EXHIBIT
#2
DE 17-043

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 17-043

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

Report of Calendar Year 2016

DIRECT TESTIMONY

OF

HEATHER M. TEBBETTS

April 7, 2017

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, and position.

A. My name is Heather M. Tebbetts and my business address is 15 Buttrick Road, Londonderry, New Hampshire. I am a Utility Analyst for Liberty Utilities Service Corp., which provides services to Liberty Utilities (Granite State Electric) Corp. ("Granite State" or "the Company") and in this capacity, am responsible for providing rate-related services for the Company.

Q. Please briefly describe your educational background and training.

A. I graduated from Franklin Pierce University in 2004 with a Bachelor of Science degree in Finance. I received a Master's of Business Administration from Southern New Hampshire University in 2007.

Q. What is your professional background?

A. In October 2014, I joined Liberty as a Utility Analyst. Prior to my employment at Liberty, I was employed by Public Service Company of New Hampshire ("PSNH") as a Senior Analyst in NH Revenue Requirements from 2010 to 2014. Prior to my position in NH Revenue Requirements, I was a Staff Accountant in the PSNH Property Tax group from 2007 to 2010 and a Customer Service Representative III in the PSNH Customer Service Department from 2004 to 2007.

Q. Have you previously testified or participated in proceedings before the Commission?

A. Yes. I have testified on numerous occasions before the Commission.

II. PURPOSE OF TESTIMONY

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") expense and the revenue requirement for capital investment associated with the Reliability Enhancement Program ("REP") and Vegetation Management Program ("VMP") for 2016. The programs were implemented during calendar year 2016 ("CY 2016") as described in the Company's Calendar Year 2016 Reliability Enhancement Program and Vegetation Management Program Report dated March 15, 2017 (the "CY 2016 REP/VMP Report") included in this filing.

The Company seeks to refund $76,104 of CY 2016 O&M costs. The $76,104 is the amount by which the total O&M spending for the year, less FairPoint reimbursements, was below the base amount of $1,360,000 that is included in distribution rates, consistent with Attachment F to the Settlement Agreement in Docket No. DE 13-063 (and included as Appendix 6 to the CY 2016 REP/VMP Report contained in this filing). The current year refund of $76,104 is combined with recovery of $31,484 remaining from the reconciliation of the CY 2015 O&M costs to result in a net refund of $44,620. The Company also seeks to recover the revenue requirement associated with a total of $849,390 in capital investment for CY 2016.

III. SUMMARY OF SCHEDULES

Q. Please describe Schedule HMT-1 attached to this testimony.

A. Schedule HMT-1 provides the calculation of the revenue requirement for the capital and O&M expenditures for CY 2016. Schedule HMT-1, Page 1, provides the summary of the revenue requirement calculation. The total program spend for CY 2016 for O&M was $1,633,896, which includes $1,541,561 for CY 2016 and $92,335 of carryover for CY 2015. After subtracting $350,000 for amounts billed to FairPoint for vegetation management, the net O&M spending was $1,283,896. As compared to the base level in rates of $1,360,000, the net result is a refund to customers in the amount of $76,104. The total REP capital investment was $849,390. The revenue requirement associated with that investment is $120,019.

Q. What is the total amount owed to Granite State for 2016 from FairPoint?

A. Granite State invoiced FairPoint $350,000 for CY 2016.

Q. Does the Company include accruals in its calculation of total O&M spending for the VMP calculation?

A. No. From its inception, the reconciliation has been performed on a cash basis (i.e., using only the costs actually paid in a particular year). The 2016 reconciliation was calculated without accruals, but Liberty has been discussing this subject as part of Docket No. DE 16-383.

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.

The calculation of the components of tax depreciation expense described above for each year is shown on Pages 4 and 11 of Schedule HMT-1. The capital repairs deduction component is shown on Lines 1 through 4 of Pages 4 through 11. 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 calendar years 2013 through 2016, none of the REP capital work performed was in the nature of capital repairs, so zero percent (0%) was used in the calculation of the revenue requirement.

Bonus depreciation for federal tax purposes was 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 subsequently passed additional laws that extended and changed the bonus depreciation rate over the succeeding years. The bonus depreciation deduction rate applicable to capital additions made in CY 2016 is 50 percent.

