THE STATE OF NEW HAMPSHIRE BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

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

Distribution Service Rate Case

Docket No. DE 19-064

Technical Statement of Philip E. Greene and David B. Simek

November 22, 2019

A. Purpose of Technical Statement

On April 30, 2019, Liberty Utilities (Granite State Electric) Corp. ("Liberty" or "the Company") filed testimony and schedules requesting changes to the Company's permanent rates. As stated in the testimony of Philip E. Greene and David B. Simek, the Company planned to update its revenue requirement schedules at the end of the discovery period to reflect any new or updated information that becomes available, and to include any changes that are identified during the discovery process. As a result of the discovery process and the ongoing PUC Staff audit, changes or modifications were identified that require revision to the Greene/Simek Direct Testimony and to Attachment PEG/DBS-1 (Revenue Requirement Schedules). This technical statement addresses those revisions and provides an updated version of Attachment PEG/DBS-1. The revised schedules are identified with "(CU)" in the schedule reference.

B. Impact of the Changes

The net impact of all of the changes is an annual increase of $990,390 to the proposed change in permanent rates (from the $5,683,102 annual increase proposed in the April 30, 2019, filing to a $6,673,493 annual increase proposed here).

C. Description of Revisions to Attachment PEG/DBS-1

The changes to Attachment PEG/DBS-1 are listed on Attachment PEG/DBS-1 Summary (CU). This schedule shows the source of the change, the schedule on which the change is reflected, a brief description of the change, the amount of the adjustment with separate columns for amounts affecting (i) revenue and expenses and (ii) rate base, and the resulting change in the revenue requirement. A detailed description of each change is provided below:

1. Removal of Water Heater Assets from Test Year Plant in Service

    This item is based on inquiry by PUC audit staff.

    The Company previously provided rental of water heaters to some of its customers. In 2018 the Company received approval to sell its water heater rental program to a third party and terminate the program (see Docket No. DE 18-016). The finalization process continued into 2019, so the water heater assets remained on the books as of December 31, 2018. Thus, the water heater assets needed to be removed from the Company's balance sheet (FERC 372), along with removal of the related depreciation reserve balance.

    Removal of the original cost of these assets of $1,207,584, along with the associated balance in the depreciation reserve of ($1,207,584) results in a net $0 change in rate base. The change is shown on Schedule RR-2-1 (CU), page 1 of 5, lines 17 and 27.

    The change resulted in a net $0 impact to the Company's rate base and the revenue requirement.

2. Removal of Test Year Depreciation Expense Associated with Water Heater Assets

    This item is based on inquiry by PUC audit staff.

    This item reflects removal of depreciation expense associated with water heater assets referenced in Item 1 above. The historic test year includes depreciation expense related to water heater assets of $120,758. The change to reflect removal of depreciation expense associated with the water heater assets is shown on Schedule RR-3-08 (CU), line 20.

    The change decreased the revenue requirement by $121,383.

3. Removal of Revenue and Expenses Associated with Water Heater Assets

    This item is based on inquiry by PUC audit staff.

    This item reflects removal of all revenue and expenses associated with water heater assets referenced in items 1 and 2 above. The historic test year includes revenue of $11,712 and operating expenses of $73,923. The change to reflect removal of the revenue and expenses associated with the water heater assets is shown on Schedule RR-3-16 (CU), lines 7 and 9.

    The change decreased the revenue requirement by $62,617.

4. Correction to Revenue Normalization Adjustment

    This item was discussed with Staff during the May 30, 2019, tech session.

    The original revenue requirement filing included an adjustment to normalize revenue of ($602,425) as a decreasing adjustment. Subsequently it was discovered that a line item in the original calculation related to the REP/VMP revenue portion of this adjustment in the amount of $16,315 was added back in error, and that the correct total adjustment for revenue normalization is ($618,740).

Schedule RR 3-14 (CU), line 4, shows the correct adjustment amount.

The change increased the revenue requirement by $16,283.

5. Update to Payroll Tax Adjustment

This item is discussed in the response to Staff 3-20.

