



Thomas J. Sniscak
(717) 236-1300 x224
tjsniscak@hmslegal.com

Whitney E. Snyder
(717) 236-1300 x260
wesnyder@hmslegal.com

Phillip D. Demanchick Jr.
(717) 236-1300 x225
pddemanchick@hmslegal.com

100 North Tenth Street, Harrisburg, PA 17101 Phone: 717.236.1300 Fax: 717.236.4841 www.hmslegal.com

December 16, 2022

Via E-Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street – Second Floor North
Harrisburg, PA 17120

RE: State Tax Adjustment Surcharge – No Recomputed STAS or Tariff Supplement
Necessary; Docket No. M-2022-3037158; **Leatherstocking Gas Company LLC**

Dear Secretary Chiavetta:

In accordance with the Commission's State Tax Adjustment Surcharge Procedures, 52 Pa. Code § 69.51, *et seq.*, and as set forth in the Secretarial Letters dated November 9, 2022 and December 15, 2022, enclosed for filing on behalf of Leatherstocking Gas Company, LLC ("LGC" or "Leatherstocking") is its State Tax Adjustment Surcharge ("STAS") calculation reflecting the rate impacts associated with Act 53 of 2022. As shown in the supporting schedules, Leatherstocking will not be implementing a STAS rate. Accordingly, no tariff supplement is included with this filing.

By way of further explanation, as demonstrated in Leatherstocking's most recent Section 1308(d) filing at Docket No. R-2022-3032764 and as set forth in the supporting schedules, Leatherstocking does not currently have a Pennsylvania state income tax liability at present rates. Leatherstocking likewise does not project a Pennsylvania state income tax liability for 2023 at present rates.

Moreover, the Unanimous Joint Petition for Full Settlement of Rate Proceeding ("Settlement") filed at Docket No. R-2022-3032764 is currently under consideration by the Commission, which contemplates a two-year phased-in increase of approximately \$645,000. While Leatherstocking may realize a state income tax liability in 2023 if Settlement rates are

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
December 16, 2022
Page 2

approved by the Commission, such rates are appropriately based upon a Pennsylvania state income tax rate of 8.99%. Settlement ¶ 10. Furthermore, the Settlement contemplates future STAS adjustments for years 2024 and later, pursuant to Act 53 of 2022 and as required by the Commission's STAS procedures, 52 Pa. Code § 69.51, *et seq.* Settlement ¶ 12.

For these reasons, no adjustment to the STAS is required at this time. In the future, should Settlement rates be approved, and as the Pennsylvania Corporate Net Income Tax is reduced by way of Act 53 of 2022, Leatherstocking will make the appropriate STAS adjustment filings on an annual basis.

Thank you for your assistance in this matter. If you should have any questions, please feel free to contact me at 717-236-1300.

Very truly yours,

/s/ Whitney E Snyder

Thomas J. Sniscak
Whitney E. Snyder
Phillip D. Demanchick Jr.

Counsel for Leatherstocking Gas Company LLC

WES/das
Enclosure

cc: Erin Laudenslager, Bureau of Technical Utility Services
Richard Kanaskie, Director, Bureau of Investigation & Enforcement
Patrick Cicero, Consumer Advocate, Office of Consumer Advocate
NazAarah Sabree, Small Business Advocate, Office of Small Business Advocate

Leatherstocking Gas Company, LLC.
 Calculation of 2023 Gas STAS Rate
 To Reflect 8.99% State Income Tax Rate

| | |
|--|---------------------|
| Cost of Service Adjustment to reflect State Corporate Income Tax Rate of 8.99% (See Revenue Requirement Page 2 of 8) | \$ - |
| 2022 STAS Over / (Under) Credit Adjustment | - |
| 2023 STAS Credit Amount | \$ - |
| Forecast Delivery Revenues (excl. GCR) January 1, 2023 - December 31, 2023 (See Gas Revenues Page 8 of 8) | <u>\$ 1,303,800</u> |
| 2023 Gas STAS Surcharge Credit Rate Effective January 1, 2023 | <u><u>0.00%</u></u> |

