STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

In the matter of

Aquarion Water Company of New Hampshire, Inc.

Docket No. DW 20-184

Request for Change in Rates

DIRECT TESTIMONY

OF

BION C. OSTRANDER

ON BEHALF OF

TOWNS OF HAMPTON AND NORTH HAMPTON

March 2, 2022

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I. INTRODUCTION

Q. Please state your name, business address and occupation.

A. My name is Bion C. Ostrander; I am President of Ostrander Consulting. My business address is 1121 S.W. Chetopa Trail, Topeka, Kansas 66615-1408. I am an independent regulatory consultant specializing in revenue requirement/accounting and policy issues related to electric, gas, renewable energy, and telecommunication industries.

Q. What is your role in this proceeding?

A. The Towns of Hampton and North Hampton ("Joint Towns" or "Hampton and North Hampton") asked me to conduct an independent review and provide recommendations to the New Hampshire Public Utilities Commission ("PUC" or "Commission") regarding the proposed revenue requirements of Aquarion Water Company of New Hampshire, Inc. ("Aquarion" or the "Company"). This testimony and the supporting schedules provide the results of my independent review and recommendations to the Commission.

Q. Please describe your formal education and professional experience.

A. Please see Attachment BCO-1 for my curriculum vitae and Attachment BCO-2 for a list of regulatory proceedings (by jurisdiction/docket/client) where I have participated. I am an independent regulatory consultant with a specialization in regulatory utility issues, and particularly revenue requirement/accounting issues. I have forty-three years of regulatory and accounting experience, including thirty-one years with my firm Ostrander Consulting.

I started my current consulting practice in 1990 after leaving the Kansas Corporation Commission ("KCC"). I previously served as the Chief of Telecommunications for the KCC from

1986 to 1990, and I served as the lead witness on most major telecom issues, while still assisting with electric/gas utility issues on a periodic basis. I served as Chief Auditor for the KCC from 1983 to 1986, addressing issues regarding the telecom, gas, electric, and transportation industries.

In addition, I have worked for international and regional certified public accounting firms, including Deloitte, Haskin and Sells (now Deloitte) and Mize, Houser, Mehlinger and Kimes (now Mize Houser and Company P.A.). I previously held a permit to practice as a CPA in Kansas up until recent years, but I no longer perform any CPA-type services requiring a permit to practice. I remain a member of the American Institute of CPAs and the Kansas Society of CPAs. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Kansas in 1978.

I have addressed many regulatory issues for various state regulatory agencies and for international regulatory and other governmental entities. My experience includes addressing issues related to rate cases under traditional rate of return regulation, alternative regulation/price cap plans, management audits, specialized accounting and regulatory issues and other matters. I have addressed a broad range of regulatory issues in my career, including the levelized cost of renewable energy alternatives, specialized accounting matters, affiliate transactions/Cost Allocation Manual, income taxes (including net operating loss carryback), sale/leaseback, compensation, cross-subsidization, depreciation, retail and wholesale cost studies for telecom, competition, affordable rates/universal service, service quality, infrastructure/modernization, rate design for telecom, sales/acquisitions and many other matters.

Below is a high-level summary of clients I have consulted with in various jurisdictions:

Client Summary	
Consumer Advocates/Attorney General	***Public Service Commissions***
District of Columbia - OPC	Arizona
Indiana UCC	Georgia
Florida OPC	Kansas
Kansas CURB	Maryland
Kentucky AG	Minnesota
Michigan AG	North Dakota
Maine OPA	Oklahoma
Maine AARP	***Other***
Maryland OPC	Alaska Competitive Local Exchange Carrier
Michigan AG	Maryland - Montgomery County
Minnesota DPS	Cities of Hampton & North Hampton - New Hampshire
Nevada AG	Virginia - CWA
New Hampshire OCA	Kansas Counties (911 implementation issues)
Ohio OPA	***International***
Oklahoma AG	Fair Trading Commission - Barbados
Utah OCS	Eastern Caribbean Telecomm. Authority (ECTEL -
Vermont DPS	St. Lucia, St. Kitts/Nevis, St. Vincent, Grenada, Dominica)
Washington AG	Armenia - USAID
Wyoming	Russia/Ukraine Energy Utility Training
	Saudi Arabia

Q. Have you previously provided testimony before this Commission?

A. Yes. I have provided testimony for the New Hampshire Office of the Consumer Advocate on December 6, 2019, regarding the rate case of Liberty Utilities (Granite State Electric) Corp. in Docket No. DE 19-064. This matter was resolved by Settlement Agreement dated May 22, 2020, and approved by the Commission on June 30, 2020.