Schedule RR-3-02 calculates a pro forma adjustment for payroll tax based on the pro forma adjustment in Schedule RR 3-01. Data Request Staff-3-20 discusses a disconnection between the method of calculation in Schedule RR-3-02 and resulting calculated rate of 10.5%, and the combined actual payroll tax rate of 8.91% that would be assessed to the company related to payroll. In addressing this data request the Company discovered that its calculation in Schedule RR-3-02 only considered the O&M portion of payroll costs, and inadvertently excluded payroll attributable to capital additions. Revision of this pro forma calculation in Schedule RR-3-02 (CU) includes all payroll, resulting in a calculated combined payroll tax rate of 6.78%. The Company's response to Staff 3-20 notes the reasonableness of the calculated 6.78% due to wage limits on Social Security, Federal, and State Unemployment tax.

Schedule RR 3-02 (CU) includes the following adjustments:

- Line 2 has been updated to reflect the total payroll, attributable to both O&M and capital;
- Line 4 reflects the new calculated rate of 6.78%;
- Line 11 reflects the updated calculation of total pro forma payroll tax of $576,186 (a reduction of $312,973 compared to the original filing Attachment RR-3-02); and
- Line 13 reflects an updated known and measurable adjustment of ($164,334) which is a decrease of $312,973 from the original revenue requirement filing calculated payroll tax pro forma adjustment.

The change decreased the revenue requirement by $314,592.

6. Update to Pension and OPEB Cost Forecast

This item is discussed in the response to OCA TS 1-9.

This item is based on indication in the original revenue requirement filing that the Company would update certain salary related benefits once forecasted data became available from the Actuary.

Subsequent to the original filing in this proceeding, the Company received updated actuarial reports reflecting an updated forecast of pension related benefit costs. The updated actuarial reports reflect a forecasted increase in pension cost and OPEB costs of $317,690 over that reflected in Attachment RR-3-03. The updated forecast amounts for 2019 pension and OPEB costs are reflected in Attachment RR-3-03 (CU), lines 2 and 3. Please note that forecast for all other benefits shown remain unchanged.

The change increased the revenue requirement by $319,333.

7. Update Adjustment to Rental Expense for Use of the LU Concord Training Center

This item is discussed in the response to OCA TS 1-9.

Attachment RR-3-07 of the original revenue requirement filing reflects a calculation for lease expense related to the LU Concord Training Facility that is based on the lease rate in effect from May 1, 2018, through April 30, 2019, at a monthly rate of $5,691.81. Subsequently the rate effective May 1, 2019, was calculated consistent with PUC Order No. 26,122 for a new monthly rate of $6,644.11.

Attachment RR-3-07 (CU), lines 2 and 3, reflect an updated pro-rated annual calculation of $75,920, which is an increase of $7,618.

The change increased the revenue requirement by $7,658.

8. Removal of Ratemaking Adjustment per DG 11-040

This item is discussed in the response to OCA TS 2-36.

Attachment RR-5-4 includes an adjustment to rate base (reduction) of ($6,172,095) related to acquisition assets being amortized through April 2019. As this adjustment is to be fully amortized in 2019, the Company has determined that the effective reduction in rate base will not be included in the calculation of the revenue requirement.

Attachment RR-5-4 (CU), line 1, reflects removal of this adjustment, which results in an increase in rate base of $763,279 (the remaining unamortized value as of December 31, 2018).

The change increased the revenue requirement by $78,072.

9. Removal of Ratemaking Adjustment per DG 11-040

This item is also discussed in the response to OCA TS 2-36.

Attachment RR-3-08 includes an adjustment (a reduction) to depreciation expense of ($1,234,419) related to the ratemaking adjustment referenced in item 8 above. The Company is removing that corresponding reduction to depreciation expense.

Attachment RR-3-08 (CU), line 40, reflects removal of this depreciation adjustment.

The change increased the revenue requirement by $1,240,804.

10. Update to Pro Forma Adjustment for Property Tax Expense

This item is based on discovery of the Company.

Attachment RR-3-11 calculated an adjustment for estimated property tax expense based on tax bills received up until the original revenue requirement filing on April 30, 2019. The Company has updated this calculated adjustment based on subsequent tax bills received, bill dates and updated installment amounts on those bills are reflected on the right side of Attachment RR-3-11 (CU), for an updated pro forma adjustment amount of $124,983. This represents a reduction of $43,761 from what was filed in the original revenue requirement.

The change decreased the revenue requirement by $43,987.

11. Removal of Lost Base Revenue Related to Energy Efficiency

This item is discussed in the response to Staff 3-30.

The amount of lost base revenue related to Energy Efficiency included in test year revenue is $280,584. Since this amount is recovered through another mechanism, the Company is removing it in this Corrections & Updates filing of the revenue requirement.

