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
| Attachment DBS/DSD-1-Rebuttal | Selected Revenue Requirement Schedules Showing Impact of Rebuttal Adjustments |

003
I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your names and business addresses.

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

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

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

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

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

Q. On whose behalf are you testifying today?

A. We are testifying on behalf of EnergyNorth.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. We submitted joint prefiled testimony as part of the Company’s April 28, 2017, filing for an increase in distribution rates. Our professional backgrounds and
qualifications are contained in that testimony. Terms defined in our prefiled direct
testimony have the same meaning in this rebuttal testimony.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

Q. Are you submitting any attachments with your testimony?
A. Yes, we are submitting the following attachments:
   
   • Attachment DBS/DSD-1-Rebuttal, presenting updates to the revenue requirement schedules previously submitted. The attachment includes only certain schedules to demonstrate the limited changes that were made and the impact of those changes.

Q. Please summarize the results of your testimony.
A. The Company agrees with the following changes proposed by Staff, with the particular schedules where the changes appear in Attachment DBS/DSD-1-Rebuttal noted with each change:
   
   • Change the pro forma adjustment to iNATGAS test year revenue from $18,300 to $183,000 (Schedule RR-EN-3-1 (R), line 11);
   
   • Move legal and degradation fees incurred in 2017 from the test year revenue requirement to the Step Increase (Schedule RR-EN-3-10 (R), lines 75 through 85 and Schedule Step-EN (R), lines 51 through 56);
Update the cash working capital allowance to reflect all rebuttal adjustments (Schedule RR-EN-5-2 (R), line 10); and

Update the interest synchronization calculation to reflect all rebuttal adjustments (Schedule RR-3-EN-8 (R), line 10).

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

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

A. No. Consistent with discussions the Company has had with Staff regarding Docket No. IR 18-001, given the existing schedule of this case the Company is not addressing the effects of the Tax Cuts and Jobs Act in rebuttal testimony in this proceeding and will consider the financial and rate impacts as part of IR 18-001.
Q. **Please summarize the adjustments that Mr. Laflamme and Ms. Mullinax proposed.**

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

**Table 1: Summary of Staff’s Recommended Revenue Requirements Adjustments**

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

Staff also did not object to the Company’s proposal to include the effect of the recent accounting change related to the capitalization of pension and OPEB costs as a going-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.
capital additions (Cunningham Direct, Bates 006, Lines 1 through 7, and Laflamme and Mullinax Direct, Bates 030, Lines 10 through 11).

Q. Did Staff also adjust the Company’s proposed Step Increase?

A. Yes. Staff made three adjustments to the Company’s proposed Step Increase. First, Staff removed $350,000 in capital investment from the Step Increase (Laflamme and Mullinax Direct, Bates 069, Line 5). That amount represents project 8840-1753 to install main pipeline on Varney Street, Worthley Road, and Rockland Avenue in Manchester, New Hampshire. As stated by the Company in response to Staff Tech 3-10, that project has an objective to eliminate pressure losses due to inefficiencies associated with hydraulic constraints. While the Company agreed in discovery to remove growth-related projects for EnergyNorth and Keene totaling $14,220,387, the Company did not exclude project 8840-1753 for the reason cited above. Second, Staff applied its modified depreciation rates to the Step Increase capital investments (Laflamme and Mullinax Direct, Bates 030, Lines 8-9). As discussed in the rebuttal testimony of Steven Mullen, the Company disagrees with those modifications as they apply to both the revenue requirement depreciation expenses, as well as the Step Increase. Lastly, Staff removed expenses from the Test Year for legal and degradation fees paid in 2017. Staff has moved those expenses into the Step Increase (Laflamme and Mullinax Direct, Bates 030, Lines 12-13). The Company agrees that is a reasonable approach with regard to those expenses.
Q. Are there errors in Staff’s proposed adjustment to the Step Increase?
A. Yes. While the Company agrees that it is reasonable to move expenses from the Test Year for legal and degradation fees paid in 2017 into the Step Increase, there are errors in Staff’s proposed approach. Specifically, Staff’s analysis inappropriately applied a tax effect to those fees (Laflamme and Mullinax Direct, Bates 069, Lines 36-43), without allowing for a tax gross-up on the associated revenue deficiency. To address that issue, we have excluded Staff’s tax impact on the legal and degradation fees in the Step Increase. The appropriate adjustment to the Step Increase (reflecting the removal of a tax effect on degradation and legal fees) is $358,582, rather than the $217,257 used by Staff (Staff Schedule EN 4, Line 43 minus Staff Schedule EN 4, Line 18).