Leatherstocking Gas Company, LLC.
Revenue Requirement Associated with Change in SIT Rate
Summary
Case R-2022-3022764

| <u>GAS OPERATING INCOME AFTER TAX</u> | <u>Cost of Service w/o Rate Relief (9.99% SIT Rate)</u> | <u>Cost of Service w/o Rate Relief (8.99% SIT Rate)</u> | <u>Net Income change resulting from Lower SIT Rate</u> |
|---|---|---|--|
| 1 Operating Income Before Income Taxes | \$ 250,100 | \$ 250,100 | |
| 2 Less State Income Tax @ 9.99% / 8.99% (a) | <u>-</u> | <u>-</u> | |
| 3 Federal Taxable Income | 250,100 | 250,100 | |
| 4 Less Federal Income Tax Rate @ 21% | <u>(8,600)</u> | <u>(8,600)</u> | |
| 5 Net Income after Tax | <u>\$ 258,700</u> | <u>\$ 258,700</u> | \$ - |
| 6 Book Income Before SIT | | | <u>1.4100</u> |
| 7 Total Annual Revenue Requirement Change | | | <u>\$ -</u> |
| 8 Rounded | | | <u>\$ -</u> |

| <u>Calculation of Gross Up Factor</u> | |
|---------------------------------------|----------------------|
| Additional Revenues | 100.000000 |
| Plus Forfeited Discounts | 0.170000 |
| Less Uncollectibles | <u>1.530000</u> |
| Sub-Total | 98.640000 |
| Less State Income Taxes 8.99% | <u>8.867736</u> |
| Sub-Total | 89.772264 |
| Less Federal Income Taxes 21.00% | <u>18.852175</u> |
| Retention Factor | <u>70.920089</u> |
| | |
| Additional Revenues | 100.000000 |
| Retention Factor | <u>70.920089</u> |
| | <u>1.4100</u> |

(a) State tax deductions result in a negative income tax. Current state income tax losses may be carried forward.. Companies can apply carry forward tax losses to reduce up to 40% of the current period taxable income.

Leatherstocking Gas Company, LLC.
Gas Cost of Service
Twelve Months Ended March 31, 2023

| | Joint Petition Case R-2022-3032764 (1) | Adjustment To Eliminate Relief (2) | Earnings Excluding Rate Relief Not Starting Until April 2023 / 24 (3)=(1+2) |
|---|---|---|--|
| <u>Operating Revenues:</u> | | | |
| Sales of Gas - Customer Revenues | \$ 2,693,600 | \$ (645,000) | \$ 2,048,600 |
| Other Operating Revenues | - | - | - |
| Total Operating Revenues | <u>2,693,600</u> | <u>(645,000)</u> | <u>2,048,600</u> |
| <u>Operating Expenses:</u> | | | |
| Purchased Gas Expense | 846,000 | - | 846,000 |
| Other Operation and Maintenance Expense | 654,900 | - | 654,900 |
| Depreciation & Amortization Expense | 276,500 | - | 276,500 |
| Taxes other than Income | 21,100 | - | 21,100 |
| Total Operating Expenses | <u>1,798,500</u> | <u>-</u> | <u>1,798,500</u> |
| Operating Income Before Income Taxes: | 895,100 | (645,000) | 250,100 |
| State Income Tax | 19,100 | (19,100) | - |
| Federal Income Tax | <u>122,900</u> | <u>(118,200)</u> | <u>(8,600)</u> |
| Operating Income after Taxes | <u>\$ 753,100</u> | <u>\$ (507,700)</u> | <u>\$ 258,700</u> |
| Rate Base | <u>\$ 10,170,200</u> | | <u>\$ 10,170,200</u> |
| Rate of Return | <u>7.40%</u> | | <u>2.54%</u> |

