

Exhibit No.:
Issue: Accumulated Deferred Income Taxes,
Income Taxes, Pensions and OPEBS
Witness: James A. Fallert
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Case Nos. GR-2018-0013
Date Testimony Prepared: May 9, 2018

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

James A. Fallert

On Behalf of

**Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities**

May 2018



SURREBUTTAL TESTIMONY
OF
JAMES A. FALLERT
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

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SURREBUTTAL TESTIMONY OF
JAMES A. FALLERT
ON BEHALF OF
LIBERTY UTILITIES
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

1 **I. POSITION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS**
3 **ADDRESS.**

4 A. My name is James A. Fallert. I am doing business as James Fallert Consultant LLC and
5 my business address is 3507 Burgundy Way Dr., St. Louis, MO 63129.

6 **Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?**

7 A. Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities (“Company” or
8 “Liberty Utilities”).

9 **Q. ARE YOU THE SAME JAMES A. FALLERT WHO SUBMITTED REBUTTAL**
10 **TESTIMONY ON BEHALF OF LIBERTY UTILITIES IN THIS PROCEEDING?**

11 A. Yes.

12 **II. PURPOSE OF TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

14 A. The purpose of my testimony is to address the rebuttal testimony of Office of the Public
15 Counsel (“OPC”) witnesses Keri Roth and John Riley in regard to Pensions and OPEBs,
16 Accumulated Deferred Income Taxes, and Regulatory Liability for Tax Rate Reductions.

17 **Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR**
18 **TESTIMONY?**

19 A. Yes. I am sponsoring Schedules JF-S1 and JF-S2.

1 A. Yes. I have updated this calculation to the March 31, 2018 true-up date in this case and
2 more closely aligned the calculation with the accounting followed by the Company. The
3 resulting amounts appropriate for inclusion in rate base are \$760,179 for pensions and
4 \$159,736 for OPEBs. The attached schedules JF-S1 and JF-S2 provide detail regarding
5 these amounts.

6 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

7 A. We believe that the Company has now provided the information necessary to allay the
8 concerns expressed by OPC in its rebuttal testimony and that sufficient documentation
9 exists to support the inclusion in cost of service of the expense and rate base amounts
10 discussed herein.

11 **IV. ACCUMULATED DEFERRED INCOME TAXES**

12 **Q. WHAT WERE OPC'S COMMENTS REGARDING ACCUMULATED**
13 **DEFERRED INCOME TAXES (ADIT)?**

14 A. OPC witness John Riley observed that ADIT balances will be reduced due to the
15 reduction in the corporate tax rate effective January 1, 2018, and discussed
16 methods of returning this reduction to customers. He notes that amounts and
17 amortization periods have not yet been determined, and suggests that OPC would
18 expect amortization periods of 20 years for protected ADIT and 10 years for
19 unprotected ADIT in the absence of agreement by the parties.

20 **Q. PLEASE COMMENT.**

21 A. Liberty Utilities agrees that the impact of the change in the federal corporate tax
22 rate should be included in the Company's cost of service and is committed to
23 working with the Staff and OPC to accurately quantify and include the effect of

1 the change in this case. These discussions and analysis are ongoing. It is
2 important that the parties make every effort to avoid a normalization violation in
3 regard to the protected ADIT balances. While the final calculations of
4 amortization periods are unlikely to be completed during the pendency of this
5 case, the best estimate should be applied rather than an arbitrary estimate.

6 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

7 A. Yes. The Company recommends that the Commission authorize establishment of
8 a tracker mechanism that would defer any amounts of protected ADIT included
9 in rates over or under the actual amount determined when final calculations are
10 complete. This deferred amount would be returned to customers or the
11 Company, as appropriate, in order to ensure proper recovery of this item and
12 lessen any chance that a normalization violation could be alleged.

