STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 18-050

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions

TESTIMONY

OF

STEVEN E. MULLEN

May 10, 2018

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ATTACHMENTS

Attachment	Title
Attachment SEM-1	Calculation of Distribution Rate Decrease and Typical Bill Impact

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Q. Please state your name and business address.

A. My name is Steven E. Mullen. My business address is 15 Buttrick Road, Londonderry, New Hampshire.

Q. By whom are you employed and in what capacity?

A. I am employed by Liberty Utilities Service Corp. ("Liberty") as Senior Manager, Rates and Regulatory Affairs. I am responsible for rates and regulatory affairs for Liberty Utilities (Granite State Electric) Corp. ("Granite State" or "the Company") and for Liberty Utilities (EnergyNorth Natural Gas) Corp. ("EnergyNorth").

Q. On whose behalf are you testifying today?

A. I am testifying on behalf of Granite State.

Q. What is the purpose of your testimony?

A. My testimony responds to the May 7, 2018, secretarial letter, which was issued in response to a May 4, 2018, letter from Staff, which alleged that Granite State's April 13, 2018, and April 25, 2018, filings in this docket did not include testimony and typical bill impacts and needed to be supplemented by additional information. The Commission's secretarial letter of May 7, 2018, adopted Staff's recommendation and further provided notice that the Company's filing was deficient,[1] and that the Company must provide

[1] The Commission's secretarial letter of May 7, 2018, referenced that it was making the notice of deficiency pursuant to Puc 1605.02(b), but that rule relates to the filing of documents in a format compatible with the computer system of the Commission. It appears that the reference was intended to be to Puc 1605.02(c).

additional information concerning the method of calculating the tax savings as well as the specific customer rate impacts of the adjustment as suggested in Staff's letter.

Q. Were you involved in the preparation of April 13 and April 25, 2018, filings?

A. Yes. Both filings included Technical Statements that I sponsored. The April 13, 2018, filing included a Technical Statement with an explanatory narrative describing the purpose and details of the filing and attachments that provided the percentage impact to distribution rates, the calculation of a revenue requirement, and a copy of a Commission Staff audit report on the subject of rate case expenses. The April 25, 2018, filing included a Supplemental Technical Statement with a narrative and a calculation of the impact of tax reform for the period January 1 through May 31, 2018, and a proposal for disposition of the resulting benefit amount.

Q. What is the origin of those filings?

A. In Docket No. IR 18-001, the Commission issued Order No. 26,096 (January 3, 2018) in response to the 2017 Tax Act and concurrent decreases to New Hampshire tax rates, and directed utilities to determine the impact of those tax law changes and file a proposal as to how the benefits of reduced income tax expense would be provided to customers. Specifically, the order stated as follows:

> Each utility shall file a proposal with the Commission no later than April 1, 2018, to address the effects of the changes in tax laws, including financial information that is sufficient to establish a revenue requirement that reflects prospectively the impacts of those changes. The filing shall include a calculation of any deferred liability accrued by report date and any liability projected to be accrued until the time when final rates are next issued in accordance with a general rate case. It shall also include a plan for providing periodic reports on the accrual and extinguishment of the deferred liability, including an outline of the financial information the

utility would expect to file that would be sufficient to establish a revenue requirement that reflects the impact of the tax law changes.

Q. Did Granite State file such a proposal?

A. Yes. Granite State requested and was granted additional time to make the required filing until April 13, 2018. The additional time was necessary to allow the Company to develop a comprehensive proposal to not only determine the effects of tax rate reductions, but also to determine how best to coordinate those effects on other pending rate filings which would provide immediate benefits to its customers. The filing was made on April 13, 2018.

Q. Did the Company meet with Staff and the Office of the Consumer Advocate to review its proposal?

A. Yes. At the Company's suggestion, a technical session was held on April 16, 2018,[2] at which the Company's proposal in the instant docket and the following dockets were open for discussion:

- Docket No. DE 16-383 – step adjustment to distribution rates
- Docket No. DE 18-034 – Reliability Enhancement Program/Vegetation Management Program
- Docket No. DE 18-051 – Annual Retail Rate Filing

It made sense to incorporate all of the dockets into one meeting as Granite State's proposal regarding the impacts of tax reform directly implicated its pending filings in Dockets Nos. DE 16-383 and DE 18-034.