Q. To which revenue requirement adjustments do you respond in this rebuttal testimony?
A. We respond to adjustments 1-3, 6-13, and 15. Company witness Steven Mullen responds to adjustment 4 regarding the Concord Training Center, and adjustments 5 and 14 regarding depreciation and accumulated depreciation. Company witness Robert B. Hevert responds to adjustment 16. Company witnesses William Clark and Stephen Hall respond to adjustment 17.

III. RESPONSE TO STAFF’S REVENUE REQUIREMENT ADJUSTMENTS
Q. Please summarize Staff’s Adjustment 1 regarding cash working capital.
A. Staff adjusted working capital to reflect its other adjustments (Laflamme and Mullinax Direct, Bates 013, Lines 1-2). We agree conceptually with that adjustment, although, as
discussed below, we do not agree with many of the underlying adjustments themselves.

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

Q. Please summarize Staff’s Adjustment 2 regarding the removal of prepayments from rate base.

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

Q. Do you agree with that adjustment?

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

---

2 See RR-EN-5.
capital. Staff is essentially saying that working capital should be near zero or negative,
which is nonsensical. As such, this adjustment should be rejected.

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

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

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

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

Q. Do you agree with Staff’s proposed adjustment and its concerns related to materials and supplies?

A. No. As explained by the Company in response to Staff Tech 3-8, the rationale for including those three inventory accounts within the material and supplies component of the Company’s rate base is that there is no other mechanism for the Company to receive a return on the average balance of those accounts. In addition, such inclusion is consistent with the treatment of those accounts in the Company’s last distribution rate case, Docket No. DG 14-180. Further, Staff’s implication that a 13-month average calculation would
be more appropriate for only these three accounts is inconsistent with the manner in
which both the Company and Staff have reflected all other non-plant related items in rate
base, and thus no such adjustment is warranted based on Staff’s concern. Indeed, Table 4
in Staff’s testimony (Laflamme and Mullinax Direct, Bates 015, Line 12) demonstrates
that the use of a 13-month average (rather than a five-quarter average as the Company
has done) for plant supplies would result in an increase in rate base. Staff accepts the
inclusion of plant supplies in rate base, however, and includes that account at the five-
quarter average. Finally, the regulatory text Staff cited in support of its proposal to
remove prepayments from rate base (i.e., Accounting for Public Utilities) lists fuel
inventory as a valid component of working capital that is generally accepted by
regulatory commissions: “in general, the components [or working capital] are: (1) fuel
inventory; (2) materials and supplies (M&S); (3) prepayments; and (4) cash working
capital.” For those reasons, and absent a proposal by Staff for an alternative means by
which the Company can recover its return on funds invested in those materials and
supplies accounts, this adjustment should be rejected.

Q. Please summarize Staff’s Adjustment 4 regarding the Concord Training Center.
A. Staff recommended the removal of Concord Training Center costs from both rate base
and operating income (Iqbal Direct, Bates 000027, Lines 15-17). That recommendation
is addressed by Company witness Steven Mullen in his rebuttal testimony.

---

Q. Please summarize Staff’s Adjustment 5 regarding the Theoretical Reserve Imbalance.

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

Q. Please summarize Staff’s Adjustment 6 regarding the removal of consultant costs.

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

Q. Do you agree with that adjustment?

A. No. Staff’s basis for the audit issue recommendation was that the project being analyzed was cancelled. The fact that the underlying project was cancelled, however, does not have a bearing on the recurring or non-recurring nature of the expense. On a regular basis, the Company necessarily explores and analyzes various options and projects for serving its customers. As explained in the Company’s comment to this same finding in 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.
(i.e., $42,592) were paid to a consultant for a proceeding that was before the Commission
during the test year and are a normal business expense incurred by a utility. Each year,
the Company will have different cases pending before the Commission, and due to their
technical nature or other requirements, the Company will need to hire external
consultants for analysis, filings, and discovery request responses. The fact that the
pipeline project that was the subject of the proceeding was ultimately cancelled by the
project sponsor should have no bearing on whether the costs should be disallowed absent
a finding of imprudence by the Commission (which Staff has not asserted is the case
here).

Q. Please summarize Staff’s Adjustment 7 to modify payroll and related costs for
vacancies.

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

Q. Do you agree with that adjustment?

A. No. The provision of reliable distribution service requires a full complement of
employees. If the Company is operating with a less than full complement of employees,
the excess work would either be completed by other employees (and thus increase
overtime costs) and/or by incremental temporary/contract labor. While Staff is correct that vacancies entail lower direct labor costs, Staff does not recognize that the decrease would be offset by other cost increases.

