COLUMBIA STATEMENT NO. 10

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	)	
	)	
vs.	)	Docket No. R-2015-2468056
	)	
Columbia Gas of Pennsylvania, Inc.	)	
	)	

DIRECT TESTIMONY OF
PANPILAS W. FISCHER
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

RECEIVED
2015 AUG -7 PM 12:05
PA PUC
SECRETARY'S BUREAU

Columbia Stmt. 10
R-2015-2468056
8-4-15
Harrisburg JS

Q. Please state your name and business address.

A. My name is Panpilas W. Fischer. My business address is 290 W. Nationwide Blvd, Columbus, Ohio 43215.

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

A. I am employed by NiSource Corporate Services Company ("NCSC"), a management and services subsidiary of NiSource Inc. ("NiSource"). My current title is Manager of Income Taxes at NCSC.

Q. Please briefly describe your professional experience.

A. I began my career with KPMG as a staff auditor in 1987. I then joined the firm of Clark, Schaefer, Hackett and Co., CPAs as a Senior Auditor in 1989 where I performed financial audits, reviews and compilations, and prepared and reviewed tax returns for corporations, partnerships and individuals. In October 2000, I started working as a tax analyst for NCSC and in October 2003 I was promoted to my current position.

Q. Please describe your educational background.

A. I received a Bachelor of Business Administration in Accounting in 1987 from The Ohio State University. I am a Certified Public Accountant and member of the Ohio Society of Certified Public Accountants.

Q. What are your responsibilities in your current position?

A. In my current position with NCSC, my principal responsibilities include supervision and preparation of all of Columbia Gas of Pennsylvania's ("Columbia" or "the Company") income tax activities including the booking of income tax accruals and deferred tax entries, the filing of income tax returns, tax research and planning and the preparation of income tax data and related testimony for rate proceedings.

Q. Have you previously testified before this or any other regulatory agency?

A. I have previously provided testimony to the Pennsylvania Public Utility Commission ("Commission"), the Kentucky Public Service Commission, the Public Utilities Commission of Ohio, the Public Service Commission of Maryland and the Commonwealth of Virginia State Corporation Commission.

Q. What is the purpose of your testimony in this proceeding?

A. The primary purpose of my testimony is to present and support Columbia's income tax and other tax expense included in the cost of service. The filing includes federal and state income tax recovery, reduction of rate base for deferred income taxes, as well as a reduction to tax expense resulting from the Company's 2008 change in tax method of accounting for repairs. The income tax calculations are included in Exhibit 7 for the Historic Test Year (the twelve month period ending November 30 2014) and Exhibit 107 for the Fully Forecasted Rate Year (the twelve-month period ending December 31, 2016). Taxes other than income tax are included in Exhibit 6 and Exhibit 106.

Q. Will you explain the basis for the income tax calculations for the Historic Test Year?

A. The tax calculations were made in accordance with federal and state laws. The federal tax rate is 35% and the Pennsylvania tax rate is 9.99%. The Historic Test Year tax calculations have been impacted by certain items that have been historically treated as flow-through or deferred in rate making proceedings.

Q. Can you explain the flow-through items included in the tax provision?

A. Prior to 1981, federal tax statutes did not require full normalization of accelerated tax depreciation versus book straight line depreciation recovered in rates. Beginning in 1981 for Columbia, normalization, under the Internal Revenue Code, does not permit the flow-through or refund of accelerated depreciation benefits by a utility to its customers. Such benefits must be provided for in a deferred tax reserve, and that reserve may be allowed as a rate base reduction. Prior to 1984, the Company flowed-through the benefits of accelerated depreciation for vintage years prior to 1981. Beginning in 1984, the Company began to normalize the remaining book versus tax differences on Asset Depreciation Range vintages (1971 through 1980) based upon the Commission's order in Docket No. R-832493. For the Historic Test Year, we are in a position where the Company has very little in terms of tax depreciation remaining on pre-1981 assets. Thus, we are in a turnaround position, since book depreciation is now higher than tax depreciation.

