

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PEOPLES NATURAL GAS COMPANY LLC

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Docket No. R-2018-3006818

**PREPARED REJOINDER TESTIMONY OF
MATTHEW D. WESOLOSKY
DIRECTOR OF FINANCE AND REGULATORY
PNG COMPANIES LLC**

DATE SERVED: _____
DATE ADMITTED: _____

Peoples Statement No. 4-RJ

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1 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

2 A. Yes. I am sponsoring Peoples Exhibit No. MDW-RJ-1, which is an illustrative example
3 of the income tax rates used in the income tax calculation.
4

5 **II. RESPONSE TO OTHER PARTIES' SURREBUTTAL TESTIMONY**

6 **A. INCOME TAXES**

7 **Q. WOULD YOU BRIEFLY SUMMARIZE THE COMPANY'S POSITION WITH**
8 **RESPECT TO THE AMORTIZATION OF EXCESS DEFERRED INCOME**
9 **TAXES ("EDIT") FOR 2018 AND 2019?**

10 A. The Company does not believe the EDIT for 2018 and 2019 should be refunded to
11 customers. As stated in my rebuttal testimony, there is no basis for this proposal. The
12 Commission proceeding at Docket Nos. M-2018-2641242 and R-2018-3000503
13 addressing tax reform did not require the retrospective refund of prior period EDIT
14 amortization. As directed by the Commission, the Company established a regulatory
15 liability with respect to the EDIT. The EDIT is amortized using the average rate
16 assumption method, which amortizes the excess deferred income taxes as the underlying
17 timing differences reverse. The amortization of EDIT outside of a rate case is no
18 different than changes in deferred tax expense outside of a rate case. Deferred tax
19 expense changes each year as timing differences are generated or reversed. Changes in
20 deferred tax expense between rate cases are not reconcilable, and as such the underlying
21 EDIT amortization should not be as well.
22

1 **Q. DO THE OTHER PARTIES AGREE WITH THE COMPANY'S POSITION?**

2 A. I&E witness Grab disagrees with my position, stating that although the temporary rate
3 order did not specifically require a retrospective refund of prior period EDIT
4 amortization, the Commission did order Peoples to establish a regulatory liability account
5 for the tax savings realized from the TCJA for the period January 1, 2018 to June 30,
6 2018. I&E witness Grab also recommends amortizing EDIT for the HTY and FTY over
7 a 42-month period.

8

9 **Q. DO YOU AGREE WITH I&E WITNESS GRAB'S RECOMMENDATIONS?**

10 A. For the reasons stated in my rebuttal testimony, I respectfully disagree with Mr. Grab's
11 position on refunding the 2019 and 2019 EDIT.

12

13 **Q. IN HIS SURREBUTTAL TESTIMONY, OCA WITNESS MUGRACE STATES**
14 **THE COMPANY SHOULD RECONCILE THE WAY IT CALCULATED ITS**
15 **FEDERAL INCOME TAX IN EXHIBIT 7 SCHEDULE 8, ATTACHMENT 1 TO**
16 **THE 25.74% DISCLOSED IN YOUR REBUTTAL TESTIMONY. CAN YOU**
17 **PLEASE RECONCILE THE TWO METHODS?**

18 A. Yes. In his surrebuttal testimony, OCA witness Mugrace is correct that my tax
19 calculations in Exhibit 7, Schedule 8 utilize a 21% federal income tax rate and a 9.99%
20 PA tax rate. However, the combination of those two rates alone does not equate to the
21 total tax expense. The 25.74% is calculated as follows:

1 21.00% - Federal
2 9.99% - PA
3 (4.00)% - PA NOL utilization (40% of PA taxable income)
4 (1.26)% - Federal benefit of state deduction (21% * (-9.99% + 4.000%))
5 25.74% - total income tax rate

6 OCA witness Mugrace is correct. The 21% and 9.99% are used in Exhibit 7, Schedule 8
7 in cells Q50 and D41, respectively. However, as described in my direct testimony,
8 Peoples Statement No. 4, page 12, the state income tax liability is reduced by 40% of the
9 current year taxable income, thereby reducing the state income tax rate by 4% (40% *
10 9.99%). This reduction is included in cell S38.