[2] Attendees at the April 16, 2018, technical session were as follows: Commission Staff: Suzanne Amidon, Paul Dexter, Jay Dudley, and Richard Chagnon; OCA: Brian Buckley, Pradip Chattopadhyay, and James Brennan; Granite State: Michael Sheehan, Steven Mullen, David Simek, and Jaime Urban.

Q. During that technical session, did the Company explain its proposal as presented in its April 13, 2018, filing?

A. Yes. I walked through the proposal and its various components, including the effect it would have on other pending rate adjustments in the other open dockets.

Q. What feedback did you get at that meeting?

A. The overall feedback was supportive of the Company's proposal, particularly the fact that it provided immediate rate relief to customers. In addition, the attendees offered comments that the proposal was not difficult to understand.

Q. Did Staff or the OCA raise any substantive questions regarding the Company's proposal for the effects of tax reform?

A. Yes. One substantive question was raised regarding how or if the impact of tax rate reductions for the period of 2018 prior to the date of the filing's proposed June 1, 2018, rate change had been handled. In response to that concern, the Company filed a Supplemental Technical Statement on April 25, 2018.

Q. What are the specific deficiencies identified by the Commission in its May 7, 2018, secretarial letter based on its adoption of Staff's May 4, 2018, letter?

A. The Commission required the Company to "provide additional information concerning the method of calculating the tax savings as well as the specific customer rate impacts of the adjustment." This followed from Staff's letter, which stated:

> Liberty did not filed (sic) testimony describing the calculation of the tax reductions, or its proposal to use the tax reductions to offset other rate

increases scheduled to take effect June 1. In addition, Liberty did not indicate the impact of its proposal on a typical customer's bill.

Q. In Order No. 26,096, did the Commission require the filing of testimony as part of a utility's tax reform proposal?

A. No, in Order No. 26,096 the Commission simply directed utilities to file a "proposal." The Company's proposal was filed in the form of a Technical Statement with attachments, followed by a Supplemental Technical Statement with attachments. Technical statements are specifically allowed in the Commission's rules. Staff's preference of testimony over a technical statement elevates form over substance. Both Technical Statements thoroughly explained the details of the Company's proposal, including both the calculations and the proposed treatment, so this testimony largely refers to those documents for the supporting information and details.

Q. Can you please summarize Granite State's proposal regarding treatment of the effects of federal and state tax rate reductions?

A. Yes. The Company's proposal centers on providing customers with a large amount of tax relief as soon as possible.

The Company's proposal can be broken down into three main parts:

- The impact on a going-forward basis beginning June 1, 2018;
- The impact for the period January 1 through May 31, 2018; and
- The impact of re-valuing the balance of Accumulated Deferred Income Taxes ("ADIT") that existed on the Company's books as of December 31, 2017.

Q. Please summarize the treatment of the impact on a going-forward basis beginning June 1, 2018.

A. First, let me deal with the calculations. The calculations for this aspect of the proposal involved recalculating the tax gross-up for both the permanent rate increase and step increase that were effective on May 1, 2017,[3] and are explained in detail on pages 1 and 2 of the April 13, 2018, Technical Statement. The recalculations involved using a revised rate of return that incorporated the new 21% federal tax rate and 7.9% New Hampshire Business Profits Tax rate rather than the higher rates that were previously in effect. The supporting calculations are provided in Attachment 2, lines 1 through 31 of that Technical Statement.

