EXHIBIT
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DW 17-165

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DW 17-165

In the Matter of:
Abenaki Water Company, Inc.
Rosebrook Division
Request for Change in Permanent Rates

Direct Testimony

of

Robyn J. Descoteau
Staff Utility Analyst, Gas and Water Division

September 27, 2018

New Hampshire Public Utilities Commission

Abenaki Water Company, Inc.
Rosebrook Division

DW 17-165

Request for Change in Permanent Rates

Direct Testimony of Robyn J. Descoteau

Q. Please state your full name.

A. My name is Robyn J. Descoteau.

Q. Please state your employer and business address.

A. I am employed by the New Hampshire Public Utilities Commission (NHPUC) and my business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. What is your position at the NHPUC?

A. I am a Utility Analyst in the Gas and Water Division.

Q. Please describe your position and responsibilities at the Commission.

A. I am responsible for the examination, evaluation and analysis of rate and financing filings, including the recommendation of changes in revenue levels that conform to regulatory methodologies and/or proposals for economical, accounting and operational changes affecting regulated utility revenue requirements. I represent Staff in meetings with company officials, outside attorneys and accountants relative to rate case and financing matters as well as the Commission's rules, policies and procedures.

Q. Would you please describe your educational background?

A. I earned an Associate of Science degree in Business Administration from Bay Path Junior College. I earned a Bachelor of Science degree in Business Management with a minor in

Finance and a Master of Business Administration degree in Applied Management from Daniel Webster College. In 1996, I completed the NEWWA Water Utility Ratemaking course. I attended the Institute of Public Utilities at Michigan State University's 2006 Advanced Regulatory Studies Program. In 2014, I attended NARUC's Utility Rate School.

Q. Please describe your work experience.

A. For 18 years, I worked in the accounting department of Pennichuck Water Works. My duties included standard accounting operations and regulatory compliance. In 2006, I was hired as a Utilities Examiner in the Audit Division of the NHPUC where I analyzed financial information submitted by regulated utilities and performed rate of return and cost of service analyses. For all audits performed, an audit report was written to summarize the work performed and present recommendations for corrective action to remedy accounting errors and irregularities where necessary. In 2013, I was promoted to my current position as a Utility Analyst in the Commission's Gas and Water Division.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation and a summary of Staff's financial analysis with respect to Abenaki-Rosebrook's request for a rate increase.

Q. Please provide a brief summary of Abenaki-Rosebrook's request for Permanent rates in this proceeding.

A. Abenaki-Rosebrook filed a petition for a permanent rate increase and step adjustment seeking an overall permanent increase in its water revenues of $102,232 or 37.85 percent, and proposing a step adjustment of an additional $22,645 or 6.08 percent. Abenaki-Rosebrook's petition was based on a test year of October 1, 2016 to September 30, 2017 with pro-forma adjustments for known and measurable changes in rate base and operating income.

Q. Please summarize Staff's recommendation regarding the permanent revenue requirement for Abenaki-Rosebrook in this case.

A. As detailed in the attached schedules, identified as Attachment A, Schedules 1-6; Attachment B, Schedules 1-4; and Attachment C, Schedules 1-4; Staff recommends an overall rate increase not to exceed $80,550 resulting in a total revenue requirement of $356,885. This represents an increase of 29.15 percent above test year revenues of $276,335. The proposed revenue increase includes a recommended permanent rate increase of $56,525, or 20.46 percent. Staff also recommends two Step Adjustments. Step Adjustment I results in an estimated increase of $14,039 or 5.08 percent, based on post-test year capital additions not to exceed $72,243. Staff further recommends that Step Adjustment I take effect on the date of the Commission's order approving permanent rates. Step Adjustment II results in an estimated increase of $9,986, or 3.61 percent, based on an anticipated engineering study with a cost not to exceed $100,000 relative to a review of Rosebrook's system pressure issues. Staff is recommending that Abenaki-Rosebrook's filing for recovery of these costs must be filed with the Commission by no later than September 30, 2019.

Q. Please describe how Staff arrived at the permanent increase in rates for Abenaki-Rosebrook of $56,525 or 20.46 percent.

A. Staff prepared several schedules relative to Abenaki-Rosebrook's permanent rate increase. Please see Attachment A, Schedules 1-6.

Q. Did the Commission Audit Staff review Abenaki-Rosebrook's financial records for the proposed test year in this case?

A. Prior to the completion of the attached schedules related to permanent rates, the Commission's Audit Staff reviewed the books and records of the Company for the test year October 1, 2016 to September 30, 2017.

