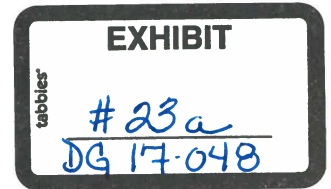




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**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Docket No. DG 17-048

Liberty Utilities (EnergyNorth Natural Gas) Corp. d/b/a Liberty Utilities
Distribution Service Rate Case

REBUTTAL TESTIMONY

OF

DAVID B. SIMEK

AND

DANIEL S. DANE

January 25, 2018

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ATTACHMENTS

Attachment DBS/DSD-1-Rebuttal	Selected Revenue Requirement Schedules Showing Impact of Rebuttal Adjustments
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your names and business addresses.**

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

5 My name is Daniel S. Dane. My business address is 293 Boston Post Road West, Suite
6 500, Marlborough, Massachusetts.

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

8 A. (DBS) I am employed by Liberty Utilities Service Company (“Liberty”), which provides
9 services to Liberty Utilities (EnergyNorth Natural Gas) Corp. (“EnergyNorth” or the
10 “Company”). My title is Manager, Rates and Regulatory Affairs.

11 (DSD) I am a Vice President with Concentric Energy Advisors, Inc. (“Concentric”), and
12 the Financial and Operations Principal of CE Capital, Inc., a FINRA-member subsidiary
13 of Concentric.

14 **Q. On whose behalf are you testifying today?**

15 A. We are testifying on behalf of EnergyNorth.

16 **Q. Have you previously submitted testimony in this proceeding?**

17 A. Yes. We submitted joint prefiled testimony as part of the Company’s April 28, 2017,
18 filing for an increase in distribution rates. Our professional backgrounds and

1 qualifications are contained in that testimony. Terms defined in our prefiled direct
2 testimony have the same meaning in this rebuttal testimony.

3 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

5 A. The purpose of our testimony is to respond to the direct testimony of Jayson P. Laflamme
6 and Donna H. Mullinax, filed on behalf of the Staff (“Staff”) of the New Hampshire
7 Public Utilities Commission (the “Commission”).

8 **Q. Are you submitting any attachments with your testimony?**

9 A. Yes, we are submitting the following attachments:

- 10 • Attachment DBS/DSD-1-Rebuttal, presenting updates to the revenue requirement
11 schedules previously submitted. The attachment includes only certain schedules
12 to demonstrate the limited changes that were made and the impact of those
13 changes.

14 **Q. Please summarize the results of your testimony.**

15 A. The Company agrees with the following changes proposed by Staff, with the particular
16 schedules where the changes appear in Attachment DBS/DSD-1-Rebuttal noted with each
17 change:

- 18 • Change the *pro forma* adjustment to iNATGAS test year revenue from \$18,300 to
19 \$183,000 (Schedule RR-EN-3-1 (R), line 11);
- 20 • Move legal and degradation fees incurred in 2017 from the test year revenue
21 requirement to the Step Increase (Schedule RR-EN-3-10 (R), lines 75 through 85
22 and Schedule Step-EN (R), lines 51 through 56);

- 1 • Update the cash working capital allowance to reflect all rebuttal adjustments
2 (Schedule RR-EN-5-2 (R), line 10); and
- 3 • Update the interest synchronization calculation to reflect all rebuttal adjustments
4 (Schedule RR-3-EN-8 (R), line 10).

5 The net impact of the above changes is a revenue deficiency (compared to revenue at
6 present rates) of \$14,544,943 (Schedule RR-1 (R), line 13), which is \$233,687 less than
7 the revenue deficiency reflected in the Company’s supplemental response to Staff Tech
8 1-1. As discussed herein, we have also reflected in the Step Increase the impact on
9 operations and maintenance (“O&M”) expenses of Financial Accounting Standard
10 Update No. 2017-17 related to the capitalization of pension and Other Post Employment
11 Benefits (“OPEB”) expenses (Schedule Step-EN (R), line 52). All other changes
12 proposed by Staff should be rejected for the reasons discussed in the Company’s rebuttal
13 testimonies.

