STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 16-XXX

Liberty Utilities (Granite State Electric) Corp. d/b/a Liberty Utilities
Calendar Year 2015 Reliability Enhancement Plan and Vegetation
Management Plan Report and Reconciliation Filing

DIRECT TESTIMONY

OF

HEATHER M. TEBBETTS

March 15, 2016

I. INTRODUCTION

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, NH 03053. 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 of 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 2015. The programs were implemented during calendar year 2015 ("CY 2015") as described in the Company's CY 2015 REP and VMP Report ("CY 2015 REP/VMP Report") included in this filing.

The Company seeks to recover $346,184 of CY 2015 O&M costs. This amount is the incremental spending above the base amount of $1,360,000, less FairPoint reimbursements, that is included in distribution rates, consistent with Attachment F to the Settlement Agreement in Docket No. DE 13-063 (and included as Appendix 8 to the REP/VMP Report contained in this filing). The Company also seeks to recover the revenue requirement associated with a total of $1,321,456 in capital investment for CY 2015.

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 2015. Schedule HMT-1 Page 1 provides the summary of the revenue requirement calculation. The total program spend for CY 2015 for O&M was $1,994,184, with $1,360,000 currently in base rates. After subtracting amounts billed to FairPoint of $288,000 for vegetation management, the net incremental O&M expenses to be recovered is $346,184. The total REP capital investment was $1,321,456. The revenue requirement associated with that investment is $279,097. In summary, the total revenue requirement to be recovered is $625,281, and the total change to rate level is $835,866 (after removing the O&M credit adjustment from the previous year that is currently included in rates), as shown on line 5 of Schedule HMT-1, page 1 of 11.

Q. What is the total amount owed to Granite State for 2015 from FairPoint?

A. FairPoint owes Granite State $288,000 for CY 2015.

Q. Does the Company expect that it will be paid by FairPoint for these amounts?

A. The Company is in discussions with FairPoint in an effort to resolve this outstanding payable. In the fall of 2015, the parties initiated mediation as required by the September 30, 2007 Memorandum between FairPoint and Granite State. The parties attended a single mediation session in October, made substantial progress, and suspended the mediation in order to reconcile various discrepancies between the parties' respective records. The reconciliation work was completed at the end of 2015 and the parties continue to negotiate a resolution of this issue.

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

A. Not at this time. 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 2015 reconciliation was performed in a manner consistent with prior years.

Q. Is the Company considering including accruals in future filings?

A. Yes. Including accrued costs at the end of a year—for example, costs incurred from vegetation management work performed for which an invoice has not yet been received—would provide a better matching of costs with the respective years. Including accrued costs would also be consistent with the specifics of the REP/VMP Program which calls for a reconciliation of "expenses incurred."

Q. Why doesn't the Company make the change in this year's reconciliation?

A. There will be a one-time impact on rate level when the change is made due to the fact that the accrual has never been included in the past. In the first year, the year-end accrual would be added, but not reversed until the following reconciliation year. This would cause an increase to customer bills for that one year period. Once that accrual is reversed each year after, the effect of reconciling on an accrual basis would be eliminated, assuming similar accruals at the end of each year. Given that there would be a one-time impact of the change, we wanted to raise the issue now to allow for additional discussion and review prior to making the change.

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 2015, 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. The bonus depreciation deduction rate is 100 percent for capital additions eligible for bonus depreciation for the period April 1, 2011 to December 31, 2011, while that rate is 50 percent for capital additions during CY 2012 and CY 2013. As the bonus depreciation rate is no longer in use, the amounts that are shown on Line 6 of Page 4 of HMT-1 are the same amounts used in the previous reconciliation filings.

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 11. 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 11. Total tax depreciation for federal and state taxes is shown on the last two lines of Pages 4 through 11. In addition, on Pages 8 and 9, Lines 42 through 45, is the FY 2012 and FY 2013 Safe Harbor True Up for federal and state tax depreciation.

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

A. The Company's year-end net rate base of $5,902,194, on which the Company's return allowance is calculated, is shown in HMT-1 Page 3, Line 46.

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 $5,902,194 times the stipulated pre-tax return rate of 11.36 percent, or $670,489 as shown on Line 51. Annual depreciation expense of $293,300 and property taxes of $275,564, on Lines 52 and 53, respectively, are added to the return amount to arrive at the total revenue requirement of $1,239,354 on Line 54. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2015 applied to the year-end net plant in service, or the sum of Lines 43 and 44.

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 2015 (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 0.79%. The Company is proposing a REP/VMP Adjustment Factor of $0.00032 per kilowatt-hour (kWh), an increase from ($0.00017) for CY 2015. The primary reason for the change is the increased spending on vegetation management.

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 1 of Schedule HMT-2, the capital investment allowance related to the REP on Line 1 is divided by the revenue requirement (line 2) that was last calculated in Docket DE 15-087 to determine the percentage increase on Line 3, which is 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 2015 O&M expense. This reconciliation is associated with the refund of $178,351 in incremental O&M determined in Docket No. DE 15-087. The Company is proposing to refund the remaining $22,416 through the REP/VMP Adjustment Factor effective May 1, 2016.

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, 2016.

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 650 kWh per month, based on average usage for a residential customer in 2015, the total bill impact of the REP/VMP rates proposed in this filing, as compared to rates in effect today, is a monthly bill increase of $0.62, or an increase of 0.50%.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.