Exhibit No.: _____
Issue(s): Revenue Requirement, Rate Base, Income and Expense Adjustments
Witness: Dana Liner
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District Gas Company
Case No.: GR-2021-0320
Date Testimony Prepared: August 2021

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

**Direct Testimony**

**of**

**Dana Liner**

**on behalf of**

**The Empire District Gas Company**

**August 2021**

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THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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## I. INTRODUCTION

**Q. Please state your name and business address.**

A. My name is Dana Liner. My business address is 602 South Joplin Avenue, Joplin, MO 64802.

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

A. I am employed by Liberty Utilities Service Corp. ("LUSC") as a Manager of Rates and Regulatory Affairs for the Liberty Utilities Co.'s ("Liberty") Central Region, which includes The Empire District Gas Company ("EDG or "Company").

**Q. On whose behalf are you testifying in this proceeding?**

A. I am testifying on behalf of EDG.

**Q. Please describe your educational and professional background.**

A. In 1997, I completed my Bachelor of Science in Accounting from the University of Louisiana at Monroe in Monroe, Louisiana. That same year, I began my career in accounting at Century Telephone Enterprises, Inc. (later known as CenturyLink). In March of 2003, I moved from Plant Accounting to Senior Analyst in Regulatory Finance, where my responsibilities included preparing analysis, exhibits, and data request responses for rate cases in Arkansas and Wisconsin. I graduated with a Master of Business Administration from the University of Louisiana at Monroe in August 2003. In March of 2013, I became Manager of Regulatory Operations at CenturyLink.

I joined Liberty in my current role in July 2020. In my current position I manage a team of professionals who are primarily responsible for compliance and other reporting for the gas utilities of Liberty in Missouri (EDG and Liberty MidStates).

**Q. Have you previously testified before the Missouri Public Service Commission ("Commission") or any other regulatory agency?**

A. I have not testified before this Commission or any other regulatory agency.

**Q. What is the purpose of your Direct Testimony in this proceeding?**

A. The purpose of my direct testimony is to provide and explain the basis for the Company's revenue requirement, including rate base, rate base adjustments, operating income and operating income adjustments used to establish rates for the Company's retail gas customers in Missouri. I also address the accounting treatment of certain tax related regulatory liabilities and the Company's request to create or continue certain trackers.

**Q. Are you sponsoring any schedules with your testimony?**

A. Yes. I am sponsoring the following schedules:

| Schedule | Description |
|---|---|
| **Direct Schedule DLL-1** | Revenue Requirement Summary |
| **Direct Schedule DLL-2** | Rate Base Summary |
| **Direct Schedule DLL-3** | Rate Base Adjustment Summary |
| **Direct Schedule DLL-3.1** | Plant in Service |
| **Direct Schedule DLL-3.2** | Accumulated Depreciation/Amortization |
| **Direct Schedule DLL-3.3** | Cash Working Capital |
| **Direct Schedule DLL-3.4** | Prepayments |
| **Direct Schedule DLL-3.5** | Materials, Supplies & Inventory |
| **Direct Schedule DLL-3.6** | Customer Deposits |
| **Direct Schedule DLL-3.7** | Customer Advances |
| **Direct Schedule DLL-3.8** | Regulatory Assets |
| **Direct Schedule DLL-3.9** | Regulatory Liabilities |
| **Direct Schedule DLL-3.10** | Accumulated Deferred Income Taxes |

| | |
|---|---|
| **Direct Schedule DLL-4** | Explanation of Rate Base Adjustments |
| **Direct Schedule DLL-5** | Income Statement Summary |
| **Direct Schedule DLL-6** | Income Statement Adjustment Summary |
| **Direct Schedule DLL-6.1** | Revenues |
| **Direct Schedule DLL-6.2** | Operation and Maintenance Expenses |
| **Direct Schedule DLL-6.3** | Depreciation Expense |
| **Direct Schedule DLL-6.4** | Amortization Expense |
| **Direct Schedule DLL-6.5** | Taxes Other Than Income Taxes |
| **Direct Schedule DLL-6.6** | Interest on Customer Deposits |
| **Direct Schedule DLL-7** | Explanation of Income Statement Adjustments |
| **Direct Schedule DLL-8** | Weighted Average Cost of Capital |
| **Direct Schedule DLL-9** | Weighted Average Cost of Debt |
| **Direct Schedule DLL-10** | Income Taxes |
| **Direct Schedule DLL-11** | Pro Forma Income Taxes |
| **Direct Schedule DLL-12** | Interest Synchronization |
| **Direct Schedule DLL-13** | Gross Revenue Conversion Factor |
| **Direct Schedule DLL-14** | Composite Tax Rate |