In addition, the Company has excess deferred taxes that were originally computed at a 46% federal tax rate for 1981-1987 vintages that are being refunded in rates under the Average Rate Assumption Method ("ARAM"). This method required the Company to keep deferred taxes intact until book depreciation exceeds tax depreciation for those vintage years, and to flow back the deferred tax excess between the 46% rate and the current 35%. Since most of the property was 15 year property for federal purposes, the excess is in a turnaround situation. The company projects to record lower tax expense by $88,396 in its federal tax provision related to the excess deferred taxes for the Fully Forecasted Rate Year.

Q. How is Columbia handling the reduction in tax caused by the 2008 change in method of accounting for repairs?

A. As agreed in the settlement of Columbia's 2010 rate case (Docket No. R-2009-2149262), a refund of the $37,487,634 is being made to customers, which reflects the cash benefit received in 2009 for the tax year 2008 method change. As of December 31, 2014, a total of $35,442,920 was amortized as agreed in the settlement of Columbia's 2012 rate case (Docket No. R-2012-2321748) and an additional $2,044,714 is being amortized through the period ended December 31, 2016 as agreed in the settlement of Columbia's 2014 rate case (Docket No. R-2014-2406274) which leaves a remaining unamortized balance at December 31, 2015 of $681,571. This case reflects the remaining $681,571 as of December 31, 2015 being amortized over 12 months of the Fully Forecasted Rate Year which represents a full amortization of the refund by the end of the Fully Forecasted Rate Year. As provided in the 2010 Rate Case settlement, the amortization is without interest and without a deduction of the unamortized balance from rate base.

Q. How does the change in method impact Columbia's taxable income going forward?

A. For a period of time, the repairs deduction is anticipated to exceed deductions if the plant had been capitalized for tax purposes, and thus will continue to result in a reduction to taxable income. However, beginning post October 18, 2011 (the effective date of Columbia's 2010 rate case) the repairs deduction is being normalized under deferred tax accounting, so there will be no impact on total federal tax expense.

Q. Are there any other items treated as flow-through in the rate-making process?

A. Yes. The Company continues to reduce its income tax allowance for the net cost of retirements, which is allowed as a deduction on its tax return. In addition, there are three permanent differences included in the tax provision. Permanent differences are items of income or expense that will never be included in the federal tax return. Items increasing tax expense as a result of being non-deductible include expenses for a portion of business meals, employee stock purchase plan compensation and a portion of lease expense on vehicles.

Q. How has the Company handled Pennsylvania Corporate Net Income Taxes in its calculation of deferred income taxes for depreciation?

A. The Company, based on prior Commission orders, has not normalized deferred state income taxes. The Company continues to flow-through the state income tax benefits of accelerated depreciation on its book depreciable assets.

Q. Did the Company receive a refund from Pennsylvania for the change in method?

A. No. The Company had a $149.2 million net operating loss for 2008 that it carried forward into 2009 and will carry forward into future years. The Company reduced its Pennsylvania taxable income by 15% of taxable income in 2009. The Company also had a $4.1 million net operating loss for 2010 and a $69.7 million net operating loss for 2011 that is being carried forward. The reduction is the higher of $3,000,000 or 20% of taxable income in 2010, 2011, 2012 and 2013. The reduction increases to the higher of $4,000,000 or 25% of taxable income in 2014 and the reduction increases again to the higher of $5,000,000 or 30% of taxable income in 2015 and thereafter. The Company's claimed tax expense takes such benefit into account.

Q. Was a Consolidated Tax Adjustment included in the claim in this case?

A. Similar to the Company's 2014 base rate case, a Consolidated Tax Adjustment was not included in this case because Columbia Gas of Pennsylvania was a loss company on average for the three year period 2011-2013. The loss is the result of 50-100% bonus depreciation allowed under federal tax law (the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the American Taxpayer Relief Act of 2012) for most assets placed in service during the Historic Test Year. Under these circumstances, it is appropriate not to apply a consolidated income tax adjustment in this case. Nevertheless, I have provided details of the income and losses of affiliated companies for the three year period in Exhibit No. 7, pages 2 through 4.