13 **V. REGULATORY LIABILITY FOR TAX RATE REDUCTION**

14 **Q. PLEASE DESCRIBE THIS ISSUE.**

15 A. In rebuttal testimony, OPC witness John Riley has proposed the establishment of a
16 regulatory liability that would track the impact of the reduction in federal tax rates from
17 the January 1, 2018 effective date of the change until the operation of law date in this
18 case. Under this proposal, the accumulated balance would then be amortized over the
19 next four years.

20 **Q. WHAT IS THE COMPANY'S POSITION ON THIS ISSUE?**

21 A. The Company agrees that trackers can be useful regulatory tools in many
22 situations. However, the tracker proposed by OPC in this instance is not
23 appropriate and would not achieve its stated objective.

1 **Q. WHAT RATIONALE DOES OPC PROVIDE FOR THIS PROPOSED**
2 **TRACKER?**

3 A. Mr. Riley's testimony states the following at page 12, line 19: *"This extraordinary event*
4 *will cause Liberty to over earn for the first eight months of this year. This overearning*
5 *should be recorded and returned to the ratepayer."*

6 **Q. DO YOU AGREE THAT THE COMPANY WILL OVER EARN DURING THIS**
7 **PERIOD AS A RESULT OF THE REDUCTION IN FEDERAL CORPORATE**
8 **TAX RATES?**

9 A. No. The evidence in this case clearly refutes this contention. As it happens, the update
10 period in this case of December 31, 2017 coincides with the January 1, 2018 effective
11 date of the tax rate change. Thus we have ample evidence in this case of whether OPC's
12 contention of over earning is valid.

13 **Q. PLEASE CONTINUE.**

14 A. Staff's Cost of Service Report in this case recommended a revenue requirement of
15 \$1,292,380 (at page 4), based on calculations from the test year ending June 30, 2017
16 with certain adjustments through December 31, 2017. This amount should be considered
17 an absolute low since it already incorporates an estimate of the impact of the reduction in
18 corporate tax rates, and does not include any true-up adjustments nor recognition of any
19 of Liberty Utilities' opposing viewpoints. Nevertheless, it is greater than Mr. Riley's
20 own calculation of the impact of the tax rate change, which is a reduction in revenue
21 requirement of \$818,117 (page 13, line 14). It is apparent that the tax rate change will
22 not cause the Company to over earn prior to the operation of law date in this case. To the

SURREBUTTAL TESTIMONY
OF JAMES A. FALLERT

1 contrary, the tax rate change will simply cause the Company to under earn by a smaller
2 amount.

3 **Q. ARE THERE ANY PRECEDENTS REGARDING THIS ISSUE?**

4 A. Yes. The impact of the tax rate change was included in Spire Missouri's recently
5 concluded rate cases (Case Nos. GR-2017-0215 and GR-2017-0216).

6 **Q. HOW WAS THIS ISSUE HANDLED IN THOSE CASES?**

7 A. The impact of the change in tax rates was implemented with the operation of law date.

8 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THIS ISSUE?**

9 A. Yes. Liberty Utilities has cooperated fully in recognizing the impact of the tax rate
10 change in cost of service in this case. OPC's proposed tracker would single out the tax
11 rate change while ignoring all of the other evidence in this case and would therefore
12 arbitrarily and unfairly reduce revenue requirement in the future.

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. Yes.

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
Docket No. GR-2018-0013

Qualified Pension Plan Contributions

	Total Company	Allocated to WEMO (5.06%)	Allocated to SEMO (34.83%)	Allocated to NEMO (25.25%)	Total Allocated to MO (65.14%)
<i>2015 Contributions:</i>	\$ 594,000.00	\$ 30,056.40	\$ 206,890.20	\$ 149,985.00	\$ 386,931.60
2015 Net Periodic Benefit Cost	\$ 309,285.00	\$ 15,649.82	\$ 107,723.97	\$ 78,094.46	\$ 201,468.25
Excess Contributions:	\$ 284,715.00	\$ 14,406.58	\$ 99,166.23	\$ 71,890.54	\$ 185,463.35