I am also sponsoring the following specific adjustments to the revenue requirement:

- Rate Base ("RB") adjustments: RB ADJ 1 to RB ADJ 9 – with the exception of RB ADJ 4 – which was not populated for this case, RB ADJ 5 and a portion of RB ADJ 7 & RB ADJ 8.
- Revenue ("REV") adjustments: REV ADJ 1 to REV ADJ 4 with the exception of REV adjustment 4.
- Expense ("EXP") adjustments: EXP ADJ 2 to EXP ADJ 19 with the exception of EXP ADJ 1 (not populated) and EXP ADJ 17.

Company witness Timothy Lyons sponsors RB ADJ 5 and Company witness James Fallert sponsors the Pension and OPEB portion of RB ADJ 7 and 8 as well as EXP ADJ 17.

**Q. Was the information contained in the schedules obtained or derived from the books and records of the Company?**

A. Yes. The information contained in the schedules I am sponsoring was obtained or derived from the books and records of EDG for the twelve months ended December 31, 2020 and adjusted as appropriate to reflect known and measurable changes through September 30, 2021. All of these schedules have been prepared by me or under my direction.

**Q. Did EDG provide the Commission timely notice of the Company's intent to file a general rate case?**

A. Yes. Pursuant to Commission Rule 20 CSR 4240-4.017, a utility is required to provide a minimum a 60-day notice of its intent to file a case. On March 29, 2021, EDG filed its Notice of Intended Case Filing, which was assigned Case No. GR-2021-0320 satisfying the requirements of Commission Rule 20 CSR 4240-4.017.

## II. <u>GENERAL RATE BACKGROUND</u>

**Q. When was the Company's last general rate case and the results of that case?**

A. The Company filed its last general rate case prior to the acquisition by Liberty Utilities (Central) Co. in 2017. EDG's last filed case in Missouri, Case No. GR-2009-0434, was filed over a decade ago, on June 5, 2009. In that case, all parties agreed to a final stipulation with approved compliance tariffs to allow for gas revenues, exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar fees or taxes in the amount of $22,189,218 annually with an effective date of April 1, 2010.

**Q. Did EDG agree to a stay out provision as part of the stipulations and agreements with the parties in the acquisition Case no. EM-2016-0213?**

A. Yes. The Company agreed to refrain from filing for a general rate increase for one year post-acquisition. As explained above, EDG has not requested a general rate increase for more than a decade, and it has been four years since the acquisition.

**Q. What is the amount of the requested general rate change in this case?**

A. The Company is requesting that the Commission approve a $1,362,350 base rate increase, which constitutes a 4.16% increase. This equates to only a .3% percent increase per year over 12 years, the amount of time between the last rate case and when rates are expected to go into effect as a result of this case.

**Q. How did the Company determine its requested general rate change?**

A. This request is based on a test year ending December 31, 2020, with adjustments proposed herein for known and measurable changes to the test year and to normalize operating results. The direct schedules, as presented, contain all revenue and expense details, while Chart 1 below shows a calculation of the annual revenue deficiency.

**Chart 1**

| Line No. | Reference Schedule | General Rate Change | |
|---|---|---|---|
| 1 | DLL-2 | Rate Base | $62,967,566 |
| 2 | DLL-8 | Rate of Return Requested | 8.51% |
| 3 | DLL-1 | Required Net Operating Income | 5,358,078 |
| 4 | DLL-1 | Income Deficiency | 1,037,565 |
| 5 | DLL-4 | Federal and State Tax | 324,786 |
| 6 | DLL-1 | Revenue Excess/ Deficiency | $1,362,350 |

## III. REVENUE REQUIREMENT

**Q. What is meant by the term "revenue requirement"?**

A. A Utility "revenue requirement" is the sum of its annualized Operation and Maintenance ("O&M") expenses, depreciation expense, income and other taxes, along with a fair return on the utility's rate base. The revenue requirement is determined here based on a historical test year with pro forma adjustments reflecting reasonably known and measurable changes to revenues, expenses, and rate base items. When the proposed revenue requirement exceeds the utility's normalized test year revenues, a revenue deficiency exists. In this case, a rate increase is required in order to provide the Company a reasonable opportunity to earn its rate of return.