14 **Q. Does your adjusted revenue requirement reflect the effects of the Tax Cuts and Jobs**
15 **Act that was recently signed into law?**

16 A. No. Consistent with discussions the Company has had with Staff regarding Docket No.
17 IR 18-001, given the existing schedule of this case the Company is not addressing the
18 effects of the Tax Cuts and Jobs Act in rebuttal testimony in this proceeding and will
19 consider the financial and rate impacts as part of IR 18-001.

1 **Q. Please summarize the adjustments that Mr. Laflamme and Ms. Mullinax proposed.**

2 A. Mr. Laflamme and Ms. Mullinax recommended 17 adjustments to the Company's
3 revenue requirement. The table below summarizes Staff's proposed adjustments.

4 **Table 1: Summary of Staff's Recommended Revenue Requirements Adjustments¹**

Adjustment	Description	Rate Base Adjustment	Operating Income Adjustment	Revenue Deficiency Adjustment
1	Cash Working Capital	\$108,007		\$11,444
2	Remove Prepayments from Cash Working Capital	(2,704,979)		(286,614)
3	Materials and Supplies	(3,662,176)		(388,037)
4	Remove Concord Training Center	(3,455,670)	77,685	(494,371)
5	Modify Theoretical Reserve Imbalance Recovery Period		1,506,639	(2,486,612)
6	Staff Audit Issue #17		17,203	(28,392)
7	Vacancies		138,621	(228,785)
8	Remove LTIP		31,510	(52,005)
9	iNATGAS Minimum Annual Transportation Quantity		99,789	(164,695)
10	Pensions and Benefits	(121,476)	(14,885)	11,695
11	Adjust Revenue to Year-End Customer Count		563,197	(929,521)
12	Remove out of Test Year Legal Fees and Degradation Fees		40,478	(66,806)
13	Remove Severance		52,569	(86,762)
14	Amortization and Depreciation Rates	615,020	372,628	(549,832)
15	Interest Synchronization		(80,317)	132,558
16	Cost of Capital			(3,874,422)
17	iNATGAS Adjustment			(379,264)

5 Staff also did not object to the Company's proposal to include the effect of the recent
6 accounting change related to the capitalization of pension and OPEB costs as a going-
7 forward adjustment simultaneous with the Company's proposed Step Increase for 2017

¹ Source: Staff's revised summary of adjustments, LU_1-34_Attachment_1_Confidential.

1 capital additions (Cunningham Direct, Bates 006, Lines 1 through 7, and Laflamme and
2 Mullinax Direct, Bates 030, Lines 10 through 11).

3 **Q. Did Staff also adjust the Company's proposed Step Increase?**

4 A. Yes. Staff made three adjustments to the Company's proposed Step Increase. First, Staff
5 removed \$350,000 in capital investment from the Step Increase (Laflamme and Mullinax
6 Direct, Bates 069, Line 5). That amount represents project 8840-1753 to install main
7 pipeline on Varney Street, Worthley Road, and Rockland Avenue in Manchester, New
8 Hampshire. As stated by the Company in response to Staff Tech 3-10, that project has an
9 objective to eliminate pressure losses due to inefficiencies associated with hydraulic
10 constraints. While the Company agreed in discovery to remove growth-related projects
11 for EnergyNorth and Keene totaling \$14,220,387, the Company did not exclude project
12 8840-1753 for the reason cited above. Second, Staff applied its modified depreciation
13 rates to the Step Increase capital investments (Laflamme and Mullinax Direct, Bates 030,
14 Lines 8-9). As discussed in the rebuttal testimony of Steven Mullen, the Company
15 disagrees with those modifications as they apply to both the revenue requirement
16 depreciation expenses, as well as the Step Increase. Lastly, Staff removed expenses from
17 the Test Year for legal and degradation fees paid in 2017. Staff has moved those
18 expenses into the Step Increase (Laflamme and Mullinax Direct, Bates 030, Lines 12-13).
19 The Company agrees that is a reasonable approach with regard to those expenses.

