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

Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions

Docket No. DE 18-050

Supplemental Technical Statement of Steven E. Mullen

April 25, 2018

Purpose

This Supplemental Technical Statement serves as an addition to Liberty Utilities (Granite State Electric) Corp.'s ("Liberty") April 13, 2018, submittal in this proceeding containing Liberty's proposal to address the impacts of Tax Reform in compliance with the Commission's Order No. 26,096. In that Order, the Commission directed utilities to determine: a) the estimated reduction to federal and state income taxes due to reductions in federal and New Hampshire tax rates; and b) the excess deferred tax reserve caused by the reduction in tax rates. In its April 13, 2018, filing, Liberty calculated the annual reduction to income tax expense, and therefore distribution revenues, resulting from the reduction in tax rates. That reduction is $1,443,313, with that impact to be reflected through offsets to other scheduled distribution rate increases along with a reduction to distribution rates effective June 1, 2018. As those changes to distribution rates are scheduled to take effect on June 1, 2018, this Supplemental Technical Statement provides Liberty's proposal for the treatment of the similar reduction to income tax expense that occurred over the period between January 1 and May 31, 2018, the period of time between the effective date of the lower tax rates and the June 1, 2018, date of rate impacts included in the Company's April 13, 2018, filing.

Proposal for Treatment of Impact of Tax Reform/New Hampshire Tax Rate Changes for the Period January 1 through May 31, 2018

As stated above and in the April 13, 2018, filing, the annual reduction to Liberty's income tax expense is $1,443,313. For the five-month period January 1 through May 31, 2018, the proportionate amount of that reduction is $601,380 ($1,443,313 x 5/12) (see lines 12 – 14 of SUPPLEMENTAL Attachment 1).

Since the annual reduction to income tax expense has already been taken into account in Liberty's April 13, 2018, filing, the $601,380 represents a one-time reduction that accounts for the timing difference between the January 1, 2018, date of the tax rate changes and the June 1, 2018, date of the distribution rate changes.

Liberty proposes to use the $601,380 as an offset to the amounts of recoupment and rate case expense recovery remaining from its most recent distribution rate proceeding, Docket No. DE 16-383. In that docket, the Commission approved a Settlement Agreement that, among other things, provided for a 20-month recovery period for a) recoupment of the difference between temporary and permanent rate levels, and b) rate case expenses incurred by Liberty. That 20-

month recovery period is scheduled to terminate on December 31, 2018. As of June 1, 2018, the amounts remaining to be recovered for recoupment and rate case expenses totaled $562,526, as calculated on lines 15 – 18 of SUPPLEMENTAL Attachment 1.[1] Under this proposal, the recovery of recoupment and rate case expenses would be removed distribution rates on June 1, 2018, seven months prior to the currently scheduled removal date of January 1, 2019, thereby providing an immediate benefit to customers.

After offsetting the $601,380 with the $562,526, a credit balance of $38,855 remains. Liberty proposes to record that amount as a credit to the deferral account for rate case expenses in anticipation of the distribution rate case Liberty will file in 2019, using a 2018 test year, as specified in the Settlement Agreement in Docket No. DE 16-383.

Treatment of the $601,380 Timing Difference in Liberty's Next Rate Case

As part of Liberty's upcoming rate case filing, as is typically the case, test year distribution revenues will need to be normalized. As mentioned above and in Liberty's April 13, 2018, filing, the annual impact of the reduction to income tax expense will be reflected in distribution rates effective June 1, 2018. Actual test year distribution revenues, however, would still be overstated by $601,380 as the reduction to distribution rates was not in effect during the first five months of 2018. Thus, as part of that rate case filing, test year revenues will need to be reduced by $601,380 to properly reflect a full year of distribution revenues at the reduced level.

Attachments

Included with this Supplemental Technical Statement are two attachments:

- SUPPLEMENTAL Attachment 1 – The amounts on lines 1 – 10 remain unchanged from the April 13, 2018, submission, and the new information supporting this Supplemental Technical Statement appears on lines 11 – 19.
- CORRECTED Attachment 2 – The corrected attachment is included with this filing to fix a minor formula error on line 20 (see information in italics). In preparing the April 13, 2018, submission, a change was made to have the amount on line 19 display in parentheses but, in so doing, the formula embedded in line 20 was not updated accordingly. This amount on line 20 is nothing more than informational, but it was discussed during a technical session held with Commission Staff and the Office of the Consumer Advocate on April 16, 2018, so it has been corrected and included with this filing.

[1] See the Attachments to the Settlement Agreement in Docket No. DE 16-383, Exhibit 20, Bates 029 and 030 for further details of the recoupment and rate case expense amounts: https://www.puc.nh.gov/Regulatory/Docketbk/2016/16-383/LETTERS-MEMOS-TARIFFS/16-383_2017-03-15_GSEC_ATT_STIP_SETTLEMENT.PDF