STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Docket DG 17-048

In The Matter Of: Liberty Utilities (EnergyNorth Natural Gas) Corp

Request for Change in Rates

Supplemental Testimony

of

Jayson P. Laflamme
Assistant Director, Gas And Water Division

and

Donna H. Mullinax
Consultant To Staff

March 16, 2018

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INTRODUCTION

Q. Please state your names, by whom you are employed, and your business addresses.

A. My name is Jayson P. Laflamme. I am employed by the New Hampshire Public Utilities Commission (NHPUC or "Commission"). My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

My name is Donna Hubler Mullinax. I am employed by Blue Ridge Consulting Services, Inc. I am a consultant to Staff. My business address is 114 Knightsridge Road, Travelers Rest, South Carolina 29690.

Q. Are you the same Mr. Laflamme and Mrs. Mullinax that filed Direct Testimony in this proceeding?

A. Yes.

Q. On whose behalf are you testifying?

A. We are testifying on behalf of the Staff of the New Hampshire Public Utilities Commission.

PURPOSE OF SUPPLEMENTAL TESTIMONY

Q. What is the purpose of your supplemental testimony?

A. The purpose of our testimony is to present Staff's updated position regarding the revenue requirement and revenue deficiency proposed by Liberty Utilities (EnergyNorth Natural Gas) Corp., ("Liberty" or "Company") and to present the impact of Staff's recommended ratemaking adjustments on the Company's revenue deficiency. The Company has requested a rate increase for its EnergyNorth Division and its Keene Division. Our testimony addresses the revenue requirement for the EnergyNorth Division. We have identified the revenue-requirement-related provisions in the EnergyNorth/the Office of the Consumer Advocate ("OCA") Settlement Agreement that Staff supports. We also present our calculation of the effects of the change in the federal and state income tax rates.

REVENUE REQUIREMENTS SETTLEMENT PROVISIONS SUPPORTED BY STAFF

Q. What items in the Settlement Agreement between the Company and OCA does Staff support that impacts Staff's recommended revenue requirement?

A. Staff agrees and supports the following Settlement Agreement items that impact the revenue requirement:

- Weighted Cost of Capital (Schedule 2) – Staff supports the weighted average cost of capital reflected in the Settlement.[1] The updated weighted cost of capital is shown in the following table:

Table 1: Updated Weighted Cost of Capital

Description	Capital Structure	Cost %	Weighted Cost %
Common Stock	49.21%	***9.40%***	4.63%
Long-Term Debt	49.85%	***4.42%***	2.20%
Short-Term Debt	0.95%	2.49%	0.02%
Total	100.00%		6.85%

- Materials and Supplies (Schedule 3.3) – Staff recommended the gas-related items be removed from recovery through Distribution rates. The Settlement Agreement includes a

[1] OCA and EnergyNorth Agreement Regarding Permanent Rates filed February 27, 2018, page 4 (Attachment JPL/DHM-02).

provision that these fuel-related items will be removed from the Distribution rate base and the associated revenue requirement will be recovered through the Company's Cost of Gas ("COG") rate.[2]

- Out of Test Year Legal Fees and Degradation Fees (Schedule 3.12) – Staff recommended that the legal fees and degradation fees related to the City of Manchester and City of Concord court proceedings that were incurred beyond the test year should be removed from the test-year revenue requirement. Staff did not oppose the inclusion of these 2017 costs in the Step Increase and the Company moved these fees to the Step Increase in rebuttal.

Staff's Revenue Requirements Position

Q. Please summarize Staff's position relative to the Keene Division's revenue requirement.

A. Per the testimony of Staff witness Stephen P. Frink, Staff is not making a revenue requirement recommendation for the Keene Division.

Q. Please summarize your updated revenue requirement adjustments for the EnergyNorth Division.

A. The following table summarizes Staff's updated recommendations regarding a revenue requirement and revenue deficiency for the EnergyNorth Division.

[2] OCA and EnergyNorth Agreement Regarding Permanent Rates filed February 27, 2018, page 5 (Attachment JPL/DHM-02).