1 **Q. Are there errors in Staff's proposed adjustment to the Step Increase?**

2 A. Yes. While the Company agrees that it is reasonable to move expenses from the Test
3 Year for legal and degradation fees paid in 2017 into the Step Increase, there are errors in
4 Staff's proposed approach. Specifically, Staff's analysis inappropriately applied a tax
5 effect to those fees (Laflamme and Mullinax Direct, Bates 069, Lines 36-43), without
6 allowing for a tax gross-up on the associated revenue deficiency. To address that issue,
7 we have excluded Staff's tax impact on the legal and degradation fees in the Step
8 Increase. The appropriate adjustment to the Step Increase (reflecting the removal of a tax
9 effect on degradation and legal fees) is \$358,582, rather than the \$217,257 used by Staff
10 (Staff Schedule EN 4, Line 43 minus Staff Schedule EN 4, Line 18).

11 **Q. To which revenue requirement adjustments do you respond in this rebuttal**
12 **testimony?**

13 A. We respond to adjustments 1-3, 6-13, and 15. Company witness Steven Mullen responds
14 to adjustment 4 regarding the Concord Training Center, and adjustments 5 and 14
15 regarding depreciation and accumulated depreciation. Company witness Robert B.
16 Hevert responds to adjustment 16. Company witnesses William Clark and Stephen Hall
17 respond to adjustment 17.

18 **III. RESPONSE TO STAFF'S REVENUE REQUIREMENT ADJUSTMENTS**

19 **Q. Please summarize Staff's Adjustment 1 regarding cash working capital.**

20 A. Staff adjusted working capital to reflect its other adjustments (Laflamme and Mullinax
21 Direct, Bates 013, Lines 1-2). We agree conceptually with that adjustment, although, as

1 discussed below, we do not agree with many of the underlying adjustments themselves.

2 Schedule RR-EN-5-2 (R), line 10 provides the cash working capital allowance, adjusted
3 for those Staff adjustments the Company agrees are reasonable.

4 **Q. Please summarize Staff's Adjustment 2 regarding the removal of prepayments from**
5 **rate base.**

6 A. Staff argued that prepayments, which the Company has included at the five-quarter
7 average for the five quarters ended December 31, 2016, reflects amounts that are also
8 included in the Company's cash working capital amount, resulting in a "double
9 recovery," and should thus be removed from rate base (Laflamme and Mullinax Direct,
10 Bates 013, Lines 10-13). The amount of prepayments Staff proposed to remove is
11 \$2,704,979. For comparison, the total cash working capital allowance proposed by the
12 Company for EnergyNorth is \$2,653,317 (before rebuttal adjustments),² and Staff's
13 proposed cash working capital allowance is \$2,761,324 (Staff Schedule EN 1.1, Line 7).

14 **Q. Do you agree with that adjustment?**

15 A. No. While Staff provided a theoretical basis to remove prepayments from rate base, from
16 a practical perspective the adjustment eliminates more than the entire balance of the
17 Company's proposed cash working capital in which the purported double counting is
18 occurring, and all but \$56,345 (approximately 2%) of Staff's proposed cash working

² See RR-EN-5.

1 capital. Staff is essentially saying that working capital should be near zero or negative,
2 which is nonsensical. As such, this adjustment should be rejected.

3 **Q. Please summarize Staff's Adjustment 3 regarding the removal of certain materials**
4 **and supplies from rate base.**

5 A. Staff proposed to exclude materials and supplies balances related to gas stored
6 underground, fuel stock propane, and liquid natural gas underground storage because
7 they are "gas-related items" (Laflamme and Mullinax Direct, Bates 016, Lines 8-10).

