



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

Docket No. DE 20-\_\_\_\_\_

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

Calendar Year 2019 Reconciliation Filing

**DIRECT TESTIMONY**

**OF**

**DAVID B. SIMEK**

**AND**

**ADAM M. HALL**

March 13, 2020

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1 **I. INTRODUCTION**

2 **Q. Please state your full name and business address.**

3 A. (DS) My name is David B. Simek. My business address is 15 Buttrick Road,  
4 Londonderry, New Hampshire.

5 (AH) My name is Adam M. Hall. My business address is 15 Buttrick Road,  
6 Londonderry, New Hampshire.

7 **Q. Please state by whom you are employed.**

8 A. We are employed by Liberty Utilities Service Corp. (“Liberty”), which provides service  
9 to Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities (“Granite State”  
10 or “the Company”).

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

12 A. (DS) I graduated from Ferris State University in 1993 with a Bachelor of Science in  
13 Finance. I received a Master’s of Science in Finance from Walsh College in 2000. I also  
14 received a Master’s of Business Administration from Walsh College in 2001. In 2006,  
15 earned a Graduate Certificate in Power Systems Management from Worcester  
16 Polytechnic Institute. In August 2013, I joined Liberty as a Utility Analyst and I was  
17 promoted to Manager, Rates and Regulatory Affairs in August 2017. Prior to my  
18 employment at Liberty, I was employed by NSTAR Electric & Gas (“NSTAR”) as a  
19 Senior Analyst in Energy Supply from 2008 to 2012. Prior to my position in Energy  
20 Supply at NSTAR, I was a Senior Financial Analyst with the NSTAR Investment  
21 Planning group from 2004 to 2008.

1 (AH) I graduated from Siena College in 2014 with a Bachelor of Science in Finance. I  
2 also received a Master's of Business Administration from Franklin Pierce University in  
3 2016. I joined Liberty Utilities as an Analyst, Rates and Regulatory Affairs in January  
4 2019. Prior to this, I was employed by Southern New Hampshire University from 2016  
5 to 2019.

6 **Q. Have you previously testified in regulatory proceedings before the New Hampshire**  
7 **Public Utilities Commission (the "Commission")?**

8 A. (DS) Yes, I have testified on numerous occasions before the Commission.

9 (AH) No, I have not.

10 **II. PURPOSE OF TESTIMONY**

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

12 A. This testimony supports Granite State's request for Commission approval to recover the  
13 incremental operating and maintenance ("O&M") expense and the revenue requirement  
14 for capital investment associated with the Reliability Enhancement Program ("REP") and  
15 Vegetation Management Program ("VMP") for 2019. The programs were implemented  
16 during calendar year 2019 ("CY2019") as described in the Company's CY 2019 REP and  
17 VMP Report ("CY2019 REP/VMP Report") included in this filing.

18 The Company seeks to recover \$101,147 of CY2019 O&M costs. This amount is  
19 incremental CY2019 O&M spending above the Base Plan operating and maintenance  
20 ("O&M") amount of \$1,500,000. The Company also seeks to recover the revenue  
21 requirement of \$210,503, associated with a total of \$1,837,934 in capital investment.

1 **III. SUMMARY OF SCHEDULES**

2 **Q. Please describe Schedule DBS-AMH-1 attached to this testimony.**

3 A. Schedule DBS-AMH-1 consists of 16 pages and provides the calculation of the revenue  
4 requirement for the capital and O&M expenditures for CY2019. Schedule DBS-AMH-1,  
5 Page 1 provides the summary of the revenue requirement calculation. Schedule DBS-  
6 AMH-1, Page 2 shows the total program spend for CY2019 for O&M was \$2,096,528.  
7 After subtracting \$495,381 for amounts billed to Consolidated Communications  
8 (“Consolidated”) for vegetation management, the net O&M spending was \$1,601,147.  
9 As compared to the base level in rates of \$1,500,000, the net result is a recovery for  
10 CY2019 in the amount of \$101,147. The total REP capital investment during CY 2019  
11 was \$1,837,934. The revenue requirement associated with that investment is \$210,503,  
12 and the calculation of that amount is detailed on Schedule DBS-AMH-1, Page 3. The  
13 remaining pages of Schedule DBS-AMH-1 provide supporting detail for the tax  
14 depreciation associated with the annual capital investment.

15 **Q. What is the total amount owed to Granite State for 2019 from Consolidated?**

16 A. Granite State invoiced Consolidated \$495,381 for CY2019.

17 **Q. Please describe the calculation of tax depreciation expense that underlies the  
18 calculation the deferred tax reserve described above.**

19 A. Tax depreciation expense for federal and state taxes for each year is comprised of three  
20 components: (1) a capital repairs tax deduction; (2) bonus depreciation for federal tax  
21 only; and (3) accelerated depreciation based on the Internal Revenue Service’s (“IRS”)

1 Modified Accelerated Cost Recovery System (“MACRS”) rates for 20-year utility  
2 property.

3 The calculation of the components of tax depreciation expense described above for each  
4 year is shown on Pages 4 through 16 of Schedule DBS-AMH-1. The capital repairs  
5 deduction component is shown on Lines 1 through 4 of Pages 4 through 16. During  
6 2009, the IRS issued guidance under Internal Revenue Code (“IRC”) Section 162 related  
7 to certain expenditures that could be deemed to be repair and maintenance expenses, and  
8 thus eligible for immediate tax deduction for income tax purposes, but were capitalized  
9 by the Company for book purposes. This tax deduction has the effect of increasing  
10 deferred taxes and lowering the revenue requirement that customers will pay under the  
11 REP. The percentage of REP capital expenditures that could be classified as repair  
12 expense varies by year. For calendar years 2013 through 2019, none of the REP capital  
13 work performed was in the nature of capital repairs, so zero percent (0%) was used in the  
14 calculation of the revenue requirement.