**Q. What are the general categories of pro forma adjustments proposed by the Company?**

A. *Pro forma* adjustments generally fall into one of the following categories:

1) Normalization adjustments - made to rate base and expenses to offset unusual levels of operations recorded during the test year. An example of such an adjustment would be the use of a 13-month average for materials and supplies to address the variable nature of the balance sheet account and its impact on the revenue requirement.

2) Annualization Adjustments - made to recognize a cost which occurred during the test year that will be ongoing and must be captured on a prospective basis. An example of such an adjustment would be the adjustment to payroll to account for salary increases during the *pro forma* period. This annualization is necessary to adjust payroll costs to a level reflecting the *pro forma* salary for the entire year.

3) Out of Period Adjustments - which consider known and measurable changes that occur outside the end of the test year but within the period specified by the update period. An example of such an adjustment would be increases in Plant in Service

based on Construction Work that is expected to be complete, used and useful and in service by the end of the pro forma update period.

4) Costs that are not necessary to provide gas service - An example of such an adjustment would be to remove FAS158 related pension costs included on the Company's balance sheet.

5) Costs recovered elsewhere - made to adjust the test year to reflect any cost recovery that occurs outside of base rates. An example of such an adjustment would be to remove gas costs that are included in the Purchased Gas Adjustment tariff. This adjustment is necessary to ensure that customers are not double charged for these costs recovered or passed through a separate mechanism.

**Q. What test year is the Company proposing in this case?**

A. EDG is proposing a historical test year based on twelve months ended December 31, 2020.

**Q. Is the Company requesting for the test year to be updated?**

A. Yes. EDG proposes that the test year be updated through September 30, 2021.

**Q. Is EDG requesting a true-up process in this case?**

A. No.

**Q. What is EDG's calculated overall rate of return?**

A. EDG's calculated overall rate of return at current rates is 6.44% percent. This rate of return earned under the current rates is calculated by dividing adjusted test year operating income by the adjusted test year rate base. EDG is proposing a rate of return of 8.51% as part of its revenue requirement.

**Q. Please summarize the rate relief the Company is seeking in this proceeding.**

A. EDG is seeking to recover an annual revenue deficiency of $1,362,350 based on pro forma rate base of $62,967,566.

**Q. What is the revenue requirement model?**

A. A revenue requirement model is the mechanism used to calculate various components of revenue and the cost to provide service which results in a revenue requirement. The model also calculates a rate of return to determine if a utility is earning its authorized rate of return or its proposed rate of return.

**Q. Please describe the direct schedules of the revenue requirement model.**

A. Direct **Schedule DLL-1**, Revenue Requirement Summary, presents the Company's proposed revenue requirement and the overall revenue requirement calculation. Direct **Schedule DLL-2**, Rate Base Summary, reflects the Company's test year rate base, including pro-forma adjustments and the resulting pro forma rate base. Rate base is the net capital investment to which the proposed rate of return is applied, along with income taxes to determine return on rate base. Direct **Schedule DLL-3,** Rate Base Adjustment Summary summarizes the detail presented in each of Direct Schedules DLL 3.1 to Direct Schedule DLL 3.9 which encompass known and measurable adjustments to rate base that the Company reasonably expects through the update period. Direct **Schedule DLL-5**, Income Statement Summary, provides the test year statement of operating income with pro forma adjustments and the resulting pro forma operating income. Direct **Schedule DLL-6**, Income Statement Adjustment Summary, summarizes the detail presented in Direct Schedule DLL 6.1 to Direct Schedule DLL 6.6 and provides the known and measurable adjustments to operating income that the Company reasonably expects through the update period. Direct **Schedule DLL-8**, Weighted Average Cost of Capital and Direct **Schedule DLL-9**, Weighted Average