8 **Q. Did Staff make any other comments regarding the appropriate balances for**
9 **materials and supplies?**

10 A. Yes. Staff expressed a concern that using the five-quarter balance for material and
11 supplies related to "gas-related items" is inappropriate because it results in a higher
12 balance than using a 13-month average calculation for those rate base components. Staff,
13 however, made no proposed rate base changes based on that concern.

14 **Q. Do you agree with Staff's proposed adjustment and its concerns related to materials**
15 **and supplies?**

16 A. No. As explained by the Company in response to Staff Tech 3-8, the rationale for
17 including those three inventory accounts within the material and supplies component of
18 the Company's rate base is that there is no other mechanism for the Company to receive a
19 return on the average balance of those accounts. In addition, such inclusion is consistent
20 with the treatment of those accounts in the Company's last distribution rate case, Docket
21 No. DG 14-180. Further, Staff's implication that a 13-month average calculation would

1 be more appropriate for only these three accounts is inconsistent with the manner in
2 which both the Company and Staff have reflected all other non-plant related items in rate
3 base, and thus no such adjustment is warranted based on Staff's concern. Indeed, Table 4
4 in Staff's testimony (Laflamme and Mullinax Direct, Bates 015, Line 12) demonstrates
5 that the use of a 13-month average (rather than a five-quarter average as the Company
6 has done) for plant supplies would result in an *increase* in rate base. Staff accepts the
7 inclusion of plant supplies in rate base, however, and includes that account at the five-
8 quarter average. Finally, the regulatory text Staff cited in support of its proposal to
9 remove prepayments from rate base (*i.e.*, *Accounting for Public Utilities*) lists fuel
10 inventory as a valid component of working capital that is generally accepted by
11 regulatory commissions: "in general, the components [or working capital] are: (1) *fuel*
12 *inventory*; (2) materials and supplies (M&S); (3) prepayments; and (4) cash working
13 capital."³ For those reasons, and absent a proposal by Staff for an alternative means by
14 which the Company can recover its return on funds invested in those materials and
15 supplies accounts, this adjustment should be rejected.

16 **Q. Please summarize Staff's Adjustment 4 regarding the Concord Training Center.**

17 A. Staff recommended the removal of Concord Training Center costs from both rate base
18 and operating income (Iqbal Direct, Bates 000027, Lines 15-17). That recommendation
19 is addressed by Company witness Steven Mullen in his rebuttal testimony.

³ Attachment JPL/DHM-04. Emphasis added.

1 **Q. Please summarize Staff's Adjustment 5 regarding the Theoretical Reserve**
2 **Imbalance.**

3 A. Staff contended that the appropriate amortization period for the Theoretical Reserve
4 Imbalance is 12 years rather than three years as proposed by the Company (Iqbal Direct,
5 Bates 000005, Lines 1-4). Company witness Steven Mullen also responds to that
6 recommendation in his rebuttal testimony.

7 **Q. Please summarize Staff's Adjustment 6 regarding the removal of consultant costs.**

8 A. Staff asserted that costs incurred by the Company related to consulting services analyzing
9 the now-canceled Northeast Energy Direct pipeline are non-recurring in nature and
10 should therefore be removed as a test year expense and rather amortized over three years
11 (Laflamme and Mullinax Direct, Bates 020, Lines 11-12). This is similar to Staff Audit
12 Issue #17, where Staff stated, "[t]his [\$42,592] expense is also non-recurring as the
13 pipeline project was cancelled in 2016."⁴

14 **Q. Do you agree with that adjustment?**

15 A. No. Staff's basis for the audit issue recommendation was that the project being analyzed
16 was cancelled. The fact that the underlying project was cancelled, however, does not
17 have a bearing on the recurring or non-recurring nature of the expense. On a regular
18 basis, the Company necessarily explores and analyzes various options and projects for
19 serving its customers. As explained in the Company's comment to this same finding in
20 Staff's Final Audit Report, the specific costs Staff seeks to exclude from the test year

⁴ See Mr. Laflamme/Ms. Mullinax's Attachment JPL/DHM-06, page 14 of 15, at Bates 102.