Q. Have you ever provided testimony or performed regulatory consulting services for other U.S. or international regulatory agencies, other international governments, or other entities?

A. Yes. Please see Attachment BCO-2 which summarizes major cases/engagements from 1986 to current, by regulatory agency/client, jurisdiction, utility company, and docket/case number.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present my independent analysis and recommendations regarding Aquarion's revenue requirements, including addressing related accounting and regulatory issues.

Q. Please discuss how your testimony is organized.

A. My testimony consists of three sections:

I. Introduction – Addresses various background information, my qualifications, and a summary of my adjustments and recommendations.

II. Revenue Requirement Approach and Justification

III. Other Adjustments to Revenue Requirements – Addresses revisions to Aquarion's adjustments, and additional adjustments that I have identified.

Attachments BCO-1 and BCO-2 address my credentials and a list of cases/proceedings that I have addressed. I am referring to my credentials and qualifications information as "Attachments" to this testimony and referring to my proposed revenue requirement and documentation supporting my proposed adjustments as "Exhibits" to this testimony.

Attachment BCO-1 is my curriculum vitae and Attachment BCO-2 is list of regulatory proceedings where I have participated.

Exhibit BCO-1 is the Ostrander/Joint Town's proposed revenue requirement and related adjustments to rate base, operations, and capital structure of Aquarion. Exhibit BCO-2 and all subsequent exhibits include supporting documentation for my proposed adjustments, such as Aquarion's responses to data requests and other documentation as applicable.

Q. Please summarize Aquarion's current rate case filing?

A. On November 18, 2020, Aquarion filed a Request for Change in Rates and Request for Waiver for Certain Filing Requirements, including a proposed increase to permanent rates that if approved, would yield an annual revenue increase of $1,373,351 to be effective February 1, 2021, based on an adjusted 2019 test period. In its original filing, Aquarion requested temporary rates in the same amount, also effective as of February 1, 2021. Aquarion's filing include an adjusted rate base of $36,091,050, adjusted operating net income of $1,940,736, a proposed return on equity ("ROE") of 10.25 percent, and an overall rate of return ("ROR") of 8.1507 percent.

Q. Please explain the subsequent Settlement Agreement regarding temporary rates?

A. On June 3, 2021, a Settlement Agreement ("Agreement") was entered into between Aquarion, the Office of Consumer Advocate ("OCA"), Staff of the Commission ("Staff"), and the Joint Towns (collectively, the "Settling Parties") in order to set temporary rates for Aquarion pursuant to RSA 378:27.The Commission subsequently approved the Agreement on June 21, 2021.[1] The Settling Parties agreed to the following primary terms:

1) Aquarion's temporary rates will be set at the level of its current rates pending resolution of the permanent rates phase of this proceeding, subject to reconciliation to an effective date of February 1, 2021.

2) Aquarion's current Water Infrastructure and Conservation Adjustment ("WICA") charge will not be folded into the Company's rate base at this time, but shall remain as a separate surcharge. The ultimate disposition of the WICA and surcharge shall be addressed in the permanent rates phase of the proceeding.

[1] Commission Order No. 26,488.

3) The customers in Wiggin Way subdivision of the Town of Strathan will continue to pay seasonal rates as they are presently in effect, and these rates will be adjusted and reconciled in the permanent phase of this proceeding and upon resolution of the pending petition in Docket No. DW 21-093.

4) The Settling Parties reserve all rights as to whether the Company in fact under-earned during the test year when taking into account all appropriate factors with respect to just and reasonable permanent rates, subject to RSA 378:27 – 29.

Q. Please summarize your recommendations concerning Aquarion's proposed permanent rates and revenue deficiency?

A. Based on my analysis and review of Aquarion's permanent rate filing, responses to discovery requests and other information, I do not agree that Aquarion's proposed revenue requirement and proposed permanent rates are just and reasonable under NH RSA 378:7. I recommend that the Commission adjust Aquarion's proposed revenue deficiency of $1,372,716 to my recommendation of $410,199 as shown in Table 1 (Exhibit BCO-1, Schedule 1).