15 Bonus depreciation, as allowed in the respective years, for federal tax purposes was then  
16 calculated on the REP capital additions, net of additions subject to the capital repairs  
17 deduction. During 2008, Congress passed the Economic Stimulus Act of 2008 which  
18 established a 50 percent bonus depreciation deduction for certain eligible plant additions.  
19 Congress subsequently passed additional laws that extended and changed the bonus  
20 depreciation rate over the succeeding years. The Tax Cuts and Jobs Act of 2017  
21 eliminated the eligibility of utility property for bonus depreciation beginning in 2018. As

1 such, the bonus depreciation deduction rate applicable to capital additions made in  
2 CY2019 is zero percent (0%) percent.

3 For federal tax purposes, any capital additions not subject to the capital repairs deduction  
4 or bonus depreciation are subject to the 20-year MACRS depreciation rates as shown in  
5 the Remaining Tax Depreciation (Federal) section of Pages 4 through 16. For state tax  
6 purposes, any capital additions not subject to the capital repairs deduction are then  
7 subject to 20-year MACRS depreciation rates as shown in the Remaining Tax  
8 Depreciation (State) section of Pages 4 through 16. Total tax depreciation for federal and  
9 state taxes is shown on the last two lines of Pages 4 through 16.

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

12 A. The Company's year-end net rate base of \$9,495,444 on which the Company's return  
13 allowance is calculated, is shown in DBS-AMH-1, Page 3, Line 56.

14 The return allowance for the REP capital investment for each rate adjustment is based on  
15 the prior year-end rate base times the Company's currently approved pre-tax weighted  
16 average cost of capital of 9.43 percent, determined using the capital structure and equity  
17 found in Section II A of the Settlement Agreement in Docket No. DE 16-383 with an  
18 updated weighted average cost of debt. The resulting return allowance is the fiscal year-  
19 end rate base of \$9,495,444 times the pre-tax return rate of 9.43 percent, or \$895,485 as  
20 shown on Line 61. Annual depreciation expense of \$341,565 and property taxes of  
21 \$335,704, on Lines 62 and 63, respectively, are added to the return amount to arrive at

1 the total revenue requirement of \$1,572,755 on Line 64. The property tax amount is  
2 based on the actual ratio of municipal tax expense to net plant in service for CY2018, as  
3 calculated in DBS-AMH-5 applied to the year-end net plant in service, or the sum of  
4 Lines 53 and 54.

5 **Q. Why didn't the Company calculate book depreciation and property tax amounts for**  
6 **CY2019?**

7 A. The Company uses the FERC Form 1 to calculate the book depreciation and property tax  
8 expenses for the REP/VMP reconciliation filing. The FERC Form 1 for 2019 will not be  
9 available until mid-April and according to the Settlement Agreement in Docket No. DE  
10 13-063, the REP/VMP filing is due by March 15 each year. Due to the fact that the  
11 REP/VMP filing is due prior to the FERC Form 1 completion, the property tax and book  
12 depreciation rates for the 2019 calendar year are not available at the time of this filing,  
13 thus Liberty used the 2018 calendar year calculation as seen in Schedules DBS-AMH-5  
14 and DBS-AMH-6. The use of prior year property tax information for the purpose of the  
15 calculation is consistent with what has been approved in prior years' filings.

16 **Q. Please describe Schedule DBS-AMH-2 attached to this testimony.**

17 A. Schedule DBS-AMH-2 provides the calculation of proposed rates for i) the capital  
18 expenditures recorded during CY2019 (i.e., the "REP Capital Investment Allowance"),  
19 and ii) the REP/VMP Adjustment Factor associated with incremental O&M spending.  
20 The total percentage adjustment proposed for the REP Capital Investment Allowance is  
21 0.50%. The Company is proposing a REP/VMP Adjustment Factor of \$0.00008 per  
22 kilowatt-hour (kWh), a decrease of \$0.00044 per kWh from the \$0.00052 per kWh



1 Adjustment Factor calculated in Docket No. DE 19-051 (see Revised Schedule DBS-2.  
2 Page 3 of 4, filed April 26, 2019).

3 **Q. Please describe the procedure for adjusting distribution rates for the REP Capital**  
4 **Investment Allowance.**

5 A. The procedure for adjusting distribution rates is in Schedule DBS-AMH-2. On page 2 of  
6 Schedule DBS-AMH-2, the capital investment allowance related to the REP on Line 1 is  
7 divided by the revenue requirement (Line 2) calculated by using a forecast of billing  
8 determinants, which are then applied to each of the Company's base distribution charge  
9 components.

10 **Q. Please provide a summary of Schedule DBS-AMH-3 attached to this testimony.**

11 A. Schedule DBS-AMH-3 provides the reconciliation of the CY 2018 O&M Expense. mThe  
12 Company is proposing to refund \$26,163 through the REP/VMP Adjustment Factor  
13 effective May 1, 2020.

14 **IV. EFFECTIVE DATE AND BILL IMPACT**

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

16 A. The Company is proposing that these distribution rate changes be made effective for  
17 service rendered on and after May 1, 2020.

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

3 A. Yes. For an Energy Service residential customer using 650 kWh per month the total bill  
4 impact of the REP/VMP rates proposed in this filing, as compared to rates in effect today,  
5 is a monthly bill decrease of \$0.06, or 0.05%.

6 **V. CONCLUSION**

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.