Table 2: Summary of Staff's Updated Recommended Adjustments and the Impact on Rate Base, Operating Income, and Revenue Deficiency-EnergyNorth

	Rate of Return			6.85%
	Revenue Conversion Factor			1.65044
		Staff's Supplemental		
		Rate Base	Operating Income	Revenue Deficiency
Adjustment 1	Cash Working Capital	$ 99,530		$ 11,252
Adjustment 2	Remove Prepayments Included in Cash Working Capital	(2,704,979)		(305,811)
Adjustment 3	Adjust Materials and Supplies	(3,662,176)		(414,027)
Adjustment 4	Remove Concord Training Center - Corrected	(3,455,670)	77,685	(518,895)
Adjustment 5	Modify Recovery Period of Theoretical Reserve Imbalance		1,506,639	(2,486,612)
Adjustment 6	Staff Audit Issue #17 Non-Recurring Expense		17,203	(28,392)
Adjustment 7	Modify Payroll, Payroll Taxes, and Benefits for Vacancies - Corrected		138,621	(228,785)
Adjustment 8	Remove LTIP (PSU) Related to Shareholder Goals		31,510	(52,005)
Adjustment 9	iNATGAS Minimum Annual Transportation Quantity Adjustment - DELETED		-	-
Adjustment 10	Modify Employee Pensions and Benefits - DELETED	-	-	-
Adjustment 11	Adjust Revenue to Year-End Customer Count		563,197	(929,521)
Adjustment 12	Remove Out of Test Year Legal Fees and Degradation Fees - Deleted		-	-
Adjustment 13	Remove Severance Associated with Resignations		52,569	(86,762)
Adjustment 14	Modify Amortization and Depreciation Accrual Rates	615,020	372,628	(545,468)
Adjustment 15	Interest Synchronization		(69,850)	115,283
	Impact of Staff's Recommended Cost of Capital			(2,102,135)
	iNATGAS Adjustment			(396,576)
		$ (9,108,275)	$ 2,690,201	$ (7,968,454)

Q. What updated revenue increase does Staff recommend for the EnergyNorth Division?

A. Staff recommends a base rate increase of no more than $5,692,791 (8.0 percent increase to Distribution Revenues) for the EnergyNorth Division, which includes an adjustment for iNATGAS supported by Staff witness Stephen P. Frink. The following table shows the Company's rebuttal revenue deficiency request and Staff's recommendation.

Table 3: Staff's Recommended Revenue Deficiency-EnergyNorth

	Staff Supplemental
Company's Rebuttal Revenue Deficiency	$ 13,661,246
Staff's Recommended Adjustment	(7,968,454)
Staff's Recommended Revenue Deficiency	$ 5,692,791

Q. Are you presenting any exhibits with your direct testimony in this proceeding?

A. Yes. Attachment JPL/DHM-1 includes Staff's EnergyNorth Division updated revenue requirement schedules. Attachments JPL/DHM-2 through JLP/DHM-03 are copies of selected documents that are referenced in our testimony.

Q. How are Staff's accounting schedules organized?

A. Staff's revenue requirement schedules, included in Attachment JPL/DHM-1, are organized into summary schedules and adjustment schedules. The schedules consist of Schedules 1, 1.1, 1.2, and 1.3; Schedules 2 and 2.1; Schedules 3 and 3.1 through 3.15, and Schedule 4.

Q. What is shown on Schedule 1?

A. Schedule 1 is a summary comparison of the Company's and Staff's computation of the revenue requirement and the revenue deficiency. The schedule summarizes the impact of all Staff's recommended adjustments and reflects the revenue requirement needed for the Company to have the opportunity to earn Staff's recommended rate of return on Staff's proposed rate base.

Q. What updates have been made to Schedule 1?

The schedule was updated to add the Company's rebuttal position and Staff's Supplemental position.

Q. What is shown on Schedule 1.1?

A. Schedule 1.1 provides additional detail by major rate base and operating income categories and shows how Staff's recommended adjustments are applied to the Company's rebuttal filings to obtain Staff's recommended revenue requirement and revenue deficiency.