For federal tax purposes, any capital additions not subject to the capital repairs deduction or bonus depreciation are subject to the 20-year MACRS depreciation rates as shown in the Remaining Tax Depreciation (Federal) section of Pages 4 through 13. 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 13. Total tax depreciation for federal and state taxes is shown on the last two lines of Pages 4 through 13.

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

A. The Company's year-end net rate base of $5,770,440 on which the Company's return allowance is calculated, is shown in HMT-1, Page 3, Line 48.

The return allowance for 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 of 11.36 percent, determined using the capital structure and weighted costs of debt and equity found in Attachment A, Schedule 1B of the Settlement Agreement in Docket No. DE 13-063. The resulting return allowance is the fiscal year-end rate base of $5,770,440 times the stipulated pre-tax return rate of 11.36 percent, or $655,522 as shown on Line 53. Annual depreciation expense of $247,983 and property taxes of $232,376, on Lines 54 and 55, respectively, are added to the return amount to arrive at the total revenue requirement of $1,135,881 on Line 56. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2015, as calculated in HMT-5 applied to the year-end net plant in service, or the sum of Lines 45 and 46.

Q. Why didn't the Company calculate book depreciation and property tax amounts for CY 2016?

A. The Company uses the FERC Form 1 to calculate the book depreciation and property tax expenses for the REP/VMP reconciliation filing. The FERC Form 1 for 2016 will not be available until mid-April and according to the Settlement Agreement in Docket No. DE 13-063, the REP/VMP filing is due March 15 each year. In 2016, the request for rates was extended from May 1 to June 1, 2016, so Liberty updated its filing with the most recent FERC Form 1 data available after April 18, 2016. Due to the fact that the REP/VMP filing is due prior to the FERC Form 1 completion, the property tax and book depreciation rates for the 2016 calendar year are not available at the time of this filing, thus Liberty uses the 2015 calendar year calculation as seen in Schedules HMT-5 and HMT-6.

Q. Please describe Schedule HMT-2 attached to this testimony.

A. Schedule HMT-2 provides the calculation of proposed rates for: i) the capital expenditures recorded during CY 2016 (i.e., the "REP Capital Investment Allowance"); and ii) the REP/VMP Adjustment Factor associated with incremental O&M spending. The total percentage adjustment proposed for the REP Capital Investment Allowance is 0.32% (See Schedule HMT-2, page 2 of 4). The Company is proposing a REP/VMP Adjustment Factor of ($0.00004) per kilowatt-hour (kWh), a decrease of $0.00042, or 111%, from the current charge of $0.00038 per kWh. The REP/VMP Adjustment Factor is calculated on Schedule HMT-2, page 3 of 4, and includes $76,104 current year amount of O&M spending below the base level from Schedule HMT-1, page 2 of 13 with $31,484 of CY 2015 O&M costs remaining to be recovered, as calculated on Schedule HMT-3.

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 HMT-2. On page 2 of Schedule HMT-2, the capital investment allowance related to the REP on Line 1 is divided by the revenue requirement (Line 2) calculated by using a forecast of billing determinants, which are then applied to each of the Company's base distribution charge components.

Q. Please provide a summary of Schedule HMT-3 attached to this testimony.

A. Schedule HMT-3 provides the reconciliation of the CY ~~2016~~ 2015 O&M expense. The Company is proposing to charge the remaining $31,484 through the REP/VMP Adjustment Factor effective May 1, 2017.

IV. EFFECTIVE DATE AND BILL IMPACT

Q. How and when is the Company proposing that this rate change be implemented?

A. The Company is proposing that these distribution rate changes be made effective for service rendered on and after May 1, 2017.

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

A. Yes. For an Energy Service residential customer using 646 kWh per month, based on average usage for a residential customer in 2016, the total bill impact of the REP/VMP rates proposed in this filing as compared to rates in effect today, is a monthly bill decrease of $0.16, or a decrease of 0.15%. The primary reason for the decrease is that the O&M adjustment factor charged for the 2016 reconciliation is less than the proposed O&M adjustment factor request for the 2017 reconciliation.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.