Leatherstocking Gas Company, LLC.
Calculation of Gas State Income Taxes
Adjustment No. 1

| | State Tax Calculation | | | |
|---|------------------------------|---------------------------|------------------------------------|------------------------------------|
| | Settlement | Remove Rate Relief | w/o Rate Relief @ 9.99% SIT | w/o Rate Relief @ 8.99% SIT |
| Operating Income Before Income Taxes | \$ 895,100 | \$ (645,000) | \$ 250,100 | \$ 250,100 |
| Less Interest Expense (incl amort of debt exp) | 290,900 | - | 290,900 | 290,900 |
| Book Income Before SIT | <u>604,200</u> | <u>(645,000)</u> | <u>(40,800)</u> | <u>(40,800)</u> |
| Section I- Permanent Items: | | | | |
| Total | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Pretax Income | 604,200 | (645,000) | (40,800) | (40,800) |
| Section II - Normalized Items: | | | | |
| Add: Additional Taxable Income and Unallowable Deductions: | | | | |
| Book Depreciation | 276,500 | 276,500 | 276,500 | 276,500 |
| Economic Depreciation (CIAC / CBOCF) | - | 307,086 | 307,086 | 307,086 |
| Total | <u>276,500</u> | <u>583,586</u> | <u>583,586</u> | <u>583,586</u> |
| Deduct: Non-Taxable Income and Allowable Deductions | | | | |
| Tax Depreciation | 684,700 | 684,700 | 684,700 | 684,700 |
| Total | <u>684,700</u> | <u>684,700</u> | <u>684,700</u> | <u>684,700</u> |
| Federal NOL | - | - | - | - |
| Taxable Income | 196,000 | (746,114) | (141,914) | (141,914) |
| State Tax Adjustments | - | - | - | - |
| Adjusted Taxable Income | <u>196,000</u> | <u>(746,114)</u> | <u>(141,914)</u> | <u>(141,914)</u> |
| x State Income Tax @ 9.99% / 8.99% | 9.74% | 9.74% | 9.99% | 8.99% |
| Calculated State Tax | <u>19,090</u> | <u>(72,672)</u> | <u>(14,177)</u> | <u>(12,758)</u> |
| State Tax (If less than \$0, Tax = \$0) | <u>\$ 19,090</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Rounded (Adjustment No. 1) | <u>\$ 19,100</u> | <u>\$ (19,100)</u> | <u>\$ -</u> | <u>\$ -</u> |

Leatherstocking Gas Company, LLC.
Calculation of Gas Federal Income Taxes
Adjustment No. 2

| | <u>Settlement</u> | <u>Remove Rate Relief</u> | <u>2022 State Tax Rate</u> | <u>2023 State Tax Rate</u> |
|---|-------------------|-------------------------------|--------------------------------|--------------------------------|
| State Taxable Income (Page 4 of 8) | \$ 196,000 | \$ (645,000) | \$ (141,914) | \$ (141,914) |
| Less: State Income Tax | 19,100 | (19,100) | - | - |
| Federal Tax Adjustments | - | - | - | - |
| Adjusted Taxable Income | <u>176,900</u> | <u>(664,100)</u> | <u>(141,914)</u> | <u>(141,914)</u> |
| * Federal Income Tax Rate | 21% | 21% | 21% | 21% |
| Current Federal Income Tax | <u>\$ 37,149</u> | <u>\$ (139,461)</u> | <u>\$ (29,802)</u> | <u>\$ (29,802)</u> |
| <u>Deferred Federal Income Tax Applicable To:</u> | | | | |
| Book Depreciation | (58,065) | (58,065) | (58,065) | (58,065) |
| Economic Depreciation (CIAC / CBOCF) | - | (64,488) | (64,488) | (64,488) |
| Tax Depreciation | <u>143,787</u> | <u>143,787</u> | <u>143,787</u> | <u>143,787</u> |
| Total | <u>85,722</u> | <u>85,722</u> | <u>85,722</u> | <u>85,722</u> |
| <u>Summary of Federal Income Taxes:</u> | | | | |
| Current Federal Income Tax - 409 | 37,149 | (139,461) | (29,802) | (29,802) |
| Deferred Federal Income Tax Dr - 410 | (58,065) | (122,553) | (122,553) | (122,553) |
| Deferred Federal Income Tax Dr - 411 | 143,787 | 143,787 | 143,787 | 143,787 |
| Deferred FIT Adjustments | - | - | - | - |
| Total | <u>\$ 122,871</u> | <u>\$ (118,227)</u> | <u>\$ (8,568)</u> | <u>\$ (8,568)</u> |
| Rounded (Adjustment No. 2) | <u>\$ 122,900</u> | <u>\$ (118,200)</u> | <u>\$ (8,600)</u> | <u>\$ (8,600)</u> |