Q. What updates have been made to Schedule 1.1?

A. In addition to adding the Company's rebuttal position, Schedule 1.1 was updated to reflect the change in the weighted cost of capital and the flow-through of Staff's recommended adjustments to rate base and operating income, including those that are updated in this testimony. It also reflects the impact of the change in the return on equity and long-term debt on Staff's iNATGAS adjustment from $379,264 to $396,576. The iNATGAS adjustment is supported by Staff witness Stephen P. Frink

Q. What is shown on Schedule 1.2?

A. Schedule 1.2 presents the calculation of the revenue conversion factor. The revenue conversion factor grosses up the Income Deficiency amount for income taxes to obtain the Revenue Deficiency amount. The conversion is needed to reflect that more than one dollar in gross revenue is needed for each dollar of net operating income because of the imposition of taxes on those earnings.

Q. What updates have been made to Schedule 1.2?

A. The change in the federal and state tax rates and their impact on the revenue required gross-up factor was added to this schedule. The tax-change effect is discussed in additional detail later in this testimony.

Q. What is shown on Schedule 1.3?

A. Schedule 1.3 is a new schedule that presents Staff's recommended rate reduction associated with the change in the federal and state income tax rates. The tax-change effect is discussed in additional detail later in this testimony.

Q. What is shown on Schedules 2 and 2.1?

A. Schedule 2 summarizes the capital structure and cost of capital. Schedule 2.1 isolates the impact on the revenue deficiency for the difference in the Company's rebuttal capital structure and cost of capital recommended by Staff.

Q. What updates have been made to Schedules 2 and 2.1?

A. Staff supports the weighted cost of capital reflected in the Settlement Agreement. These schedules reflect the updated weighted cost of capital and its isolated impact on the revenue deficiency.

Q. What is shown on Schedule 3 and Schedules 3.1 through 3.15?

A. Schedule 3 summarizes Staff's adjustments to rate base and operating income (i.e., revenues less expenses). Schedules 3.1 through 3.15 provide further support and calculations for the adjustments Staff is recommending.

Q. Have any changes been made to Schedule 3 and Schedules 3.1 through 3.15?

A. Yes. Schedules 3, 3.1, 3.4, 3.7, 3.9, 3.10, 3.12, and 3.15 have been updated as follows:

- Schedule 3 Ratemaking Adjustments – this schedule summarizes Staff's recommended adjustments to rate base and operating income and was updated to reflect Staff's other updates.
- Schedule 3.1 Cash Working Capital – Staff updated Cash Working Capital to reflect the impact of Staff's other updates.

- Schedule 3.4 Remove Concord Training Center – a formula used to calculate Federal Taxable Income was corrected.
- Schedule 3.7 Modify Payroll, Payroll Taxes, and Benefits for Vacancies – Staff updated this adjustment to reflect the change in the Allocation Factor to EnergyNorth ("EN") that the Company changed in its rebuttal testimony.
- Schedule 3.9 iNATGAS Minimum Annual Transportation Quantity Adjustment – Staff recommended that the iNATGAS Minimum Annual Transportation Quantity Adjustment be corrected per the Direct Testimony of Stephen P. Frink. The Company accepted Staff's recommendation and included the correction in its rebuttal position.[3] Therefore, Staff has removed this adjustment.
- Schedule 3.10 Modify Employee Pension and Benefits – Staff removed this adjustment since the Company's rebuttal position reflects the most recent actuarial study.[4]
- Schedule 3.12 Remove Out of Test Year Legal Fees and Degradation Fees – The Company accepted Staff's recommendation that the legal fees and degradation fees related to the City of Manchester and City of Concord court proceedings, which were incurred beyond the test year, should be removed from base rates. The Company's rebuttal reflects this recommendation. The fees were moved to the Step Increase.[5]
- Schedule 3.15 Interest Synchronization – This adjustment synchronizes the rate base and cost of capital with the tax calculation using the weighted cost of debt. The changes to the other adjustments and the updated weighted cost of capital are reflected in this update.

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[3] Rebuttal Testimony of David B. Simek and Daniel S. Dane, Bates 006, lines 18-19.
[4] Rebuttal Testimony of David B. Simek and Daniel S. Dane, Bates 017, lines 15-19.
[5] Rebuttal Testimony of David B. Simek and Daniel S. Dane, Bates 006, lines 20-22.