Attachment RR-3-16 (CU), line 5, reflects removal of the amount of lost base revenue related to Energy Efficiency included in test year revenues.

The change increased the revenue requirement by $280,029.

12. Removal of EEI dues attributable to the EEI Edison Foundation

This item is discussed in the response to Staff 5-8.

It has been determined a portion of dues paid to EEI, included in test year expenses, relate to the influence of legislation in the amount of $515.84.

Attachment RR-3-16 (CU), line 3, reflects removal of this amount from the revenue requirement calculation.

The change decreased the revenue requirement by $519.

13. Removal of Cost for Branding Advertisement

This item is discussed in the response to Staff 6-13.

Upon review the Company has determined that a branding advertisement with FMG Publishing Inc. falls under institutional advertising, and that the cost should be removed from test year expense. Cost for the advertisement was $2,990.

Attachment RR-3-16 (CU), line 1, reflects removal of this amount from the revenue requirement calculation.

The change decreased the revenue requirement by $3,005.

14. Correct Lead / Lag Days

This item is discussed in Staff TS 1-2.

Schedule RR 5-3, line 6, shows a calculated lead / lag of 25.53 days, or 6.99% of applicable expenses. This has been revised to a lead/lag of 24.4 days or 6.63%, as shown on Schedule RR 5-3 (CU), line 6.

This change reduced the rate base by $129,157. The change also reduced the revenue requirement by $13,448.

15. Update Book ADIT Balance

This item is discussed in the response to Staff 4-7.

Schedule RR-5-5, line 18, shows ADIT Per Books at 12/31/2018 (related to Post-Acquisition Additions) of ($14,526,790). In preparation of response to Staff 4-7 it was determined that this amount should be adjusted for 2 reasons:

1. Schedule RR-5 did not take into account the state tax benefit for federal purposes. The impact of this correction is a reduction in ADIT of ($163,805).
2. The Net Operating Losses (NOLs) included in the ADIT calculation should have been taken into account as they related primarily to bonus depreciation. The impact of this correction is a reduction in ADIT of ($3,647,425).

Total impact for the two corrections above is a decrease in ADIT of ($3,811,230). Revised ADIT Per Books with these corrections is ($10,715,560).

Please note that the ADIT per books has been further revised, please see Item 16 below.

The change increased the revenue requirement by $389,842.

16. Removal of Goodwill from ADIT

This item is discussed in the response to Staff 5-5.

Schedule RR-5-5 includes excess ADIT due to tax reform as a deferred tax liability (DTL) item in arriving at the ADIT per Books at 12/31/2018. Through discovery and discussion during the May 30,2019, technical session it has been determined that he Company will separately reflect that portion of excess ADIT related to tax reform (to be returned to customers). Please note that this item is being stated separately from Item 15 above, although it is related in arriving at the final revised ADIT per Books amount shown on Schedule RR-5-5 (CU) of $12,721,366. Although the excess ADIT was included in the total ADIT reduction in the original filing, adjustments made through the course of discovery inadvertently removed the excess ADIT amount from the rate base calculation. This change made separately from Item 15 above results in a decrease in rate base of $5,640,070.

The change reduced the revenue requirement by $576,910.

17. Removal of Goodwill from ADIT

This item is discussed in the response to Staff 6-14.

Schedule RR-5-5 includes Goodwill as a deferred tax asset (DTA) item in arriving at the ADIT per Books at 12/31/2018. Staff 6-14 refers to the Company's response to Staff 5-5, and information received during the May 30, 2019, technical session where it was determined that the Company would be excluding Goodwill as a DTA item in ADIT. This change results in a reduction to rate base of $2,005,807. Combined with the correction referenced in Item 15 above, the updated ADIT per Books at 12/31/2018 of ($12,721,366) is shown on Schedule RR-5-5 (CU).

The change reduced the revenue requirement by $205,169.

18. Correction to Schedule of ADIT Adjustments per DE 16-383, Attachment 7

This item is based on discovery of the Company.

Schedule RR-5-6 represents scheduled annual ADIT adjustment amounts per DE 16-383, Attachment 7. An error was discovered in line 15, and has been updated in Schedule RR-5-5 (CU).

Portions of these items were also capitalized. Schedule RR 3-03 (CU) reflects the updated costs.

The change has no impact on the revenue requirement or rate base.