Leatherstocking Gas Company, LLC.
Gas Rate Base
Twelve Months Ended March 31, 2023

| | | Case |
|----|--|------------------------------|
| | | <u>R-2022-3032764</u> |
| | <u>Gas Utility Plant</u> | |
| 1 | Utility Plant In Service | \$ 12,247,900 |
| 3 | General Plant In Service (Corning Gas) | 52,100 |
| 4 | CWIP not Taking Interest | - |
| 5 | Total Gas Utility Plant | <u>\$ 12,300,000</u> |
| | <u>Gas Plant Reserves</u> | |
| 6 | Accumulated Depreciation - Gas Plant | \$ 752,300 |
| 7 | Accumulated Depreciation - Accelerated | 750,700 |
| 8 | Retirements W.I.P. | - |
| 9 | Total Gas Plant Reserves | <u>\$ 1,503,000</u> |
| 10 | Net Gas Plant in Service | <u>\$ 10,797,000</u> |
| | <u>Additions to Net Gas Plant</u> | |
| | Working Capital Allowance | |
| 11 | Cash Working Capital | \$ 80,300 |
| 12 | Materials and Supplies | 18,000 |
| 13 | Prepayments | 5,800 |
| 14 | Deferred Debits (Net of Tax) | - |
| 15 | Total Additions to Net Gas Plant | <u>\$ 104,100</u> |
| | <u>Deductions to Net Gas Plant</u> | |
| 16 | Deferred Credits (Net of Tax) | \$ - |
| 17 | Customer Deposits | - |
| 18 | Accumulated Deferred Income Taxes | 730,900 |
| 19 | Total Deductions to Net Gas Plant | <u>\$ 730,900</u> |
| 20 | Total Gas Rate Base | <u>\$ 10,170,200</u> |

Leatherstocking Gas Company, LLC.
 Gas Capitalization / Cost of Money
 Twelve Months Ended March 31, 2023

| | | <u>Percent of Capital</u> | <u>Cost of Component</u> | <u>Weighted Cost</u> |
|----------|-----------------------------|-------------------------------|------------------------------|--------------------------|
| 1 | Long Term Debt | 43.917% | 5.18% | 2.27% |
| 2 | Short Term Debt | 10.656% | 5.50% | 0.59% |
| 3 | Common Stock Equity | 45.427% | 10.00% | 4.54% |
| 4 | Total Capitalization | <u>100.000%</u> | | <u>7.40%</u> |