Cost of Debt, presents the overall cost of capital and the weighted cost of debt used in the calculation of the revenue requirement. Company witness Todd Mooney addresses EDG's capital structure and cost of debt and Company witness John J. Reed addresses the reasonableness of EDG's capital structure and EDG's cost of equity. Direct **Schedule DLL-10**, Income Taxes, along with Direct **Schedule DLL-11**, Pro Forma Income Taxes, calculates income taxes based on state and federal effective tax rates. Direct **Schedule DLL-12**, Interest Synchronization, calculates the synchronized interest expense based on the Company's rate base and weighted cost of debt. The Interest Synchronization calculation is necessary to properly calculate the amount of income taxes to be recovered through rates as the Company receives a tax deduction for interest expense which reduces the Company's taxable income. Direct **Schedule DLL-13** Gross Revenue Conversion Factor, determines a factor to apply to the required operating income which calculates the additional tax needed to recover through the revenue requirement in order to receive the required operating income after taxes. Direct **Schedule DLL-14**, Composite Tax Rate, determines effective tax rates which are necessary for calculating the Gross Revenue Conversion Factors.

## IV. RATE BASE

**Q. What is the Company's proposed rate base in this case?**

A. As shown in Direct **Schedule DLL-2**, Rate Base Summary, the Company's pro forma rate base is $62,967,566. It is comprised of the test year rate base of $95,703,651, with pro-forma adjustments totaling $(32,736,085).

**Q. Please describe Rate Base (RB) Adjustment (ADJ) 1 for Plant Additions.**

A. RB ADJ 1 increases plant in service and accumulated depreciation for projects reasonably expected to be placed in service and used and useful by September 30, 2021.

Plant additions through September 30, 2021 total $1,205,193. Accumulated depreciation through September 30, 2021 totals $21,725.

**Q. Please describe RB Adjustment (ADJ) 2 for Common Plant.**

A. A portion of certain common plant assets utilized by EDG resides on Empire District Electric's ("EDE") books and should be included in rate base. RB ADJ 2 adds this common plant to EDG's common plant. EDG's percentage of EDE's common plant has been analyzed and results in 4.65% or $1,996,978 and the associated accumulated depreciation is $1,148,914 with net common plant of $848,064.

**Q. Please describe Rate Base (RB) Adjustment (ADJ) 3.**

A. RB ADJ 3 decreases the Company's rate base by $3,993,503 to account for the additional accumulated depreciation related to the test year plant in service including the test year balance of common plant from EDE.

**Q. Please explain RB ADJ 5 for Cash Working Capital ("CWC") Adjustment**.

A. Company witness Timothy Lyons presents the lead lag study prepared for EDG and sponsors RB ADJ 5 which represents the level of CWC included in the calculation of rate base.

**Q. Please explain RB ADJ 6 for the 13 Month Average Adjustments**.

A. A thirteen-month average is used to help smooth fluctuations in asset balances and better represent a normal level of investment for inclusion in rate base when setting new rates. When applying this method, it results in an increase to materials and supplies by $50,404. Prepayments were decreased by $50,455. Customer deposits were decreased by $20,102. Customer advances results in no change from the Test Year. Lastly, gas stored results in a decrease of $303,780.

**Q. Please explain RB ADJ 7 to Regulatory Assets.**

A. RB ADJ 7 was used to adjust the regulatory asset balances at the test year to the balances expected at the end of the update period, September 30, 2021. The total decrease to regulatory assets is $42,444,814 and includes the removal of acquisition costs and other related items deemed unrecoverable for rate making purposes and increases related to Demand Side Management ("DSM") Costs authorized in GR-2009-0434, rate case expenses, and pension related regulatory assets accounts.

**Q. Please explain RB Adj 8 Regulatory Liabilities.**

A. RB ADJ 8 was used to adjust the regulatory liability balances at the test year to the balances expected at the end of the update period, September 30, 2021. The total decrease to regulatory liability is $3,550,998 and is inclusive of adjustments to tax related liabilities and postretirement benefits other than pension, as well as the removal of the Purchased Gas Adjustment ("PGA") over-recovery.