1 (i.e., \$42,592) were paid to a consultant for a proceeding that was before the Commission
2 during the test year and are a normal business expense incurred by a utility. Each year,
3 the Company will have different cases pending before the Commission, and due to their
4 technical nature or other requirements, the Company will need to hire external
5 consultants for analysis, filings, and discovery request responses. The fact that the
6 pipeline project that was the subject of the proceeding was ultimately cancelled by the
7 project sponsor should have no bearing on whether the costs should be disallowed absent
8 a finding of imprudence by the Commission (which Staff has not asserted is the case
9 here).

10 **Q. Please summarize Staff's Adjustment 7 to modify payroll and related costs for**
11 **vacancies.**

12 A. Staff recommended a portion of payroll, payroll taxes, and benefits be removed from the
13 revenue requirement to reflect an average level of employee vacancies (Laflamme and
14 Mullinax Direct, Bates 021, Lines 8-10). Staff averaged the number of vacancies at the
15 beginning of the test year (i.e., three) with the number of vacancies as of November 1,
16 2017 (i.e., four), and multiplied that average by an average wage-per-position, further
17 applying adjustments to reflect payroll taxes and benefits.

18 **Q. Do you agree with that adjustment?**

19 A. No. The provision of reliable distribution service requires a full complement of
20 employees. If the Company is operating with a less than full complement of employees,
21 the excess work would either be completed by other employees (and thus increase

1 overtime costs) and/or by incremental temporary/contract labor. While Staff is correct
2 that vacancies entail lower direct labor costs, Staff does not recognize that the decrease
3 would be offset by other cost increases.

4 **Q. Please summarize Staff's Adjustment 8 to remove a portion of the Company's**
5 **incentive compensation from payroll expense.**

6 A. Staff proposed to remove 75%, or \$52,005, of the Company's long-term incentive plan
7 ("LTIP") because, Staff asserted, that portion of the plan is "related to the achievement of
8 Efficiency goals directed toward shareholder benefit" (Laflamme and Mullinax Direct,
9 Bates 027, Lines 5-6).

10 **Q. Do you agree with that adjustment?**

11 A. No. The LTIP is part of the Company's total compensation package and is necessary and
12 appropriate for attracting and retaining employees. Moreover, incentive compensation
13 based on a company's performance is a widely used method of compensating employees
14 by placing a portion of compensation at risk. The purpose of the goals to which Staff
15 objected is to meet, with existing resources, the rate of return authorized by the
16 Commission. Providing employees an incentive to do so without additional rate relief
17 benefits customers because it provides an incentive to reduce costs. Staff's proposed
18 adjustment is counterproductive and would harm customers in the end, and should be
19 rejected.

1 **Q. Please summarize Staff's Adjustment 9 to adjust the iNATGAS minimum annual**
2 **transportation quantity.**

3 A. Staff adjusted the revenue adjustment for iNATGAS's minimum annual transportation
4 quantity, which results in an increase in iNATGAS revenue from \$18,300 to \$183,000
5 (Frink Direct, Bates 000025, Lines 3-5). The Company inadvertently used an incorrect
6 number of dekatherms in the calculation, resulting in the \$18,300 figure that appeared in
7 the revenue requirement. The Company, therefore, agrees with this adjustment, and has
8 reflected it in Schedule RR-EN-3-1 (R), line 11.

9 **Q. Please summarize Staff's Adjustment 10 regarding pension and OPEB expenses.**

10 A. Staff proposed to update Employee Pensions and Benefits Expense to reflect the most
11 recently available information, as provided by the Company throughout the discovery
12 process (Cunningham Direct, Bates 000002, Lines 12-26). The net impact of Mr.
13 Cunningham's recommendations is an \$11,695 increase in the revenue deficiency.

