

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

ELECTRONIC INVESTIGATION OF THE IM-)
PACT OF THE TAX CUTS AND JOB ACT ON) Case No. 2017-00481
THE RATES OF ATMOS ENERGY CORPORA-)
TION, DELTA NATURAL GAS COMPANY,)
INC., COLUMBIA GAS OF KENTUCKY, INC.,)
KENTUCKY-AMERICAN WATER COMPA-)
NY, AND WATER SERVICE CORPORATION)
OF KENTUCKY)

**PREPARED DIRECT TESTIMONY OF
MEGAN N. GARBER
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

Brooke E. Wancheck,
Assistant General Counsel
P.O. Box 117
290 W. Nationwide Blvd.
Columbus, Ohio 43216-0117
Telephone: (614) 460-5558
E-mail bwancheck@nisource.com

January 26, 2018

Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

PREPARED DIRECT TESTIMONY OF MEGAN N. GARBER

1 **Q: Please state your name and business address.**

2 A: My name is Megan N. Garber and my business address is 290 W. Nation-
3 wide Blvd., Columbus, Ohio 43215.

4 **Q: What is your current position and what are your responsibilities?**

5 A: I am employed by NiSource Corporate Services Company, and my current
6 position is Tax Manager of Corporate Income Tax. As Tax Manager, my
7 principal responsibilities include supervision of the Columbia Gas subsidiar-
8 ies of NiSource Inc., which includes Columbia Gas of Kentucky's ("Colum-
9 bia's") income tax activities including the recording of income tax provisions
10 and income tax compliance, tax research and planning, and the support of
11 testimony for rate proceedings. Additionally, I assist with the management
12 of the Internal Revenue Service's ("IRS") Compliance Assurance Process
13 ("CAP") Program on behalf of Columbia and NiSource Inc.

14 **Q: What is your educational background?**

15 A: I received a Bachelor of Business Administration in Accounting from The
16 Ohio State University in 2001. I am a Certified Public Accountant and
17 member of the Ohio Society of Certified Public Accountants.

18 **Q: What is your employment history?**

1 A: I began my career with Deloitte & Touche as a Staff Auditor in 2001. I then
2 joined the firm of Snyder & Company as a Senior Accountant in 2002
3 where I performed financial audits, reviews and compilations, and
4 prepared and reviewed tax returns. In October 2006, I started working as a
5 Senior Tax Analyst for Nationwide preparing and reviewing federal 1120-
6 PC and 1120-L returns along with multiple Premium and State returns
7 and was promoted to a Tax Specialist in 2007. I then joined NiSource
8 Corporate Services Company in April 2012 as a Lead Tax Analyst and in
9 August 2013, I assumed my current position.

10 **Q: Have you previously testified before the Kentucky Public Service**
11 **Commission (“Commission”)?**

12 A: No, I have not.

13 **Q: What is the purpose of your testimony in this proceeding?**

14 A: Pursuant to the Commission’s Order dated December 27, 2017, the pur-
15 pose of my testimony is to address the impact to Columbia of the Tax Cuts
16 and Jobs Act of 2017 (“Tax Act”), signed into law on December 22, 2017,
17 amending the Internal Revenue Code (“IRC”) of 1986.

18 **Q: Please explain the impact of the amendments contained in the Tax Act.**

19 A: There are two types of impacts resulting from the Tax Act. One, is a rate
20 reduction in the federal corporate income tax on current income. The sec-

1 ond, is the impact of the reduced federal corporate income tax rate on ac-
2 cumulated deferred income taxes, utility rate base and cost of capital.

3 **Q: Please explain the federal corporate income tax rate decrease.**

4 A: The Tax Act reduced the federal corporate tax rate for Columbia from 34%
5 to 21% effective January 1, 2018. Prior to this date, the IRC provided for a
6 tax rate of 34% for Columbia.

7 **Q: What is the impact of federal income tax rate decrease to the current in-
8 come tax expense of Columbia?**

9 A: Based on the 12-months ending December 31, 2017, Columbia's tax ex-
10 pense for federal and state income taxes is reduced by \$2,018,849. The re-
11 sulting decrease in Columbia's revenue requirement is provided by Co-
12 lumbia's witness Chun-Yi Lai. Please see Attachment CYL-1 to her testi-
13 mony for the calculations.

