

Exhibit No.:
Issue: Accumulated Deferred Income Taxes
Witness: John M. Ostrander
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities
(Midstates Natural Gas) Corp
d/b/a Liberty Utilities
Case No.: GR-2018-0013
Date Testimony Prepared: September 27, 2017

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

Direct Testimony

of

John M. Ostrander

On Behalf Of

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

September 2017



DIRECT TESTIMONY
OF
JOHN M. OSTRANDER
LIBERTY UTILITIES
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. GR-2018-0013

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is John M. Ostrander. My business address is 602 South Joplin Avenue,
4 Joplin, MO 64802.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Liberty Utilities Services Corp. as a Lead Rates Analyst for the
7 Liberty Utilities Central Region, which includes Liberty Utilities (Midstates Natural
8 Gas) Corp. d/b/a Liberty Utilities (“Liberty Utilities” or “Company”).

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. I received a Bachelor of Business Administration in Accounting from the University
12 of Notre Dame. I am a Certified Public Accountant and a Certified Internal Auditor. I
13 joined Liberty Utilities in December 2015. Prior to joining Liberty Utilities, I was
14 most recently employed by the Illinois Commerce Commission, retiring in 2015. I
15 was initially employed for three years as a staff accountant in public accounting,
16 followed by over thirty years in private industry with positions ranging from
17 accounting manager to corporate officer encompassing all areas of accounting and
18 internal auditing.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
20 **SERVICE COMMISSION OR ANY OTHER REGULATORY AGENCY?**

1 A. I have not testified before the Missouri Public Service Commission (“Commission”).
2 I have testified before the Illinois Commerce Commission.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
4 **PROCEEDING?**

5 A. The purpose of my Direct Testimony is to provide an overview of the accumulated
6 deferred income taxes (“ADIT”) included in the Company’s pro forma rate base.

7 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

8 A. Yes. I am sponsoring schedule WP 7-13 ADIT of the Company’s revenue
9 requirement.

10 **Q. WAS THE INFORMATION CONTAINED IN THE ABOVE SCHEDULE**
11 **OBTAINED OR DERIVED FROM THE BOOKS AND RECORDS OF THE**
12 **COMPANY?**

13 A. Yes, the information contained in WP 7-13 was obtained or derived from the books
14 and records of Liberty Utilities for the twelve months ended June 30, 2017.

15 **Q. PLEASE DESCRIBE ACCUMULATED DEFERRED INCOME TAXES**
16 **INCLUDED IN PRO FORMA RATE BASE.**

17 A. Accumulated deferred income taxes are the net result of timing differences between
18 the accrual of tax expense for book purposes and tax payments. These differences
19 create either an addition to rate base (tax asset) or a reduction to rate base (tax
20 liability) to account for the difference between taxes provided in rates based on the
21 book straight line depreciation expense and the accelerated depreciation expense
22 elected for tax purposes. Calculated ADIT is shown on schedule WP 7-13 ADIT. The
23 proposed ADIT amounts for the various divisions are as follows: NEMO \$5,602,792,

1 SEMO \$7,119,409, and WEMO \$923,021 for a total of \$13,645,223, before pro
2 forma adjustments, which represents a reduction to rate base.

3 **Q. PLEASE EXPLAIN THE PRIMARY DRIVERS CAUSING THE INCREASE**
4 **IN THE ADIT BALANCES FROM THE LAST GENERAL RATE CASE,**
5 **DOCKET NO. GR-2014-0152.**

6 A. There are several factors driving the increase in ADIT. The calculations of ADIT in
7 the last general rate case, Commission Case No. GR-2014-0152, did not include
8 bonus depreciation. The calculations of ADIT in this rate case include bonus
9 depreciation. The other primary factor is the significant increase in plant placed in
10 service since the last general rate case which is causing the net book value to be
11 significantly greater than the net tax value. In addition to the increase in the test year
12 balance of ADIT, the proposed plant adjustments have ADIT adjustments associated
13 with them totaling \$1,746,936 which results in a total pro forma ADIT balance of
14 \$15,392,159.

15 **Q. PLEASE EXPLAIN WHY THE CALCULATED ADIT INCLUDED IN PRO**
16 **FORMA RATE BASE IS REASONABLE.**

17 A. Consistent with the Commission's treatment in prior general rate cases, ADIT is
18 treated as no-cost capital and therefore reduces rate base for ratemaking purposes.
19 The reasonableness of the Company's calculation methodology and resultant ADIT
20 amounts is demonstrated by compliance with federal and state income tax laws,
21 including the utilization of bonus depreciation which mirrors the inclusion of bonus
22 depreciation in the Company's ISRS filings.

23 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

24 A. Yes.