14 **Q. Do you agree with that adjustment?**

15 A. The Company agrees that the revenue requirement should reflect the latest actuarial
16 reports and assumptions. In fact, the Company's supplemental response to Staff Tech 1-1
17 reflects the same Actuarial Studies performed by CBIZ Cottonwood Retirement Plan
18 Services as those relied on by Mr. Cunningham (see RR-EN-3-04WP). As such, the
19 Company does not believe further adjustment is required.

1 **Q. Please summarize Staff's Adjustment 11 to adjust revenue to the year-end customer**
2 **count.**

3 A. Staff proposed that operating revenues be based on a year-end customer count. Staff
4 asserted that such a basis for revenues would be consistent with a year-end plant-in-
5 service in rate base (Laflamme and Mullinax Direct, Bates 019, Lines 7-9).

6 **Q. Do you agree with that adjustment?**

7 A. No. Staff's proposal would result in a mismatch between revenues and expenses. The
8 Company's filing in this proceeding is based on a historical test year (with known and
9 measurable adjustments). The expense amounts included in this proceeding, except for
10 those explicitly adjusted, represent expenses incurred throughout the historical test year.
11 Adjusting revenues in this case based on a year-end customer count with no
12 corresponding adjustment to overall expenses (*e.g.*, for inflation) creates a mismatch
13 between the period covered by revenue and the period covered by expense. In support of
14 this adjustment, Staff offered just that it would be consistent with the Company's use of
15 year-end plant-in-service. However, not all items in rate base are measured as of year-
16 end. Materials and supplies, prepayments, and customer deposits are based on balances
17 measured throughout the historical test year. The lead-lag study (to which Staff offered
18 no objections) measures the Company's cash working capital needs during the historical
19 test year. For those reasons, Staff's proposal should be rejected.

1 **Q. Please summarize Staff's Adjustment 12 to move certain legal costs and degradation**
2 **fees from the revenue requirement to the Step Increase.**

3 A. Staff proposed to remove legal costs and degradation fees related to the City of
4 Manchester and City of Concord litigation that were incurred by the Company after the
5 test year and include them instead in the Step Increase (Laflamme and Mullinax Direct,
6 Bates 029, Lines 1-5). The Company agrees that this adjustment is reasonable in nature,
7 although, as discussed above, we disagree with Staff's application of the adjustment. We
8 have reflected the appropriate adjustment in Schedule RR-3-EN-10 (R), lines 75 through
9 85 and Schedule Step-EN (R), lines 51 through 56.

10 **Q. Please summarize Staff's Adjustment 13 to remove severance associated with**
11 **resignations.**

12 A. Staff has removed severance pay of \$144,130 that was paid during the test year to
13 employees that resigned from the Company (Laflamme and Mullinax Direct, Bates 028,
14 Lines 4-9). Staff asserted that customers should not bear the burden for severance
15 payments to employees who resign voluntarily or resign through mutual agreement.

16 **Q. Do you agree with that adjustment?**

17 A. No, and a clarification is also in order. In the cited section of testimony, Staff implied
18 that severance is paid to employees who voluntarily resign to pursue other opportunities
19 That is not the case, and was not the case during the test year. Further, changes in
20 personnel are a normal part of business. Severance payments are sometimes needed and
21 are made at the discretion of management to make the process more efficient, less time-

1 consuming, and often less costly. Changes in personnel and the need for severance
2 payments are a typical business cost. In addition, the Company should not be penalized
3 for costs involved in hiring of employees who ultimately leave the Company or are
4 terminated. The implication that the Company must never encounter a situation in the
5 normal course of business where an employment situation must be addressed is
6 unreasonable and unrealistic. The Company is fulfilling its responsibility by terminating
7 employees when necessary and should not be required to absorb the costs of making a
8 necessary change. Disallowing the recovery of the costs of taking such actions would be
9 counterproductive and could result in higher costs to the Company. The costs incurred
10 by the Company are not unusual in nature or amount, and by paying severance, the
11 Company can mitigate risks and reduce time spent on these matters. Staff's proposed
12 adjustment would substitute Staff's judgment for management's judgment as to the most
13 efficient and effective way to accomplish these changes. Moreover, Staff is making that
14 determination without any of the background information available to management on
15 the particular employment situations. The proposed adjustment is not appropriate and
16 should be rejected.