Q. Please summarize the calculation of Abenaki-Rosebrook's Permanent Rate Revenue Requirement of $332,860. (Attachment A, Schedule 1)

A. Attachment A, Schedule 1 details the calculation of Abenaki-Rosebrook's Permanent Rate Revenue Requirement of $332,860. The pro-forma rate base is multiplied by the rate of return percent to determine the company's operating income requirement. From the operating income requirement, the pro-forma test year operating income is subtracted to determine the company's revenue deficiency before income taxes. The revenue deficiency before income taxes is then divided by the income tax divisor to determine the tax effected revenue deficiency. Added to this deficiency is the actual water revenues earned by the Company during the test-year to determine the total proposed operating revenue requirement before adjustments relative to the 2017 Tax Act. For purposes of determining the impact of the 2017 Tax Act legislation which went in effect during 2018, the calculated revenue deficiency has been further modified to reflect adjustments from Schedule 4d of Attachment A. The resulting amount, when added to the actual test year water revenues is the permanent rate operating revenue requirement being proposed by Staff.

Q. Please summarize the calculation of Weighted Average Cost of Capital and the Rate of Return. (Attachment A, Schedule 2)

A. Attachment A, Schedule 2 shows the proposed rate of return is 6.59 percent. This is comprised of a weighted average cost of long-term debt equaling 1.92 percent and a weighted average cost of common equity equaling 4.67 percent. Abenaki's capitalization consists of 48.19 percent debt and 51.81 percent equity. In these calculations, a return on equity (ROE) of 9.01 has been used per the Testimony of Dr. J. Randall Woolridge which was filed in this case on September 19, 2018.

Q. Please provide detail about the adjustments to Abenaki-Rosebrook's Rate Base (Attachment A, Schedule 3a).

A. Attachment A, Schedule 3a details twenty-one adjustments to Abenaki-Rosebrook's Rate Base which total $(20,131). To recognize Abenaki's test-year investments in Rosebrook, Staff adjusted the Plant account balances to year-end balances, reversing the company adjustments that recorded traditional rate-making 5-quarter averages. Entries were made to record organization costs related to Abenaki's acquisition of Rosebrook totaling $51,931 which are to be amortized over a 14-year period, as opposed to the 8-year period proposed by the company. These costs were reviewed by Staff and determined to consist of legal fees, consultant fees and management team costs related to the acquisition of Rosebrook. Staff recommends that the Company's proposed acquisition adjustment (premium) costs of $36,234 and related amortization costs of $(2,265) should not be borne by customers. The Commission has a long history of disallowing such amounts. As such, these amounts were removed from Rate Base. *See Hampton Water Works, Inc.*, Order No. 23,924 (March 1, 2002); *Aquarion Water Company of New Hampshire*, Order No. 24,691 (October 31, 2006). Since the expenses associated with prepayments are also included in the calculation of Cash Working Capital, the Company's proposed prepayment component of $4,956 has been eliminated from rate base. Lastly, adjustments determined during the Audit Staff's review of amortization expense were recorded, even though they net to no effect on Rate Base.

Q. Please provide detail regarding the adjustments to Abenaki-Rosebrook's Net Operating Income (Attachment A, Schedule 4a).

A. Attachment A, Schedule 4a details seven adjustments to Abenaki-Rosebrook's Net Operating Income. Staff reversed the Company's revenue adjustment in order to bring water sales back to the test year actual amount. Expense adjustments were made to amend the depreciation expense associated with Organization Costs, where the Company's proposed 8-year depreciation life has been adjusted to Staff's proposed 14-year depreciation life. Amortization expense related to the disallowance of the acquisition adjustment (premium) has been removed from Net Operating Income. Adjustments were made to lease agreements and property taxes to true up those expenses to actual. Lastly, two adjustments were made to income tax expense. One relates to the tax effect of Staff's income and expense adjustments and the other relates to the synchronization of interest expense.

Q. Does the proposed Revenue Requirement make an adjustment for the 2017 Tax Act? (Attachment A, Schedule 4d)

A. Yes. As alluded to previously, Attachment A, Schedule 4d calculates three adjustments recorded in the Revenue Requirement. The interest expense synchronization resulted in an income tax expense adjustment of $(347). The Tax Change Effect using the FERC Methodology resulted in a revenue adjustment of $(11,849). The Amortization of Excess Deferred Income Tax has been calculated as $(534).