Q. Are there other reasons why a consolidated tax adjustment is not appropriate?

A. Yes, most of the "tax loss" generated by the NiSource system is the result of tax deductions generated by debt issued to finance the acquisition of Columbia Energy Group. As shown on Exhibit No. 7, pages 3 and 4, over $189 million of the $266 million of average annual losses for unregulated companies arise from this debt, which is recorded as a loss for NiSource Inc. The cost of this debt is not reflected in Columbia's rates and the debt does not finance rate base. Since the debt cost associated with those incremental investments outside of the rate base is not reflected in Columbia's rates to customers, it is not appropriate to provide the tax deductions associated with such cost to ratepayers.

Q. Can you summarize the impact of your testimony on historic and proposed income tax expense?

A. Yes, for the Historic Test Year, page 19 of Exhibit 7 delineates total pro forma tax expense of $43,539,280. This total includes $4,359,333 of state income taxes, which is based on $139,561,820 of operating income less $26,145,886 of interest expense on debt for total pre-tax income of $113,415,934, resulting in an effective state income tax rate of 3.84%. This reduced expense, as compared to the Pennsylvania statutory rate of 9.99%, is a result of the flow through treatment of accelerated depreciation deductions for state income tax purposes. The expense for federal income taxes is $39,179,947, or 34.55%, of the pre-tax income less state income taxes. This 34.55% expense is .45% less than the federal statutory rate of 35%. The difference is largely attributable to the tax repairs refund amortization being flowed through in rates.

Q. Please continue with respect to the Fully Forecasted Future Rate Year.

A. For the proposed income tax recovery, the amounts can be found on Exhibit 107 pages 16 and 17. The same individual items creating a variance from statutory rates in the historical data create a variance in proposed rates. Minor adjustments have been made to reflect forecasted numbers during the fully forecasted test year.

Q. How have taxes impacted the Company's rate base?

A. Exhibit 107, page 5, delineates the reduction in rate base for deferred income taxes. The amounts include deferred taxes on net utility plant that have or will be normalized by the end of the Fully Forecasted Rate Year, as well as deferred taxes on inventory, customer advances and building leases.

Q. How has the deduction for 263A mixed service costs impacted deferred taxes in rate base?

A. As agreed in the settlement of Columbia's 2012 rate case (R-2012-2321748), the Company has been given permission to normalize this deduction for federal income taxes and treat the deferred taxes as a reduction to rate base. The adjustment can be found on Exhibit 107, page 9, line 19.

Q. Is there an inclusion of deferred taxes for the Federal Net Operating Loss in rate base?

A. In the Historic Test Year the deferred tax asset for the Federal Net Operating loss, which represents the remaining balance of un-utilized net operating loss, is $15,471,269 as shown in Exhibit 7, page 9. The Company has experienced net taxable losses for the years 2010, 2011, 2012 and 2013 as a result of taking deductions for 50-100% bonus depreciation, resulting in the deferred tax asset being recorded for the un-utilized net operating losses. 50% bonus depreciation deductions were taken in 2010, 2012 and 2013 and 100% bonus depreciation deductions were taken in 2011 as permitted under tax laws in effect per my testimony on page 6. In 2014 the Tax Increase Prevention Act of 2014 extended 50% bonus depreciation to assets placed in service in 2014 thereby extending the time when the net operating loss will be utilized. The deferred tax asset represents the cash benefits the Company has not received because of the net operating losses. The deferred tax asset is included in rate base because the Company cannot reflect an increase in deferred taxes for tax depreciation deductions that have not been realized. To do so would violate the principles of the Normalization requirements under the Internal Revenue Code. Past IRS rulings addressing this issue have made it clear that companies cannot reduce rate base for benefits that have not been realized. The deferred tax asset for the un-utilized net operating losses will decline after 2014 as there is currently no bonus depreciation legislation enacted for assets placed in service beyond 2014. Due to the net operating losses generated by bonus depreciation deductions in the aforementioned years, the expectation is that the Company will not utilize all of its net operating losses until the end of 2017. Therefore, there is an increase to rate base on Exhibit 107, Page 5 of $2,590,812 as a deferred tax asset for the amount of unutilized net operating loss for the Fully Forecasted Test Year.