Q. What is shown on Schedule 4?

A. Schedule 4 presents Staff's adjustment to the Company's proposed Step Increase.

Q. What changes were made to Schedule 4?

A. The following updates were made to Schedule 4 to reflect Staff's updated recommended Step Increase:

(1) The revenue requirement calculation reflects the updated weighted cost of capital.

(2) The tax gross-up associated with the Manchester/Concord Legal and Degradation Fees that were incurred after the end of the test year was removed to reflect that error identified in the Company's rebuttal testimony.[6]

(3) The Step Increase was updated to reflect the effects of the federal and state tax changes. This update included changing the federal tax rate from 35% to 21%, changing the state tax rate from 8.20% to 7.90%, and eliminating bonus depreciation that is no longer available for regulated utilities. These changes reduced the accumulated deferred income taxes (ADIT). These tax-change effects are shown on Schedule 4.3.

The Company proposed a Step Increase of $4,317,133. Staff recommends a Step Increase of $4,760,985, subject to the conditions proposed in our Direct testimony. Staff's recommended Step Increase is provided in Schedule 4.

Q. What is the impact of Staff's recommended adjustments to the Company's updated rate base?

[6] Rebuttal Testimony of David B. Simek and Daniel S. Dane, Bates 010, lines 2-8.

A. The Company's rebuttal rate base was $249,741,831. Staff's recommended adjustments reduce the requested rate base to $240,633,555.

Q. What is the impact of Staff's recommended adjustments to the Company's updated operating income?

A. The Company's EnergyNorth rebuttal operating income was $10,103,650. Staff's recommended adjustments increase operating income to $12,793,851.

Q. What is Staff's recommended updated increase to base revenue?

A. The Company's rebuttal increase to base revenues was $13,661,246. Staff is recommending that the Company be allowed an increase to its Distribution base rates by no more than $5,692,791.

Impact of Tax Reform

Q. Please provide some background on the federal and state corporate tax changes that have become a part of this proceeding.

A. At the end of December 2017, the United States Congress voted and the President signed into law major federal tax law changes ("2017 Tax Act") effective for tax year 2018. Among other things, the 2017 Tax Act substantially reduces the corporate income tax rate from 35 percent to 21 percent. It also affects the deferred tax reserve which must be normalized for the benefit of customers. In addition, in 2018, the New Hampshire Business Enterprise Tax

(BET) rate will fall from 0.72 percent to 0.675 percent, and the Business Profits Tax (BPT) will decline from 8.2 percent to 7.9 percent.

In Order No. 26,096, the Commission ordered an investigation into how the 2017 Tax Act and the reductions to the BPT and BET will affect the expenses of each New Hampshire public utility. If the changes in the tax laws will reduce the tax obligations and increase the net incomes of those utilities, it will then be necessary to determine how those reduced obligations should be reflected in rates.[7]

The Order also stated that utilities with rate cases being investigated by the Commission shall consider whether a rate reduction associated with the reduced tax obligations of the 2017 Tax Act, BET, and BPT, can be effected within the schedule for those rate cases.[8] Liberty Utilities (EnergyNorth Natural Gas) Corp. is one of those utilities that must consider the reduction in tax obligations within the current rate case.

Q. How has the Company calculated the effect of the tax rate changes?

A. Separate from the revenue requirements, the Company calculated a rate reduction for the change in tax rates that would reduce annual distribution revenues. The Settlement Agreement included a reduction of $2,394,065[9] and provided Schedule E showing the method used by the Company to derive the number. The Company's method calculated the effect of the tax-rate changes by taking the difference between the income deficiency multiplied by the revenue conversion factor before the tax-rate changes and income deficiency multiplied by the revenue conversion factor after the tax-rate changes. The

[7] NHPUC Order No. 26,096, page 2.
[8] NHPUC Order No. 26,096, page 3.
[9] OCA and EnergyNorth Agreement Regarding Permanent Rates filed February 27, 2018, page 13 and Schedule E (Attachment JPL/DHM-02).

following table illustrates this methodology in the Settlement and the Company's rebuttal revenue requirements.