	Total Company	Allocated to WEMO (5.11%)	Allocated to SEMO (35.40%)	Allocated to NEMO (25.85%)	Total Allocated to MO (66.36%)
<i>2016 Contributions:</i>	\$ 647,600.00	\$ 33,092.36	\$ 229,250.40	\$ 167,404.60	\$ 429,747.36
2016 Net Periodic Benefit Cost	\$ 369,898.00	\$ 18,901.79	\$ 130,943.89	\$ 95,618.63	\$ 245,464.31
Excess Contributions:	\$ 277,702.00	\$ 14,190.57	\$ 98,306.51	\$ 71,785.97	\$ 184,283.05

	Total Company	Allocated to WEMO (5.04%)	Allocated to SEMO (35.31%)	Allocated to NEMO (25.50%)	Total Allocated to MO (65.85%)
<i>2017 Contributions:</i>	\$ 660,400.00	\$ 33,284.16	\$ 233,187.24	\$ 168,402.00	\$ 434,873.40
2017 Net Periodic Benefit Cost	\$ 349,891.00	\$ 17,634.51	\$ 123,546.51	\$ 89,222.21	\$ 230,403.22
Excess Contributions:	\$ 310,509.00	\$ 15,649.65	\$ 109,640.73	\$ 79,179.80	\$ 204,470.18

	Total Company	Allocated to WEMO (5.04%)	Allocated to SEMO (34.73%)	Allocated to NEMO (25.87%)	Total Allocated to MO (65.64%)
<i>2018 Q1 Contributions*:</i>	\$ 184,700.00	\$ 9,308.88	\$ 64,146.31	\$ 47,781.89	\$ 121,237.08
2018 Q1 Net Periodic Benefit Cost	\$ 73,500.00	\$ 3,704.40	\$ 25,526.55	\$ 19,014.45	\$ 48,245.40
Excess Contributions:	\$ 111,200.00	\$ 5,604.48	\$ 38,619.76	\$ 28,767.44	\$ 72,991.68

* First Quarter payment made 4/13/2018

Rate Base

Year	Total Funding Allocated to MO	Net Periodic Benefit Cost	Prepaid Pension Asset	Allowed In Rates	Regulatory Asset	Total Rate Base
2015	\$ 386,931.60	\$ 201,468.25	\$ 185,463.35	\$ 154,350.00	\$ 26,857.40	\$ 212,320.75
2016	429,747.36	245,464.31	184,283.05	\$ 154,350.00	\$ 51,935.16	\$ 236,218.21
2017	434,873.40	230,403.22	204,470.18	\$ 154,350.00	\$ 43,350.34	\$ 247,820.51
2018 Q1	121,237.08	48,245.40	72,991.68	\$ 38,587.50	\$ (9,172.10)	\$ 63,819.58
Total	\$ 1,372,789.44	\$ 725,581.19	\$ 647,208.25	\$ 501,637.50	\$ 112,970.80	\$ 760,179.05

Prepaid Pension Asset = Total Funding Allocated to Missouri - Net Periodic Benefit Cost

Regulatory Asset = (Net Periodic Benefit Cost - Allowed in Rates) x 57% expense allocation

Total Rate Base = Prepaid Pension Asset + Regulatory Asset

Liberty Utilities (Midstates Natural Gas) Corp.
d/b/a Liberty Utilities
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OPEB Contributions

	Total Company	Allocated to WEMO (5.06%)	Allocated to SEMO (34.83%)	Allocated to NEMO (25.25%)	Total Allocated to MO (65.14%)
<i>2015 Contributions:</i>	\$ 1,009,592.00	\$ 51,085.36	\$ 351,640.89	\$ 254,921.98	\$ 657,648.23
2015 Net Periodic Benefit Cost	\$ 1,133,138.00	\$ 57,336.78	\$ 394,671.97	\$ 286,117.35	\$ 738,126.09
	\$ (123,546.00)	\$ (6,251.43)	\$ (43,031.07)	\$ (31,195.37)	\$ (80,477.86)