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

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

Q. Do you agree with that adjustment?

A. No. The LTIP is part of the Company’s total compensation package and is necessary and appropriate for attracting and retaining employees. Moreover, incentive compensation based on a company’s performance is a widely used method of compensating employees by placing a portion of compensation at risk. The purpose of the goals to which Staff objected is to meet, with existing resources, the rate of return authorized by the Commission. Providing employees an incentive to do so without additional rate relief benefits customers because it provides an incentive to reduce costs. Staff’s proposed adjustment is counterproductive and would harm customers in the end, and should be rejected.
Q. Please summarize Staff’s Adjustment 9 to adjust the iNATGAS minimum annual transportation quantity.

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

Q. Please summarize Staff’s Adjustment 10 regarding pension and OPEB expenses.

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

Q. Do you agree with that adjustment?

A. The Company agrees that the revenue requirement should reflect the latest actuarial reports and assumptions. In fact, the Company’s supplemental response to Staff Tech 1-1 reflects the same Actuarial Studies performed by CBIZ Cottonwood Retirement Plan Services as those relied on by Mr. Cunningham (see RR-EN-3-04WP). As such, the Company does not believe further adjustment is required.
Q. Please summarize Staff’s Adjustment 11 to adjust revenue to the year-end customer count.

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

Q. Do you agree with that adjustment?

A. No. Staff’s proposal would result in a mismatch between revenues and expenses. The Company’s filing in this proceeding is based on a historical test year (with known and measurable adjustments). The expense amounts included in this proceeding, except for those explicitly adjusted, represent expenses incurred throughout the historical test year. Adjusting revenues in this case based on a year-end customer count with no corresponding adjustment to overall expenses (e.g., for inflation) creates a mismatch between the period covered by revenue and the period covered by expense. In support of this adjustment, Staff offered just that it would be consistent with the Company’s use of year-end plant-in-service. However, not all items in rate base are measured as of year-end. Materials and supplies, prepayments, and customer deposits are based on balances measured throughout the historical test year. The lead-lag study (to which Staff offered no objections) measures the Company’s cash working capital needs during the historical test year. For those reasons, Staff’s proposal should be rejected.
Q. Please summarize Staff’s Adjustment 12 to move certain legal costs and degradation fees from the revenue requirement to the Step Increase.

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

Q. Please summarize Staff’s Adjustment 13 to remove severance associated with resignations.

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

Q. Do you agree with that adjustment?

A. No, and a clarification is also in order. In the cited section of testimony, Staff implied that severance is paid to employees who voluntarily resign to pursue other opportunities. That is not the case, and was not the case during the test year. Further, changes in personnel are a normal part of business. Severance payments are sometimes needed and are made at the discretion of management to make the process more efficient, less time-
consuming, and often less costly. Changes in personnel and the need for severance payments are a typical business cost. In addition, the Company should not be penalized for costs involved in hiring of employees who ultimately leave the Company or are terminated. The implication that the Company must never encounter a situation in the normal course of business where an employment situation must be addressed is unreasonable and unrealistic. The Company is fulfilling its responsibility by terminating employees when necessary and should not be required to absorb the costs of making a necessary change. Disallowing the recovery of the costs of taking such actions would be counterproductive and could result in higher costs to the Company. The costs incurred by the Company are not unusual in nature or amount, and by paying severance, the Company can mitigate risks and reduce time spent on these matters. Staff’s proposed adjustment would substitute Staff’s judgment for management’s judgment as to the most efficient and effective way to accomplish these changes. Moreover, Staff is making that determination without any of the background information available to management on the particular employment situations. The proposed adjustment is not appropriate and should be rejected.

Q. Please summarize Staff’s Adjustment 14 regarding Amortization and Depreciation Accrual Rates.

A. Staff proposed different depreciation rates for certain plant accounts than those proposed by the Company (Iqbal Direct, Bates 000004, Line 22 to Bates 000005, Line 1).

Company witness Steven Mullen responds to that proposal in his rebuttal testimony.
Q. What adjustment did Staff propose relating to interest synchronization (Adjustment 15)?

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

Q. Is Staff’s proposal relating to interest synchronization correct?

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

Q. Please summarize Staff’s Adjustment 16 regarding the cost of capital.

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

Q. Please summarize Staff’s Adjustment 17 regarding the iNATGAS project.

A. Staff asserted that a portion of the spending related to the iNATGAS project was imprudent, and that the revenue requirement related to that spending should be disallowed (Frink Direct, Bates 024, Lines 4-11). Company witnesses William Clark and Stephen Hall rebut that assertion.
Q. Please summarize the adjustments you have made to the Step Increase.

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

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

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

A. Yes, it does.