Table 1 – Comparison of Aquarion and Ostrander Revenue Deficiency

A	B	C	D
		Aquarion	Ostrander
Line	Description	Proposed	Proposed
1	Rate Base	$ 36,091,050	$ 36,091,050
2	**Ostrander Adjs.**		$ 919,326
3	Adjusted Rate Base (Sch. 3)	$ 36,091,050	$ 37,010,376
4	ROR (Sch. 2)	8.1507%	7.6119%
5	Required Return	$ 2,941,679	$ 2,817,199
6	Operating Net Income	$ 1,940,736	$ 1,940,736
7	**Ostrander Adjs.**		$ 577,358
8	Adjusted Operating Net Income (Sch. 4)	$ 1,940,736	$ 2,518,094
9	Return Deficiency (Surplus)	$ 1,000,943	$ 299,105
10	Tax Effect	72.9170%	72.917%
11	**Required Revenue Increase/Deficiency**	**$ 1,372,716**	**$ 410,199**
12			
13	Aquarion Required Increase per Filing	$ 1,373,351	
14	Difference - Immaterial (rounding ROR)	$ (635)	

As shown at Table 1 (Exhibit BCO-1 (Schedules 1 to 4), I recommend that the Commission adjust all revenues, expenses, taxes, rate base components, and capital structure based on Aquarion's 2020 Annual Report balances (Exhibit BCO-2), subject to the five additional adjustments summarized below in order to arrive at a rate that is just and reasonable and better reflects known and measurable changes during the 12-month period subsequent to the 2019 test year:

1) JT-1 Adjustment (Exhibit BCO-1, Schedules 2, 3, and 4) – I have adjusted all revenues, expenses, taxes, rate base components, and capital structure components to Aquarion's December 31, 2020 Annual Report balances via this adjustment. This adjustment increases net operating income by $536,175 (Exhibit BCO-1, line 24, column G).

2) JT-2 Adjustment (Exhibit BCO-1, Schedule 5) – I have revised Aquarion's depreciation expense adjustment, which decreases net operating income by $82,553 net of income taxes. When I adjusted operating accounts to Aquarion's 2020 Annual Report balances, this effectively removed the Company's adjustment to increase depreciation expense related to the annualization of depreciation on year-end rate base at proposed new depreciation rates. I have proposed a revised adjustment to increase depreciation expense by $113,215 for the impact of annualized proposed new depreciation rates in my revenue requirement calculation.

3) JT-3 Adjustment (Exhibit BCO-1, Schedules 1 and 4) - When I adjusted operating accounts to Aquarion's 2020 Annual Report balances, this effectively removed the Company's adjustment to increase rate case amortization expense by $19,798 net of income taxes. I have made an adjustment to reflect the same amount of rate case expense in my revenue requirement calculation.

4) JT-4 Adjustment (Exhibit BCO-1, Schedules 1 and 4) – When I adjusted operating accounts to Aquarion's 2020 Annual Report balances, this effectively removed the Company's adjustment to decrease income tax expense by $143,534 related to the amortization of excess deferred taxes related to the Tax Cut and Jobs Act ("TCJA"). I have made an adjustment to reflect the same amount of in both the operating income and rate base of my revenue requirement calculation.

5) JT-5 Adjustment (Exhibit BCO-1, Schedule 2) - Capital structure. Although I do not agree with Aquarion's proposed Return on Equity ("ROR") of 10.25 percent, I have used this as a placeholder in my capital structure for calculating the Rate of Return ("ROR). I adjusted the capital structure to Aquarion's 2020 Annual Report balances and then made one adjustment to reverse the Company's accounting entry, and I transferred short-term debt to

back to paid in capital. This caused the ROR to decrease from Aquarion's proposed 8.1507 percent to my recommended ROR of 7.6119 percent.

Q. Please summarize the reasons for your recommended changes.

A. The primary reasons that support my approach to adjust to the 2020 Annual Report balances, and which also support my contention this approach does not constitute a "2020 test period" are summarized below:

1) My initial analysis began with the same December 31, 2019 test period used by Aquarion. However, based on my review of actual 2020 results, I concluded that Aquarion's proposed adjustments were not a reasonable or accurate representation of its revenue requirement on a going-forward basis.