Q. Please describe the Calculation of Rates, (Attachment A, Schedule 6)

A. Attachment A, Schedule 6 shows the total annual water revenues proposed of $332,860 split into two categories: revenue from customer meter charges of $99,896 and revenue from a calculated consumption charge totaling $232,964. The percentage increase calculated on Attachment A, Schedule 1 is applied evenly to all customer meter charges, increasing each charge by 20.46 percent. Annual revenues per meter size are calculated and totaled. The total of $99,896 is then subtracted from the proposed annual water revenue leaving $232,964 to be allocated for consumption revenue. The total consumption revenue of $232,964 is divided by the pro-forma annual consumption (per 1,000 gallons) of 35,244 to arrive at a consumption rate of $6.61 per 1,000 gallons used.

Q. Do you recommend any changes to the allocation of revenue amounts among the customer classes?

A. No, I do not recommend any changes to the allocation of revenue amounts among the customer classes. The Calculation of Rates schedules (Attachment A, Schedule 6 and Attachments B and C, Schedules 4) detail the computation of rates per customer class. Applying the recommended percentage of increase to the current monthly base charge for each rate class, then computing the new consumption charge for each rate class allocates the revenue increase fairly and proportionally to each rate class.

Q. In the filing, Abenaki-Rosebrook requested a Step Adjustment for $22,645 or 6.08 percent. What is Staff's position?

A. Staff proposes that Abenaki-Rosebrook's request for a Step Adjustment be split into a Step Adjustment I, relating to the capital additions made by the Company from October

1, 2017 through September 30, 2018, and a Step Adjustment II, relating to the Horizons Engineering review of the Rosebrook system's pressure issues.

Q. Please discuss Staff's position regarding Step Adjustment I (Attachment B, Schedule 1).

A. Subject to a review of costs by the Commission Audit Staff, Staff recommends that Step Adjustment I not exceed $14,039, based on certain post-test year capital additions not to exceed $72,243 to take effect as of the date of the Commission's order approving permanent rates in this proceeding. Step Adjustment I will not be reconcilable for purposes of determining the recoupment of the difference between Temporary and Permanent Rates. Staff will finalize its recommendations regarding Step Adjustment I based on the Audit Staff's subsequent review.

Q. Has Staff prepared schedules to show the effect of its recommendations relative to the initial Step Adjustment I? (Attachment B, Schedules 1-4)

A. Yes, Staff has prepared schedules relative to Step Adjustment I. Please see Attachment B, Schedules 1-4. These schedules are based on un-audited costs and are subject to adjustment based on the Audit Staff's future review. At this time, costs associated with the initial Step Adjustment I have not been finalized.

Q. Please discuss Staff's position regarding the subsequent Step Adjustment II (Attachment C, Schedule 1).

A. Staff recommends a subsequent Step Adjustment II for Abenaki-Rosebrook based on the actual cost of Horizons Engineering's review of the Rosebrook system's pressure issues at an estimated cost of $100,000. Staff recommends that the Company be required to file for step recovery of these engineering costs by no later than September 30, 2019. Subject to the future review of the actual engineering costs by the Commission Audit Staff, Staff currently estimates that Step Adjustment II will be $9,986. Step Adjustment II will also not be reconcilable for purposes of Temporary-Permanent Rate recoupment. Staff will finalize its position on Step Adjustment II based on the Audit Staff's subsequent review.

Q. Has Staff prepared schedules to show the effect of its recommendations relative to the subsequent Step Adjustment II? (Attachment C, Schedules 1-4)

A. Yes, Staff has prepared schedules relative to the subsequent Step Adjustment II. Please see Attachment C, Schedules 1-4. These schedules are based on un-audited costs and are subject to adjustment based on the Audit Staff's future review. At this time, costs associated with the initial Step Adjustment II have not been finalized.

Q. Does Abenaki-Rosebrook currently have temporary rates in effect?

A. Yes. On August 31, 2018, Abenaki-Rosebrook was granted a 14.89 percent increase by Commission Order 26,171, to be applied to all rate classes effective for service rendered on or after May 1, 2018.

Q. Please describe how the temporary rates currently in effect will be reconciled to permanent rates once they have been set.

A. Pursuant to RSA 378:29, any difference between the temporary rates set by the Commission and the permanent rates ultimately approved in this docket are subject to reconciliation, back to May 1, 2018. The proposed Step Adjustments are not included in the reconciliation. Following the final Commission Order in this proceeding, the Company will file its calculation of the temporary-permanent rate recoupment amount and the proposed surcharge for Staff's review. Following its review, Staff will make a recommendation to the Commission concerning the Company's proposed recoupment and surcharge amount.

Q. Does this conclude your direct testimony?

A. Yes.