Q. Did you walk through those calculation during the April 16, 2018, technical session?

A. Yes. Unless I misread their reactions, the attendees generally did not have a problem following the explanations.

Q. What were the results of those calculations?

A. As detailed in that Technical Statement, the result of those calculations was a reduction to the revenue requirement of $1,443,313, with $1,256,082 related to the May 1, 2017, permanent rate increase and $187,231 related to the May 1, 2017, step increase. The

[3] In preparing this testimony, it was discovered that the April 13, 2018, Technical Statement and Attachments had incorrectly indicated that the permanent and step increases from Docket No. DE 16-383 had taken effect on July 1, 2017, rather than May 1, 2017. This does not change any of the underlying calculations, nor the proposed treatment and is rather a labeling issue. The date labels in those earlier documents will be corrected during the May 17, 2018, hearing.

$1,443,313 represents the annual reduction to income tax expense and, therefore, distribution revenues, on a going-forward basis.

Q. How did the Company propose to return the $1,443,313 to its customers?

A. As described in the "Proposal" section that begins on page 2 of the April 13, 2018, Technical Statement, and as shown in Attachment 1 of that filing, the Company proposed to use the reduction to offset the following amounts that would otherwise need to be collected from customers by increases to distribution rates:

1	Revenue Reduction - 5/1/2017 Permanent Rates	$ (1,256,082)
2	Revenue Reduction - 5/1/2017 Step Adjustment	(187,231)
3	Total Revenue Reduction	(1,443,313)
4	DE 16-383 Step Adj. - Rev. Req. for Capital Additions	289,348
5	DE 16-383 Step Adj. - Add'l rate case expenses (annualized)	82,353
6	DE 18-034 REP/VMP - VMP O&M	552,414
7	DE 18-034 REP/VMP - Rev. Req. for Captial Additions	76,833
8	Amount to be returned to customers beginning June 1, 2018	$ (442,365)

Q. How has Granite State proposed to treat the $442,365 that remains after offsetting the other distribution rate increases that otherwise would take effect on June 1, 2018?

A. As explained on page 3 of the April 13, 2018, Technical Statement, and as calculated in lines 8 – 10 of Attachment 1 in that filing, the Company proposes to return that amount to customers immediately through a 1.06% reduction to all distribution rates and charges.

Q. Please describe the second part of Granite State's proposal, i.e., the impact of tax rate reductions for the period January 1 through May 31, 2018.

A. The calculation of this portion of the proposal is fairly straightforward and is explained in the section of the April 25, 2018, Supplemental Technical Statement titled "Proposal for Treatment of Impact of Tax Reform/New Hampshire Tax Rate Changes for the Period January 1 through May 31, 2018." As the $1,443,313 described above is the annual impact of the lower tax rates, the amount of that impact that applies to the period January 1 through May 31, 2018 (i.e., the period of 2018 prior to the planned June 1, 2018, rate change in this tax impact proposal), was derived by simply multiplying the $1,443,313 times 5/12 which resulted in an amount of $601,380.

Q. How does the Company propose to treat that amount?

A. As with the first part of the proposal, the Company proposes to provide immediate rate relief to customers. This part of the proposal is described in the section of the Supplemental Technical Statement that begins at the bottom page 1 and carries to page 2. Currently, as a result of the Docket No. DE 16-383 distribution rate case, Granite State is recovering from customers over a 20-month period that began May 1, 2017, (i) recoupment of the difference between the temporary and permanent rate levels determined in that proceeding; and (ii) rate case expenses. That 20-month recovery period is scheduled to end on December 31, 2018. As calculated on lines 15 – 18 of SUPPLEMENTAL Attachment 1 to that Technical Statement, the total amount remaining to be recovered for those two amounts as of June 1, 2018, is $562,526. The Company proposes to use the $601,380 described above to fully offset the $562,526 that would have otherwise been recovered from customers over the remainder of 2018. Doing so would accelerate to June 1, 2018, the removal of the recoupment and rate case expense recovery from distribution rates that is otherwise scheduled to occur on January 1, 2019, thus providing customers with an immediate reduction to distribution rates.