2) Traditional ratemaking principles in New Hampshire support adjustment of test-year results based on actual known and measurable changes during the twelve month period subsequent to the test year "for the sake of furnishing the most accurate possible prediction of the utility's fortunes in the period following the rate order."[2] There is no Commission or general regulatory principle that prohibits or restricts the number of 2020-related adjustments to be included in a 2019 test period rate case.

3) Aquarion opened the door to my 2020-related adjustments because it proposed only selective 2020 and 2021-related adjustments that increase the revenue requirement (and Aquarion did not include any 2020 and 2021-related adjustments that decrease the revenue requirement) – although such adjustments exist as shown by my 2020-related adjustments.

4) Aquarion's nineteen rate case adjustments recognize that 2019 results do not reasonably reflect a going-forward more current revenue requirement. However, it is more reasonable, accurate, and objective to use the "actual" 2020 adjusted balances instead of Aquarion's estimates.

[2] *See e.g. Appeal of Public Serv. Co.*, 130 N.H. 748, 758 (1988) ("Often enough, even before the ratemaking proceeding has begun, elements of income and expense are known to have changed from their levels in the test year, and the commission must then decide whether to modify the test year data in order to obtain a more accurate prediction. One commentator has observed that "'[p]hilosophically, the strict test year assumes the past relationship among revenues, costs, and net investment during the test year will continue into the future.' To the extent that these relationships are not constant, the actual rate of return earned by a utility may be quite different from the rate allowed by the commission. For many years, commissions have adjusted test-year data for 'known changes,' i.e., a change that actually took place during or after the test period . . . ." C. Phillips, Jr., *The Regulation of Public Utilities* 182 (1985) (footnotes omitted) (emphasis in original); *see Appeal of Manchester Gas Co.*, 129 N.H. 800, 806, 533 A.2d 366, 370 (1987) (commission may limit recognition of changes to those occurring within twelve months of test year's end, in order to conform to matching principle that adjustments should include both revenue and expense changes). *Thus, the test year data are modified to conform to actual experience, for the sake of furnishing the most accurate possible prediction of the utility's fortunes in the period following the rate order*.") (emphasis added).

5) My 2020-related adjustments are within twelve months of the 2019 test period and are not a violation of the Commission Order No. 20,776[3] (Exhibit BCO-3) that opposes adjustments more than twelve months following the test period. In contrast, Aquarion proposes certain 2021-related payroll/medical cost adjustments that occur more than twelve months following the test period and should be rejected because it violates the principle of matching.[4]

6) The June 3, 2021, Settlement Agreement between parties does not prevent Joint Towns from incorporating 2020-related adjustments in the rate case. It expressly reserved the right to make recommendations as to whether permanent rates are just and reasonable.

7) My 2020-related adjustments and revenue deficiency calculation are conservative, and I could have incorporated other traditional and acceptable ratemaking adjustments to arrive at a reduced revenue deficiency – but that is not my recommendation.[5] If I would have adopted a pure 2020 test period, then I would have made numerous other adjustments to this 2020 test period (similar to Aquarion's numerous adjustments to its 2019 test period). But I have not made any other adjustments except to incorporate several Aquarion adjustments that were removed in the process of adjusting to 2020 Annual Report balances (along with a revision of Aquarion's depreciation expense adjustment as part of this process).

8) Aquarion's 2019, 2020, and 2021 adjustments result in a mismatch of various period adjustments that are not consistent with the matching regulatory principle. My adjustments consistently reflect known 2020 amounts that are properly matched with all other revenue requirement components in the same time period. The Commission's Order No. 20,776 (pages 119 and 120) supports the matching principle.

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[3] Re EnergyNorth Natural Gas, Inc., DR 91-212, Order No. 20,776, pages 119 and 120, 78 NH PUC 117, New Hampshire Public Utilities Commission, Order dated March 1, 1993.

[4] *See e.g. Appeal of Manchester Gas Co*., 129 N.H. 800, 806 (1987) ("In this instance, the PUC reasonably could create a twelve-month limitation for adjustments to test-year operating expenses. At some point, a cutoff is necessary to preserve the integrity of the matching principle.").

[5] Although, these other potential adjustments could be used to offset any claims that some of my 2020-related adjusted amounts are not reasonable or require further revision.