11 Additionally, as described in my direct testimony, Peoples Statement No. 4, page
12 11, state income taxes are deductible in arriving at federal taxable income, which in turn
13 reduces federal income tax expense. Mathematically this means the federal income rate
14 is reduced by 1.26% (9.99% PA tax rate, less 40% NOL adjustment) multiplied by 21%.
15 For example, in Exhibit 7, Schedule 8, cell Q46 Income Subject to Federal Income Tax
16 has been reduced by cell Q44 Pennsylvania Income Tax Expense.

17

18 **Q. CAN YOU PROVE THAT EXHIBIT 7, SCHEDULE 8 UTILIZED THE 25.74%**
19 **TAX RATE FOR THE ADJUSTMENTS?**

20 A. Yes. I have attached a simple example using Exhibit 7, Schedule 8 assuming \$100 of
21 taxable income at present rates and a revenue increase of \$100. As you see, the total
22 income tax expense on line 31 increased by \$25.47.

23

1

2 **III. CONCLUSION**

3 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?**

4 **A. Yes.**

**Combined Divisions
Income Tax Provision**

FILING REQUIREMENTS

53.53.III.A.55
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	Test Year for the 12 Months Ended:		
	Fully Projected Future		
	G	H	I
	<u>Present Rates</u> 10/31/2020 <i>Pro-Forma</i>	<u>Proposed Rates</u> 10/31/2020 Adjustment	<u>Proposed Rates</u> 10/31/2020 <i>Pro-Forma</i>
1 Operating Income Before Taxes and Interest	120.00	100.00	220.00
2 Less: Interest Expense	20.00	-	20.00
3 Pretax Operating Income (Loss)	<u>100.00</u>	<u>100.00</u>	<u>200.00</u>
Adjustments to Taxable Income (Schedule M Items):			
Permanent Adjustments			
4 Meals & Entertainment	-	-	-
Deferred Adjustments			
5 Depreciation	-	-	-
6 Sec 165 Loss on Asset Retirements	-	-	-
7 Contributions in Aid of Construction	-	-	-
8 Cost of Removal	-	-	-
9 Other	-	-	-
10 Total Deferred Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
11 Total Adjustments to Taxable Income	<u>-</u>	<u>-</u>	<u>-</u>
Adjustments to State Taxable Income			
12 PA Depreciation Adjustment	-	-	-
13 Income Subject to State Income Tax (Before NOL Utilization)	<u>100.00</u>	<u>100.00</u>	<u>200.00</u>
14 Prior Year PA NOL Utilization	<u>(40.00)</u>	<u>(40.00)</u>	<u>(80.00)</u>
15 PA Taxable Income	<u>60.00</u>	<u>60.00</u>	<u>120.00</u>
16 PA Income Tax Expense (Before Current Year NOL Adj)	5.99	5.99	11.99
17 Current Year PA Net Operating Loss Adjustment	-	-	-
18 PA Deferred Income Tax Expense	-	-	-
19 Pennsylvania Income Tax Expense	<u>5.99</u>	<u>5.99</u>	<u>11.99</u>
	0.06	-	0.06
20 Income Subject to Federal Income Tax (Before NOL Adjustment)	<u>94.01</u>	<u>94.01</u>	<u>188.01</u>
21 (Prior Year) Current Year Federal Net Operating Loss Adjustment	-	-	-
22 Federal Taxable Income	<u>94.01</u>	<u>94.01</u>	<u>188.01</u>
23 Federal Income Tax Expense Before Current Year NOL Adj	19.74	19.74	39.48
24 Current Year Federal Net Operating Loss Adjustment	-	-	-
25 Federal Current Income Tax Expense	<u>19.74</u>	<u>19.74</u>	<u>39.48</u>
26 Federal Deferred Income Tax Expense	-	-	-
27 Amortization of Excess Deferred Income Taxes	-	-	-
28 Current Year Federal Deferred NOL Adjustment	-	-	-
29 Federal Deferred Income Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>
30 Total Federal Tax Expense (Current and Deferred)	<u>19.74</u>	<u>19.74</u>	<u>39.48</u>
31 Total Income Tax Expense	<u>25.74</u>	<u>25.74</u>	<u>51.47</u>
32 Other Income and Deductions:			
35 Other Income and Deductions	-	-	-
38 Taxes on Other Income and Deductions	-	-	-
39 Net Income	<u>74.26</u>	<u>148.53</u>	<u>148.53</u>