3 and 6-26.

Schedules RR 3-01 (CU), RR 3-02 (CU) and RR 3-03 (CU) present the labor costs, payroll taxes and pension and benefits based on the projected run rate Labor Complement. As discussed in the responses to Staff 10-1, 10-3 and 6-26, the Company updated the costs based on the most recent information regarding new hires, elimination of positions and corrections to the allocation of time to Granite State for three employees. The pro forma adjustment accounts for all changes as full year impacts, in order to capture the annual ongoing cost effect. The adjustment reflects only the portion of salaries charged to Granite State operations (i.e., the portions of salaries charged to EnergyNorth and the portions capitalized are not excluded). The adjustment includes Pension, OPEB and

association. Many employees charge time to both Granite State and EnergyNorth.

other benefits attributed to the amounts charged to Granite State operations. The gross adjustment reflects the exclusion of salaries for some employees who had no time charged to Granite State (i.e., this reduced gross salaries and had no effect on the revenue requirement).

The change increased the revenue requirement by \$194,342.

13. Audit Adjustments

These items are discussed in Granite State's response to the audit.

Changes in expense items, totaling \$54,925, are on Schedule RR 3-06 (CU), line 11 (Account 920) and line 14 (Account 921).

In addition, some of the Insurance premiums shown on Schedule RR 3-05 (CU) should have been converted from Canadian dollars to US dollars. Fiduciary Liability was reduced by \$581 (line 12) and Brokerage Fee as reduced by \$5,233 (line 18).

These changes reduced the revenue requirement by \$61,067.

14. Balance Sheet Reclassification

This item is discussed in the PUC Staff's audit report.

This adjustment was to reclassify plant account balances of \$1,429,279 from Account 396 Power Operated Equipment, to Account 392 Transportation Equipment. The change is reflected on Schedule RR 3-06 (CU), line 25 (Account 392) and line 29 (Account 396). The two accounts have slightly different depreciation rates.

The change reduced the revenue requirement by \$10,526.

15. Rent on Londonderry facility

This item is discussed in the response to Staff 8-25. This is an update to Item 9.

Schedule RR 3-10 (CU), line 4 was updated to reflect that rent on the Londonderry facility will be the same as in the Historic Year, \$52,053.

The change increased the revenue requirement by \$52,513.

16. Adjust Plant accounts

This item is discussed in the response to Staff 3-34.

This was an adjustment to align the balances on RR 2-1 for Accounts 365 and 368, to the FERC Form 1 balances. These changes were a decrease to Account 365 of \$105,849, and an increase to Account 368 of \$80,950, a net decrease of \$24,899. These changes are reflected on Schedule RR 2-1 (CU), line 11 (Account 365) and line 14 (Account 368).

The change had no effect on the revenue requirement.

D. Description of Revisions to Attachment SEM/HSG-3

The changes to Attachment SEM/HSG-3 are listed on Attachment SEM/HSG-3 Summary (CU). This schedule shows the source of the change, on which schedule the change is reflected, a description of the change, the amount of the adjustment, and the resulting change in the step increase. A detailed description of each change is provided below:

1. Changes from Attachment SEM/HSG-2

The changes to the permanent revenue requirement that are presented in Attachment SEM/HSG-2 (CU) discussed above also changed the calculation of the Step increase. The adjustments that affected the Step are:

- Adjustments to Account 924, Insurance expense
 - Item 2 (Include Portion of Account 925 in Historic Year Expense)
 - Item 3 (Remove double count of Workers Compensation insurance)
- Adjustments to Plant accounts
 - Item 16 (Adjust Plant accounts 365 and 368)

These changes reduced the Step increase by \$9,847.

2. Update 2016 Capital Spending

This adjustment is to update the 2016 capital budget for year-to-date actual spending through October 31, 2016 and projected spending for the months of November and December 2016. The updated 2016 capital spending is presented in Attachment SEM/HSG-3A (CU) and for non-REP projects is \$18,197,021, an increase of \$3,969,982.

The updated 2016 capital spending increased the Step increase by \$689,614.

3. Reflect Bonus depreciation in ADIT for Step

This item is discussed in the response to Staff 10-23.

The Company takes Bonus Federal tax depreciation equal to 50% of original tax cost. This amount reduces the tax basis, and therefore increase the ADIT, every year (although it turns around in the later years of the asset life). This adjustment includes Bonus depreciation of \$8,665,167 (RR-Step (CU), line 8) in the ADIT. As a result, the Deferred Tax Balance increases from \$40,055 in the original filing to \$3,028,956 (RR-Step (CU), line 13).

This change reduced the Step increase by \$354,687.

4. Remove Maintenance of General Plant from Step

This item is discussed in the response to Staff 10-20.

This adjustment removes Maintenance of General Plant from the adder included