Q. Please explain the adjustment to deferred taxes for the Fully Forecasted Test Year on Exhibit 107, Page 5.

A. Whenever there are estimated changes in the deferred taxes that occur in a future rate period, the Normalization requirements of the Internal Revenue Code require that the deferred taxes be reflected on a pro rata basis as provided under Reg. Section 1.167(l)-1(h)(6)(ii). A future test period is defined as that portion of the test period after the effective date of the rate order. Under the pro rata basis, the change in the deferred taxes is determined by multiplying the change by a fraction of the number of days remaining in the period at the time such change is to be accrued over the total number of days in the future period. Applying this calculation resulted in a decrease to deferred taxes of $11,284,120.

Q. Are you sponsoring any other expense adjustments?

A. Yes. I am also sponsoring adjustments for Federal Insurance Contribution Act ("FICA") Tax, Property Tax, Capital Stock Tax and License and Franchise Tax. These adjustments are delineated on Exhibits 6 and 106.

Q. Please explain the FICA adjustment.

A. The adjustment represents an increase in FICA taxes as they apply to the payroll adjustments discussed in Company witness Miller's testimony (Columbia Statement No. 4). An increase in payroll taxes of $62,713 is reflected in the annualized Historic Test Year. Please see Exhibit No. 6, Schedule 2, Page 3 of 5 for the calculation. For the Fully Forecasted Rate Year, the Company is projecting a higher payroll base, thus increasing payroll taxes by $159,123. Please see Exhibit No. 106, Schedule 2, Page 3 of 5 for the calculation.

Q. Please explain the property tax adjustment.

A. The PURTA tax and the locally assessed property tax on Pennsylvania property are both consistent with the most recent year end tax levels as of December 31, 2013. The West Virginia tax for gas stored underground was developed using the December 31, 2013 assessed value and the 2013 tax rate. This annualized level of $547,250 is higher than the Historic Test Year level of $546,121, as shown on Exhibit 6, Schedule 2, Page 4 of 5, resulting in an upward adjustment of $1,129. The detail supporting this calculation for the Fully Forecasted Rate Year is provided on Exhibit 106, Schedule 2, Page 4 of 5. The pro forma Fully Forecasted Rate Year reflects an upward adjustment of $2,957 from the annualized level as a result of using the December 31, 2014 assessed value and the 2013 tax rate which is the latest available at this time.

Q. Please explain the Capital Stock tax adjustment.

A. Similar to the property tax adjustment, the capital stock tax adjustment begins with the last known basis as of December 31, 2013. To this, the 2014 rate was applied, resulting in a $88,326 downward adjustment from the Historic Test Year level. The major reason for the adjustment downward is the rate decrease due to the phase out of the Pennsylvania capital stock tax. The capital stock tax for the pro-forma Fully Forecasted Rate Year ending December 31, 2016 is $0 using a rate of .000 because under current legislation the capital stock tax is completely phased out by the end of 2016. This represents a downward adjustment of $269,204 from the annualized level of $269,204.

Q. Please explain the License and Franchise Tax adjustment.

A. The License and Franchise tax annualized level of $279 is the same as the Historic Test Year level. This amount reflects the latest West Virginia franchise tax liability for the Company. The pro forma Fully Forecasted Rate Year was not adjusted from this level.

Q. Please explain the Other Tax adjustment on Exhibit 106, Schedule 2, Page 2.

A. Other taxes are primarily comprised of excise tax. The annualized level of $6,899 was not adjusted for the Historic Test Year. The pro forma Fully Forecasted Rate Year was also not adjusted from this level.

Q. Does this conclude your testimony?

A. Yes.