Q. How would that rate reduction be calculated?

A. As rate case expenses and recoupment are being recovered over a 20-month period, an annualized amount for each of those recovery amounts was determined as part of the DE 16-383 Settlement Agreement. Those amounts are shown on lines 15 and 16 of SUPPLEMENTAL Attachment 1 and total $964,330 as shown below line 16. In order to remove the recovery from rates effective June 1, 2018, annual distribution revenues must be reduced by $964,330. Using the annual base distribution revenues of $41,831,737 shown on line 9 of SUPPLEMENTAL Attachment 1, reducing distribution revenues by $964,330 would represent a 2.3% reduction to distribution rates effective June 1, 2018.

Q. What is the total effect on distribution rates that would take effect based on the Company's proposal?

A. Summing the $442,365 and the $964,330 results in a total proposed reduction to distribution revenues effective June 1, 2018, of $1,406,695 which, when compared to the total distribution revenues of $41,831,737 would result in a decrease to distribution rates of 3.36%, as shown on Attachment SEM-1, page 1, line 5.

Q. What would the overall bill impact be to a residential customer using 650 kilowatt-hours (kWh) per month?

A. As shown in Attachment SEM-1, page 2, the impact to a residential customer using 650 kilowatt-hours per month would be a bill reduction of $1.54, or 1.28% on an overall bill basis. This is in addition to totally offsetting the distribution rate increases that otherwise would have taken effect related to the step adjustment (Docket No. DE 16-383) and the Reliability Enhancement Program/Vegetation Management Program (Docket No. DE 18-034) proceedings.

Q. In your description of the proposed treatment of the impact of lower tax rates on the January 1 through May 31, 2018, period, there appears to be $38,855 remaining after offsetting the $562,526 of recoupment and rate case expense recovery with the $601,380. What is the Company's proposal for treatment of that amount?

A. As described on page 2 of the April 25, 2018, Supplemental Technical Statement, the Company proposes to record that amount as a credit to the rate case expense deferral account on the Company's books in anticipation of Granite State's upcoming rate case, which will be filed in the early part of 2019, based on a 2018 test year, consistent with the DE 16-383 Settlement Agreement.

Q. Why is that treatment appropriate?

A. The adjustment for the impact of tax reform for the period January 1 through May 31, 2018, is a one-time event, so applying that amount against the remaining recovery of recoupment and rate case expenses, which is a limited-time recovery, makes sense.

Crediting the remaining $38,855 to the rate case expense deferral account in anticipation of the upcoming rate case is consistent with that treatment.

Q. Please explain the impact of the recent tax rate reductions on Granite State's balance of ADIT balance as of December 31, 2017.

A. As explained in the April 13, 2018, Technical Statement, the Company has determined that its ADIT balance as of December 31, 2017, has decreased by approximately $3.9 million. That amount has been recorded in a regulatory liability.

Q. How has the Company proposed to treat that amount?

A. First, in accordance with the requirements of the Tax Cuts and Jobs Act, the balance will be returned to customers, using the Average Rate Assumption Method, over the remaining life of the underlying assets, which is approximately 30 years. Second, as described in the last page of the April 13, 2018, Technical Statement, Granite State proposes that treatment of the regulatory liability be deferred until the upcoming rate case. As 2018 will be the test year for that rate case, as well as the first full year of having the effect of the changes associated with tax reform, having a full test year with the effects of tax reform will provide a meaningful and appropriate opportunity to gauge the full impact of all changes to tax reform.

Q. Are there other changes caused by the new tax laws beyond the lowering of tax rates?

A. Yes. One other significant change is that utilities are no longer able to take advantage of bonus depreciation. That change reduces the amount of deferred income taxes that would otherwise be associated with an asset, as the differences between tax and book depreciation will not be as large. Using that as an example, having a full test year to examine the full impacts of the tax law changes would allow ample opportunity to assess any other potential, but not so obvious, impacts.

Q. What would happen with the balance of regulatory liability?

A. Until such time that the amortization of the regulatory liability begins, the balance would remain as an offset to rate base, ensuring that customers continue to receive the benefit. Once the amortization begins, the regulatory liability will decrease over time.

Q. Does this conclude your testimony?

A. Yes, it does.