14 **Q: Did you participate in the quantification and preparation of the calcula-
15 tions set forth in Attachment CYL-1?**

16 A: Yes.

17 **Q: Does Columbia have deferred income taxes?**

18 A: Yes.

19 **Q: How does this federal rate reduction impact Columbia's accumulated
20 deferred taxes?**

1 A: GAAP principles require the accumulated deferred income taxes (“AD-
2 IT”) reflect the value of the tax expected to be paid. The temporary differ-
3 ences giving rise to the Columbia ADIT are expected to reverse at the new
4 corporate rate of 21%. Therefore, Columbia has re-measured the ADIT
5 from 34% to 21% as of December 31, 2017. This re-measurement resulted
6 in the identification of excess deferred taxes as shown on Attachment
7 MNG-1.

8 **Q: Are there any uncertainties in the re-measurement of excess deferred**
9 **taxes?**

10 A: Yes, there is some ambiguity as to the applicability to Columbia associated
11 with the 100% expensing provisions in the Tax Act. Columbia has inter-
12 preted the language to suggest that Columbia qualifies for the 100% ex-
13 pensing of capital expenditures between the period September 27, 2017
14 and December 31, 2017. There is no appropriate guidance available on this
15 point and therefore this deduction may be at risk. This deduction gave rise
16 to a portion of the excess deferred taxes identified during the re-
17 measurement.

18 **Q: What does Columbia propose to do with the excess deferred taxes?**

1 A: As soon as Columbia is able to determine with certainty the exact amount
2 of excess deferred taxes, Columbia plans to return the excess deferred tax-
3 es to customers in accordance with the provisions outlined under the
4 normalization provisions of the Tax Act and the Order received from the
5 Commission. Columbia will provide the calculations in a subsequent fil-
6 ing in this docket.

7 **Q: Does Columbia have the ability to utilize 100% expensing under the Tax**
8 **Act?**

9 A: It is uncertain, but Columbia will seek a resolution of the uncertainty
10 through its involvement in the IRS CAP Program.

11 **Q: What is the IRS CAP Program?**

12 A: The IRS announced on March 31, 2011 that the six-year-old CAP pilot
13 program for large corporate taxpayers would become permanent, effective
14 immediately. Under CAP, participating taxpayers work collaboratively
15 with an IRS team to identify and resolve potential tax issues before the tax
16 return is filed each year. With the major potential tax issues largely settled
17 before filing, taxpayers are generally subject to shorter and narrower post-
18 filing examinations. The IRS also announced that the CAP program would
19 expand to include two additional components: A new pre-CAP program

1 that provides interested taxpayers with a clear roadmap of the steps re-
2 quired for gaining entry into CAP; and a new CAP maintenance program
3 intended for taxpayers who have been in CAP, have fewer complex issues,
4 and have established a track record of working cooperatively and trans-
5 parently with the IRS. Through the CAP Program, Columbia will formally
6 request an Issue Resolution Agreement to definitively resolve the uncer-
7 tainty associated with Columbia's deduction under the 100% expensing
8 provisions of the Tax Act.

9 **Q: When does Columbia expect a resolution from the IRS?**

10 A: Columbia is in the process of formally requesting an Issue Resolution
11 Agreement from the IRS on the use of 100% expensing. Under CAP, Co-
12 lumbia expects to resolve the issue prior to the filing of the 2017 federal
13 tax return, which must be filed no later than October 15, 2018.

14 **Q: After receiving the Issue Resolution Agreement from the IRS, will Co-**
15 **lumbia be able to address the pass back of the excess deferred income**
16 **taxes?**

17 A: Yes. Once an agreement is reached with the IRS on the 100% expensing
18 deduction, Columbia will be able to determine with certainty the amount
19 of excess deferred income taxes generated by the reduction in tax rates

1 from 34% to 21%. Columbia proposes to return property related excess de-
2 ferred taxes using the Average Rate Assumption Method (“ARAM”) as
3 outlined in the Tax Act and will propose to return the remaining non-
4 property excess deferred taxes over 20 years as directed by the Commis-
5 sion in its Order dated December 27, 2017.

6 **Q: Can Columbia provide the December 31, 2017 accounting entries made**
7 **to reflect the excess deferred income tax regulatory liabilities?**

8 A: Yes, please see Attachment MNG-1.

9 **Q: Are there any other issues you want to address regarding the impact of**
10 **the reduction in federal corporate tax rate?**

11 A: There are no further issues.

12 **Q: Does this complete your Prepared Direct testimony?**

13 A: Yes, however, I reserve the right to file rebuttal testimony if necessary.