Leatherstocking Gas Company, LLC

**Gas Revenues (\$) (excludes Competitive Transportation Customer)
For the Twelve Months Ended December 31, 2023**

| | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Total</u> |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|----------------------------|
| <u>Rate Revenue</u> | | | | | | | | | | | | | |
| SC 1 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 6,400 | \$ 76,800 |
| SC 2 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 2,480 | 29,760 |
| SC 3 | 1,800 | 1,800 | 1,800 | 1,500 | 1,500 | 1,500 | 1,500 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 20,400 |
| Subtotal | <u>10,680</u> | <u>10,680</u> | <u>10,680</u> | <u>10,380</u> | <u>10,380</u> | <u>10,380</u> | <u>10,380</u> | <u>10,680</u> | <u>10,680</u> | <u>10,680</u> | <u>10,680</u> | <u>10,680</u> | <u>126,960</u> |
| <u>Delivery Revenue</u> | | | | | | | | | | | | | |
| SC 1 | 42,273 | 34,989 | 26,139 | 15,369 | 10,024 | 2,763 | 2,834 | 1,924 | 5,846 | 8,752 | 21,759 | 24,929 | 197,600 |
| SC 2 | 50,011 | 42,104 | 29,030 | 15,603 | 12,723 | 3,756 | 4,660 | 2,970 | 3,991 | 9,767 | 24,589 | 28,439 | 227,643 |
| SC 3 | 41,008 | 43,400 | 27,607 | 11,512 | 7,211 | 2,655 | 2,973 | 2,475 | 3,548 | 10,733 | 23,632 | 26,417 | 203,170 |
| Subtotal | <u>133,292</u> | <u>120,493</u> | <u>82,776</u> | <u>42,484</u> | <u>29,958</u> | <u>9,174</u> | <u>10,466</u> | <u>7,369</u> | <u>13,385</u> | <u>29,251</u> | <u>69,980</u> | <u>79,785</u> | <u>628,413</u> |
| <u>Rate Relief</u> | | | | | | | | | | | | | |
| SC 1 | - | - | - | 12,486 | 8,144 | 2,244 | 2,302 | 1,563 | 4,749 | 7,110 | 17,677 | 20,253 | 76,528 |
| SC 2 | - | - | - | 12,676 | 10,336 | 3,051 | 3,786 | 2,413 | 3,242 | 7,934 | 19,976 | 23,104 | 86,519 |
| SC 3 | - | - | - | 9,889 | 6,194 | 2,281 | 2,554 | 2,126 | 3,048 | 9,220 | 20,301 | 22,693 | 78,307 |
| Subtotal | <u>-</u> | <u>-</u> | <u>-</u> | <u>35,051</u> | <u>24,674</u> | <u>7,577</u> | <u>8,641</u> | <u>6,102</u> | <u>11,039</u> | <u>24,265</u> | <u>57,954</u> | <u>66,050</u> | <u>241,353</u> |
| <u>CIAC/CBOCF/ ROLL-IN</u> | | | | | | | | | | | | | |
| SC 1 | 19,510 | 16,149 | 12,064 | 7,093 | 4,627 | 1,275 | 1,308 | 888 | 2,698 | 4,039 | 10,043 | 11,506 | 91,200 |
| SC 2 | 23,082 | 19,433 | 13,398 | 7,202 | 5,872 | 1,734 | 2,151 | 1,371 | 1,842 | 4,508 | 11,349 | 13,126 | 105,066 |
| SC 3 | 22,368 | 23,672 | 15,059 | 6,279 | 3,933 | 1,448 | 1,621 | 1,350 | 1,935 | 5,854 | 12,890 | 14,409 | 110,820 |
| Subtotal | <u>64,960</u> | <u>59,254</u> | <u>40,521</u> | <u>20,574</u> | <u>14,432</u> | <u>4,457</u> | <u>5,080</u> | <u>3,609</u> | <u>6,475</u> | <u>14,401</u> | <u>34,282</u> | <u>39,041</u> | <u>307,086</u> |
| <u>Total Billed Revenue</u> | | | | | | | | | | | | | |
| SC 1 | 68,183 | 57,538 | 44,603 | 41,348 | 29,194 | 12,682 | 12,843 | 10,776 | 19,693 | 26,301 | 55,879 | 63,088 | 442,128 |
| SC 2 | 75,574 | 64,017 | 44,908 | 37,961 | 31,411 | 11,021 | 13,076 | 9,233 | 11,555 | 24,689 | 58,393 | 67,149 | 448,988 |
| SC 3 | 65,175 | 68,872 | 44,466 | 29,181 | 18,838 | 7,884 | 8,648 | 7,751 | 10,331 | 27,608 | 58,623 | 65,319 | 412,697 |
| Total | <u>\$ 208,932</u> | <u>\$ 190,427</u> | <u>\$ 133,977</u> | <u>\$ 108,490</u> | <u>\$ 79,443</u> | <u>\$ 31,587</u> | <u>\$ 34,568</u> | <u>\$ 27,760</u> | <u>\$ 41,579</u> | <u>\$ 78,597</u> | <u>\$ 172,896</u> | <u>\$ 195,556</u> | <u>\$ 1,303,812</u> |
| Rounded | | | | | | | | | | | | | <u>\$ 1,303,800</u> |

VERIFICATION

I, Charles Lenns, Vice President and Chief Financial Officer and Treasurer of Leatherstocking Gas Company, LLC, certify that the facts set forth in the document are true and correct to the best of my knowledge, information and belief; that if I were asked the questions contained therein today that my answers would remain the same. I understand that the statements made in my testimony are subject to the penalties at 18 Pa C.S. § 4909 related to the unsworn falsification to authorities.

Dated: December 16, 2022



Charles Lenns
Vice President, Chief Financial Officer & Treasurer
Leatherstocking Gas Company, LLC