IV. Revenue Requirement Approach and Justification

ADJUSTMENT JOINT TOWNS ("JT-1") - OPERATING INCOME ACCOUNTS

Q. Please explain Adjustment JT-1 to operating income accounts (revenues, expenses, depreciation, and taxes)?

A. Table 2 below shows Aquarion and my proposed adjustments at a high level, by primary account. Column C shows unadjusted 2019 amounts per books with operating income of $1,942,412, column D shows Aquarion's proposed adjustments that reduce operating income by $1,676, and column E shows Aquarion's proposed adjusted pro forma operating income of $1,940,736.

Table 2 also shows the Ostrander Adjustment JT-1 in column F which adjusts all accounts to the Aquarion December 31, 2020, Annual Report balances and which increases operating income by $536,175. Column G shows the adjusted balances for all accounts per the December 31, 2020, Annual Report, which results in operating income of $2,476,911. Column H shows Ostrander Adjustment JT-2 which increases depreciation expense by $113,215 (gross of taxes), Adjustment JT-3 which increases rate case expense by $27,151 (gross of taxes), and Adjustment JT-4 which reduces income tax expense by $143,534, and these combined adjustments increase operating income by $41,183 (net of taxes). Column I shows the Ostrander final adjusted balances for each account, resulting in adjusted operating income of $2,518,094 (line 11, column I).

Table 2 – Summary of Aquarion and Ostrander/Joint Towns Adjustments (Exhibit BCO-1, Sch. 4)

A	B	C	D	E	F	G	H	I
			AQUARION		OSTRANDER			
		Per		Adjusted	Adust to	Dec. 31, 2020	Adjs.	Adjusted
		Books	Proposed	Pro Forma	Dec. 31, 2020	Annual Report	JT-2, JT-3	Pro Forma
Line	Description	Dec. 31, 2019	Adjustments	Balance	Annual Report	Balances	JT-4	Balance
1	Total Revenues	7,226,513	390,280	7,616,793	4,813	7,621,606		7,621,606
2								
3	O&M expenses	3,346,040	(64,899)	3,281,141	(287,133)	2,994,008	27,151	3,021,159
4	Depreciation exp.	1,024,230	286,177	1,310,407	(268,001)	1,042,406	113,215	1,155,621
5	Property tax	677,193	183,522	860,715	(52,561)	808,154		808,154
6	Payroll tax	75,824	12,152	87,976	(11,610)	76,366		76,366
7	Other	(48,792)	106	(48,686)	1,565	(47,121)		(47,121)
8	Nonreg. Income	-		-	40,039	40,039		40,039
9	Income tax	209,606	(25,102)	184,504	46,339	230,843	(38,015)	192,828
	TCJA tax						(143,534)	(143,534)
10	Total Expenses	5,284,101	391,956	5,676,057	(531,362)	5,144,695	(41,183)	5,103,512
11	Oper. Income	1,942,412	(1,676)	1,940,736	536,175	2,476,911	41,183	2,518,094
12	**Total Adjustment**		**(1,676)**		536,175		41,183	**577,358**
13			Note 1		Adj. JT-1		JT-2, 3, and 4	
14					Note 2		Note 2	Note 3
15								
16	Note 1:	Aquarion's total adjustments of ($1,676) are shown in more detail at Exhibit BCO-1, Schedule 4.						
17	Note 2:	Ostrander Adjustment JT-1 adjusts to December 31, 2020 balances ($536,175),						
18		Adjustment JT-2 adjusts depreciation expense ($113,215 gross of taxes), Adjustment JT-3						
19		adjusts rate case expense ($27,151 gross of taxes), Adjustment JT-4 decreases income taxes for the						
20		impact of TCJA ($143,534), and this results in total adjustmentsof $577,358 per						
21		Exhibit BCO-1, Schedules 1 and 4.						
22	Note 3:	Total Ostrander adjustments of $577,358, per Exhibit BCO-1, Schedules 1 and 4.						

Q. Please summarize some of the problems with Aquarion's approach to adjustments and determining its revenue deficiency?

A. For income statement amounts (revenues, expenses, depreciation, and taxes) Aquarion begins with its December 31, 2019, balances per books and proposes certain annualization adjustments to the 2019 test period, along with several other adjustments related to the 2020 and 2021 post-test periods, to arrive at its recommended revenue deficiency of $1,372,716. For rate base amounts, Aquarion begins with December 31, 2019, balances for plant in service and accumulated depreciation and adds some post-test period 2020 plant additions, but uses average balances for all other rate base components (such as Materials & Supplies, Prepayments, Contributions in Aid, and other components).