**Q. Please explain RB Adj 9 RB- Accumulated Deferred Income Tax (ADIT).**

A. RB ADJ 9 decreases the amount of ADIT included in rate base by $9,263,111 to reflect the removal of deferred tax related to goodwill and to reflect the expected ADIT balance at September 30, 2021.

## V. OPERATING INCOME

**Q. Has the Company proposed any adjustment to its test year operating income?**

A. Yes, the Company has proposed multiple adjustments to normalize and annualize balances to arrive at what is deemed a normal test year. The various adjustments will be discussed in further detail next in my testimony.

**Q. Do any of the proposed adjustments relate to revenue?**

A. Yes. The Company proposes the following adjustments to test year revenue:

- REV ADJ 1 to remove PGA related revenues;

▪ REV ADJ 2 to remove unbilled revenues;

▪ REV ADJ 3 to remove franchise fees;

▪ REV ADJ 4 to normalize revenues for weather;

**Q. Do any of the proposed adjustments relate to expense?**

A. Yes. The Company proposes the following adjustments to test year expenses:

▪ EXP ADJ 2 to annualize the uncollectible expense account;

▪ EXP ADJ 3 to adjust expenses for customer payment fees;

▪ EXP ADJ 4 to annualize the amount of amortization expense related to the regulatory assets and liabilities to the update period;

▪ EXP ADJ 5 to include an normalized amount of rate case expense;

▪ EXP ADJ 6 to remove acquisition costs from the test year;

▪ EXP ADJ 7 to normalize the level of expected insurance premium expense;

▪ EXP ADJ 8 to normalize the amount of injuries and damages and worker's compensation claims paid out;

▪ EXP ADJ 9 to normalize payroll;

▪ EXP ADJ 10 to normalize employee benefits;

▪ EXP ADJ 11 to annualize the Public Service Commission Assessment;

▪ EXP ADJ 12 to annualize the depreciation expense at the update period with proposed depreciation rates;

▪ EXP ADJ 13 to capture the amount of accumulated amortization that will be included in the balance at the end of the update period;

▪ EXP ADJ 14 to reflect property tax expense on the pro forma plant balance that is expected to be used and useful at the end of the update period;

▪ EXP ADJ 15 to remove franchise tax expense;

- ▪ EXP ADJ 16 to include interest on customer deposit as an operating cost;
- ▪ EXP ADJ 17 to reflect a normalized level of pension and OPEB expenses;
- ▪ EXP ADJ 18 to normalize federal and state income taxes.
- ▪ EXP ADJ 18 to remove PGA costs.

**Q. Please explain REV ADJ 1 to remove PGA related revenues.**

A. REV ADJ 1 is to remove PGA related revenues from the revenue requirement. These revenues represent the amount recovered from customers as a result of the PGA tariff. This results in a pro forma adjustment to decrease revenues by $12,214,427.

**Q. Please explain REV ADJ 2 to remove unbilled revenues.**

A. This adjustment removes $169,795 of revenues from test year that were not billed to or received from customers during the test year and which billing determinants were not reflected in the billing determinants used to calculate a weather normalized level of revenue. Therefore, this adjustment is required to avoid a double counting of revenue.

**Q. Please explain REV ADJ 3 to remove franchise fees from the cost of service.**

A. REV ADJ 3 reduces test year revenues by $1,379,048 for EDG's revenues from franchise fees and are not included in the Company's base rates. Franchise fees are collected by the Company on behalf of local governments and then remitted to those governments. An additional adjustment is made to test year O&M expenses (EXP ADJ 15) to ensure franchise fee expenses are not included in base rates.

**Q. Please explain REV ADJ 4 to normalize revenues for weather.**

A. REV ADJ 4 adjusts test year revenues by $575,694 to reflect a normalized level of revenues expected under normal weather conditions. This adjustment removes the impact of weather on the revenue of weather sensitive classes. The Company is also proposing a Weather Normalization Adjustment Rider ("WNAR"). Please refer to Company witness Timothy S. Lyons' Direct Testimony for more details on the proposed WNAR.