	Total Company	Allocated to WEMO (5.11%)	Allocated to SEMO (35.40%)	Allocated to NEMO (25.85%)	Total Allocated to MO (66.36%)
<i>2016 Contributions:</i>	\$ 974,505.00	\$ 49,797.21	\$ 344,974.77	\$ 251,909.54	\$ 646,681.52
2016 Net Periodic Benefit Cost	\$ 1,000,527.00	\$ 51,126.93	\$ 354,186.56	\$ 258,636.23	\$ 663,949.72
	\$ (26,022.00)	\$ (1,329.72)	\$ (9,211.79)	\$ (6,726.69)	\$ (17,268.20)

	Total Company	Allocated to WEMO (5.04%)	Allocated to SEMO (35.31%)	Allocated to NEMO (25.50%)	Total Allocated to MO (65.85%)
<i>YTD 2017 Contributions:</i>	\$ 988,985.00	\$ 49,844.84	\$ 349,210.60	\$ 252,191.18	\$ 651,246.62
2017 Net Periodic Benefit Cost	\$ 917,781.00	\$ 46,256.16	\$ 324,068.47	\$ 234,034.16	\$ 604,358.79
	\$ 988,985.00	\$ 49,844.84	\$ 349,210.60	\$ 252,191.18	\$ 651,246.62

	Total Company	Allocated to WEMO (5.04%)	Allocated to SEMO (34.73%)	Allocated to NEMO (25.87%)	Total Allocated to MO (65.64%)
<i>2018 Q1 Contributions:</i>	\$ -	\$ -	\$ -	\$ -	\$ -
2018 Q1 Net Periodic Benefit Cost	\$ 268,299.00	\$ 13,522.27	\$ 93,180.24	\$ 69,408.95	\$ 176,111.46
Excess Contributions:	\$ (268,299.00)	\$ (13,522.27)	\$ (93,180.24)	\$ (69,408.95)	\$ (176,111.46)

Rate Base

Year	Total Funding Allocated to MO	Net Periodic Benefit Cost	Prepaid OPEB Asset/(Liability)	Allowed In Rates	Regulatory Asset	Total Rate Base
2015	\$ 657,648.23	\$ 738,126.09	\$ (80,477.86)	\$ 474,068.00	\$ 150,513.11	\$ 70,035.25
2016	\$ 646,681.52	\$ 663,949.72	(17,268.20)	\$ 474,068.00	\$ 108,232.58	\$ 90,964.38
2017	\$ 651,246.62	\$ 604,358.79	46,887.83	\$ 474,068.00	\$ 74,265.75	\$ 121,153.58
2018 Q1	\$ -	\$ 176,111.46	(176,111.46)	\$ 118,517.00	\$ 53,694.53	\$ (122,416.93)
Total	\$ 1,955,576.37	\$ 2,182,546.06	\$ (226,969.69)	\$ 1,540,721.00	\$ 386,705.97	\$ 159,736.28

Prepaid OPEB Asset/(Liability) = Total Funding Allocated to Missouri - Net Periodic Benefit Cost

Regulatory Asset = (Net Periodic Benefit Cost - Allowed in Rates) x 57% expense allocation

Total Rate Base = Prepaid OPEB Asset/(Liability) + Regulatory Asset

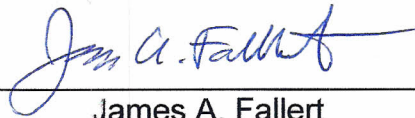
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STATE OF MISSOURI

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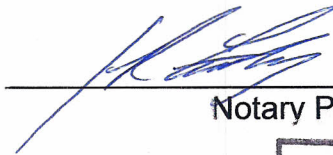
COUNTY OF ST. LOUIS

On the 9th day of May, 2018, before me appeared James A Fallert, who, being by me first duly sworn, states that he is doing business as James Fallert Consultant LLC and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



James A. Fallert

Subscribed and sworn to before me this 9th day of May, 2018



Notary Public

My commission expires: 10-29-2018