Table 4: EnergyNorth Method to Calculate Tax-Change Effect using Income Deficiency

	EnergyNorth Method Settlement	EnergyNorth Method Rebuttal
Income Deficiency	$ 6,240,911	$ 8,277,349
Old Revenue Conversion Factor	1.6504	1.6504
Revenue Deficiency Using Old Conversion Factor	$ 10,300,000	$ 13,661,246
Income Deficiency	$ 6,240,911	$ 8,277,349
New Revenue Conversion Factor	1.3789	1.3744
Revenue Deficiency Using New Conversion Factor	$ 8,605,593	$ 11,376,235
Rate Reduction of Gross Up of Income Deficiency	$ (1,694,407)	$ (2,285,010)
Excess DIT (amortized over 39.05 years)	$ (699,657)	
Rate Reduction Associated with Change to Tax Rates	$ (2,394,065)	
Revenue Deficiency (using Old Tax Rate)	$ 10,300,000	$ 13,661,246
Revenue Deficiency after Lower State and Federal Tax Rates	$ 8,605,593	$ 11,376,235

Q. What is Staff's concern regarding the Company's method to calculate the tax-change effect?

A. The Company recognizes the tax-change effect on the income deficiency, or the additional income that it believes it needs, by changing the revenue conversion factor. It did not consider the impact on the income tax expense that is included in the calculation of the net operating income.

Q. Is Staff proposing a different method to calculate the tax-change effect?

A. Yes. Staff recommends that the Company use the FERC Methodology in Order No. 475, July 2, 1987.[10] The FERC method calculates the tax-change effect using the federal and state income taxes it will collect through rates.

Q. Please elaborate on the FERC Methodology in Order No. 475, July 2, 1987.

A. Another major tax-rate change occurred in 1987. FERC was concerned that a large over-collection on an industry-wide basis could occur unless rates were reduced promptly to reflect the new tax rate. FERC adopted a general approach (FERC Order 475 on June 26, 1987) based on a formula using an expedited procedure. While FERC has no jurisdiction over distribution rates and this order does not establish a precedent, the methodology reflects a well-thought-out approach to determine the tax-change effect. Staff has applied this methodology on Schedule 1.3.

Q. Have you done a comparison of differences between the EnergyNorth method and the FERC method on the Company's rebuttal position?

A. Yes. The following table compares the method used by EnergyNorth and the FERC method using the Company's rebuttal position. The FERC methodology would result in an additional $898,040 rate reduction using the Company's rebuttal position.

Table 5: Comparison of EnergyNorth and FERC Method to Apply the Tax-Change Effect

EnergyNorth - Income Deficiency Method	$ (2,285,010)
FERC Method	(3,183,051)
Difference	$ (898,040)

[10] FERC Order No. 475, July 2, 1987 (Attachment JPL/DHM-03).

Q. How does the tax-change effect differ using the FERC methodology?

A. The following table applies the FERC method to the Company's rebuttal position. We have also included Staff's recommended position in the table.

Table 6: EnergyNorth Rebuttal Using FERC Method Compared to Staff's Recommendation

Description	EnergyNorth Rebuttal Using FERC Method	Staff using FERC Method
Income Taxes	$ 2,115,945	$ 3,981,188
Income Taxes included in Revenue Deficiency Gross Up	5,383,897	2,399,820
Composite Income Taxes	$ 7,499,842	$ 6,381,008
New Effective Tax Rate Factor	0.3744	0.3744
Old Effective Tax Rate Factor	0.6504	0.6504
New Effective Tax Rate / Old Effective Tax Rate	0.57558	0.57558
Income Taxes	$ 4,316,791	$ 3,672,808
Revenue Reduction	$ (3,183,051)	$ (2,708,200)
Revenue Deficiency (using Old Tax Rate)	13,661,246	6,089,367
iNATGAS Adjustment		(396,576)
Revenue Deficiency with iNATGAS Adjustment		5,692,791
Revenue Deficiency after Lower State and Federal Tax Rates	$ 10,478,195	$ 2,984,591

Q. What is the result of using the FERC methodology on Staff's recommended revenue deficiency?

A. As shown in the table above, applying the FERC Methodology to Staff's recommended revenue deficiency would result in a revenue reduction associated with the change in tax rates of $2,708,200. Staff's recommended revenue deficiency after recognizing lower state and federal tax rates would be $2,984,591.

Q. Does this conclude your testimony?

A. Yes.