## VI. EXPENSE ADJUSTMENTS

**Q. Please explain EXP ADJ 2 to annualize the uncollectible expense account.**

A. EXP ADJ 2 decreases EDG's uncollectible expenses by $2,721 by normalizing uncollectible expense based on a 5-year average of historical uncollectible percentages.

**Q. Please explain EXP ADJ 3 to adjust expenses for customer payment fees.**

A. EXP ADJ 3 increases Missouri jurisdictional operating expenses by $4,839 to capture the fees currently incurred by customers to make payments through kiosks, over the phone, and through electronic payment systems. Please see the testimony of Company witness Jon Harrison for further discussion on the request for inclusion of these costs in the Company's cost of service.

**Q. Please explain EXP ADJ 4 regulatory assets and liabilities amortization expense.**

A. EXP ADJ 4 reflects the adjustment to amortization expense for certain regulatory assets and liabilities and to annualize the expense at the update period. The total change to amortization expense is a decrease of $2,354,647 and is inclusive of adjustments to the following accounts:

- EDG DSM Expense
- Excess Depreciation Reserve Amortization
- MO Return of Excess DefTx 2017 – Protected and Unprotected
- MO State Excess – Protected & Unprotected

**Q. Please explain EXP ADJ 5 to include a normalized amount of rate case expense.**

A. The purpose of EXP ADJ 5 is to incorporate in the revenue requirement a normalized amount of rate case expense incurred throughout the current rate case docket.

**Q. Please explain EXP ADJ 6 to remove acquisition costs from the test year.**

A. EXP ADJ 6 decreases operating expenses by $709 to remove merger related transition and acquisition costs incurred during the test year from the revenue requirement.

**Q. Please explain EXP ADJ 7 for property insurance premium expense.**

A. EXP ADJ 7 increases operating expenses by $857 to reflect an out of test period anticipated increase in property insurance premiums through the update period.

**Q. Please explain EXP ADJ 8 injuries and damages insurance premiums expense.**

A. EXP ADJ 8 increases operating expenses by $192,935. This represents increases to premiums for injuries and damages.

**Q. Please explain EXP ADJ 9 for payroll normalization.**

A. This adjustment is to include in the cost of service a normalized level of payroll and payroll taxes expected at the end of the update period. To calculate this, the Company obtained the annual salary amount for each active employee at the end of the test year and applied a 2.5% merit increase which will became effective in 2021. The Company also included in its adjustment a portion of annualized payroll related to overtime. This annualized amount of overtime was determined by using an overtime percentage computed for the non-union and union employees based upon a two-year average of overtime hours actually incurred and the overtime rate as of December 31, 2020. This rate was then applied to the Company's pro forma base payroll amounts as previously described. In addition to annualizing the base salaries and overtime, the Company also included in its cost of service payroll related to open positions which the Company anticipates it will fill by the end of the update period. These amounts were then compared back to the test year amounts included in the cost of service and an adjustment was made for the difference.

The annualized level of payroll related to the base salaries with the incorporated merit increase mentioned above, and the annualized level of payroll related to the open positions anticipated to be filled by the update period results in a pro forma level of payroll of $4,397,591, and results in an increase to expenses of $776,257.

**Q. Please explain EXP ADJ 10 for employee benefits.**

A. EDG currently offers a variety of benefits, including, Medical, Dental, Vision, Life Insurance, Accidental Death and Dismemberment, Accident Insurance, Short and Long-Term Disability, and a 401 match, to its employees. For EXP ADJ 10, the Company obtained the annualized amounts it was incurring for each employee at the test year end and included benefit amounts for any open positions that the Company anticipates being filled by the end of the update period. To determine an annualized 401K expense, the actual 401k match rates that each employee was receiving at the test year end was used and then the Company match rate was used for the open positions. These rates were then applied to the pro forma salary amounts calculated in EXP ADJ 9 and then compared back to the test year amounts included in the cost of service. The annualized pro forma balance of benefits related to active employees at the test year end is $936,282, and results in an increase to expenses of $329,584.

**Q. Please explain EXP ADJ 11 to normalize Regulatory Commission Expense.**

A. EXP ADJ 11 represents a normalized amount of Public Service Commission Assessment. This decreases EDG's operating expenses by $2,932, which results in an EDG pro forma balance of $120,159.