17 **Q. Please summarize Staff's Adjustment 14 regarding Amortization and Depreciation**
18 **Accrual Rates.**

19 A. Staff proposed different depreciation rates for certain plant accounts than those proposed
20 by the Company (Iqbal Direct, Bates 000004, Line 22 to Bates 000005, Line 1).
21 Company witness Steven Mullen responds to that proposal in his rebuttal testimony.

1 **Q. What adjustment did Staff propose relating to interest synchronization (Adjustment**
2 **15)?**

3 A. Staff proposed to adjust interest synchronization to reflect any final adjustments to rate
4 base and to the cost of capital (Laflamme and Mullinax Direct, Bates 029, Lines 9-11).

5 **Q. Is Staff's proposal relating to interest synchronization correct?**

6 A. Yes. The Company agrees that interest synchronization should be adjusted to reflect any
7 final adjustments to rate base and the cost of capital. That adjustment is consistent with
8 the approach taken by the Company in its original and updated filings.

9 **Q. Please summarize Staff's Adjustment 16 regarding the cost of capital.**

10 A. Staff recommended a lower cost of capital and a different capital structure than the
11 Company included in its initial filing (Laflamme and Mullinax Direct, Bates 009, Lines
12 13-17). Company witness Robert B. Hevert responds to Staff's recommended cost of
13 capital.

14 **Q. Please summarize Staff's Adjustment 17 regarding the iNATGAS project.**

15 A. Staff asserted that a portion of the spending related to the iNATGAS project was
16 imprudent, and that the revenue requirement related to that spending should be
17 disallowed (Frink Direct, Bates 024, Lines 4-11). Company witnesses William Clark and
18 Stephen Hall rebut that assertion.

1 **Q. Please summarize the adjustments you have made to the Step Increase.**

2 A. As discussed above, we have accepted Staff's movement of 2017 degradation and legal
3 fees from the base revenue requirement calculation to the Step Increase, absent the
4 application of an income tax allowance. In addition, we have reflected the Company's
5 proposal regarding the impact on O&M expenses of the Financial Accounting Standard
6 Update No. 2017-17 related to pension and OPEB expense capitalization.

7 **Q. Please provide additional details regarding the reflection of the impact on O&M**
8 **expenses of the Financial Accounting Standard Update No. 2017-17.**

9 A. As discussed in the Company's response to Staff Tech 3-15, Accounting Standards
10 Update No. 2017-07 limits the portion of total pension and OPEB costs that is eligible for
11 capitalization to the service cost component only. As further discussed in that response,
12 the Company's operating expenses, beginning January 1, 2018, will be significantly
13 higher than those computed in the revenue requirement schedules under current
14 accounting standards. The Company stated in Staff Tech 3-15 that it proposes to include
15 the effect of this accounting change as a going-forward adjustment simultaneous with the
16 Company's proposed Step Increase. Staff acknowledged and did not object to that
17 proposal in its direct testimony (Cunningham Direct, Bates 006, Lines 1 through 7, and
18 Laflamme and Mullinax Direct, Bates 030, Lines 10 through 11). Because 2018 actuarial
19 assumptions have not been finalized, the Company has calculated the impact on O&M
20 expenses (*i.e.*, \$419,583) based on the Company's 2017 actuarial assumptions, and using
21 the Company's 2017 capitalization percentage, as provided in Staff Tech 3-15. That
22 figure is also shown in Schedule STEP-EN (R), line 52.

1 **Q. Does this conclude your rebuttal testimony?**

2 **A. Yes, it does.**

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