**Q. Please explain EXP ADJ 12 - depreciation expense at the update period with proposed depreciation rates.**

A. EXP ADJ 12 represents an annualized level of depreciation expense based on updated depreciation rates from the Company's most recent depreciation study. The proposed rates result in a decrease to depreciation expense of $1,232,164 for the pro forma year. This leads to an adjusted annual depreciation expense excluding DSM of $3,319,015.

**Q. Please explain EXP ADJ 13 to capture the amount of accumulated amortization that will be included in the balance at the end of the update period.**

A. EXP ADJ 13 reflects a net decrease in EDG's operating expenses of $19,868. This adjustment consists of removing annual amortization expense that will be fully amortized during the update period.

**Q. Please explain EXP ADJ 14 to reflect property tax expense on the pro forma plant balance that is expected to be used and useful on September 30, 2021.**

A. This adjustment represents the normalized amount of property tax expense expected to be incurred for the Company's pro forma plant that is included in the cost of service. The property tax rate utilized by the Company in this adjustment is based on its estimated 2021 property tax liability. This results in an EDG pro forma year property tax expense of $1,492,029, a reduction of $29,263 from the test year.

**Q. Please explain EXP ADJ 15 to remove the test year level of franchise tax expense.**

A. In conjunction with REV ADJ 3 discussed above, EXP ADJ 15 removes $1,379,048 for franchise tax expenses from its revenue requirement calculation.

**Q. Please explain EXP ADJ 16 to include interest on customer deposits as an operating cost.**

A. EXP ADJ 16 calculates the interest on customer deposits totaling $85,507, as the test year revenue requirement does not reflect an account for customer deposit interest expense. The Company utilized the interest rate set by the Commission which went into effect in January 2021.

**Q. Please explain EXP ADJ 17 to reflect the balances in the Pension and OPEB accounts at the end of the update period.**

A. Please see the Direct Testimony of Company witness James A. Fallert regarding the expense adjustment made for Pension and OPEB.

**Q. Please explain EXP ADJ 18 to normalize income taxes.**

A. EXP ADJ 18 is to normalize income taxes based on the pro forma net operating income. This results in an increase to income taxes for EDG of $575,755.

**Q. Please explain EXP ADJ 19 to remove the test year level of PGA expense.**

A. In conjunction with REV ADJ 1 discussed above, EXP ADJ 19 removes $12,214,427 for PGA expenses from its revenue requirement calculation. These expenses represent the amount recovered from customers as a result of the PGA tariff.

**Q. Is the Company requesting the continuance of any trackers?**

A. Yes. As addressed and supported by Company witness James Fallert, pension and OPEB costs can fluctuate greatly due to a variety of circumstances. The Company respectfully requests the continuation of a tracker mechanism for pension and OPEB expenses.

**Q. Does the Company request any new trackers?**

A. Yes. EDG requests a Tax Tracker for Excess Accumulated Deferred Income Taxes and any future tax changes. The Company proposes that the tracker be created to capture the differences between Protected Excess ADIT returned to customers as part of the revenue requirement in this case, and the actual amortization recorded by the Company using Average Rate Assumption Method. The tracker would also capture the Unprotected Excess ADIT as well. The need for the tracker is due to the yearly variances in amortization on the Protected Excess ADIT and the impact weather and other factors have on customer usage. For instance, as mentioned above the amount of Protected Excess ADIT amortization fluctuates from year to year. In addition, weather and other factors have an impact on customer usage and thus the amount returned to customers. Rates are based on a normalized usage amount and any variances from this amount mean that customers may not receive the full annual amount of Unprotected and Protected Excess ADIT amortization or they could also receive too much of a benefit. Therefore, I propose that a per ccf amount be determined for both the Unprotected and Protected Excess ADIT amortization by class and type of service and then tracked and reported to the Commission each year to ensure customers receive the full benefits of the Tax Cuts and Jobs Act. In addition, the tracker can capture any future changes in federal and/or state tax rate changes.

**Q. Does this conclude your Direct Testimony at this time?**

A. Yes.

**VERIFICATION**

I, Dana Liner, under penalty of perjury, on this 23rd day of August, 2021, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Dana Liner