Aquarion's operating income adjustments include some post-test period adjustments that occur in (or overlap to) the 2020 and 2021 periods, such as employee payroll raises[6] and benefit costs.[7] However, Aquarion only selectively includes 2020 and 2021-related adjustments that cause an increase in costs and the revenue requirement. In doing this, Aquarion did not offset its increases in costs with other decreases in costs (and decreases in the revenue requirement) that also occurred in 2020 and 2021 (Exhibit BCO-1, Schedule 6). Thus, Aquarion's proposed revenue requirement does not reasonably or accurately represent forward-looking costs and related impacts, and this will result in an excessive revenue requirement and customer rates.

Aquarion does not rely on a strict 2019 test period because of its proposed adjustments related to the 2020 and 2021 test periods. For the 2019 financial amounts that Aquarion does rely upon, or the 2019 amounts that it relies upon as a starting point to calculate the estimated impact of cost increases in 2020 and 2021, much of this data is stale, outdated, and over two years old now.

My approach to calculating the revenue deficiency is superior to the method used by Aquarion. I begin with Aquarion's adjusted pro forma net operating income, rate base, and capital structure, and make certain adjustments to reflect these amounts at Aquarion's December 31, 2020 Annual Report balances - which means that my adjustments and related pro forma balances are

[6] Aquarion Schedule No. 1C regarding 2020 and 2021 pay raise adjustments related to Aquarion Salaries and Wages, Schedule No. 1P regarding 2020 and 2021 pay raise adjustments related to AWC-CT Shared Customer Service/Collections, and Schedule No. 1Q regarding 2020 and 2021 pay raise adjustments related to IT Shared Technology.
[7] Aquarion Schedule No. 1D regarding medical/dental, life insurance, and long-term disability on the 2020/2021 pay raises addressed in previous footnote.

based on actual amounts that are more accurate, objective,[8] known and measurable, supported by an existing documented source (the Annual Report), and based on more current data, instead of Aquarion's stale 2019 data that is now over two years old.

Q. Please summarize the reasons and regulatory principles that support your approach to adjustments and determining the revenue deficiency?

A. The reasons, benefits, and regulatory principles that support my approach, are also the same reasons and regulatory principles that Aquarion's approach violates to some degree. Some of the primary reasons supporting my approach are summarized below:

1) Accurate, reliable, and based on an existing documented source – Aquarion's Annual Report.

2) Consistent with the generally accepted and long-standing regulatory principle of "known and measurable."

3) Consistent with the generally accepted and long-standing regulatory principle of "matching", which matches all revenues and expenses in the operating statement, along with plant in service and other components in rate base.

4) Objective and removes the ability to selectively include or exclude adjustments that are beneficial to any particular party's interests.

5) Uses <u>actual</u> results from the "2020" period, instead of using <u>estimated</u> adjustments based on 2019 or other data that is intended to approximate the same 2020 and forward-looking amounts.

6) Reduces regulatory lag because it uses forward-looking information instead of backward-looking stale information.

7) It is conservative and does not include additional adjustments that are justified – although these additional adjustment could be used to offset any claims that the 2020 period includes unreasonable amounts.

[8] The amounts are based on a reliable documented source, so adjustments and amounts are not arbitrary and cannot be manipulated, and are not subject to any party selectively including or excluding certain adjustments that are beneficial to their interests.

Q. Please explain in more detail the reasons and regulatory principles that support your approach to adjustments and determining the revenue deficiency?

A. I have adjusted to Aquarion's 2020 Annual Report balances. These amounts are accurate, reliable, objective, and based on the existing documented source (Annual Report). This eliminates the use of subjective or estimated adjustments for various periods 2019, 2020, and 2021.

By using actual known and measurable data, this results in my proposed revenue requirement being reflected at the most recently known and available current amounts[9] which also greatly reduces any negative impact of regulatory lag – which utility companies commonly argue is a negative result of using old stale data and not using most recent accurate financial data. In addition, because I have adjusted the revenue requirement to the most recent 2020 Annual Report amounts, this effectively eliminates the necessity for some of Aquarion's adjustments that are intended to be surrogates or estimates of 2020/going-forward amounts (that are already included in the 2020 period that I propose).

For example, Aquarion proposes an adjustment to "estimate" and annualize the impact of certain employee pay raises that occur in 2020 and 2021. However, most of the "actual" 2020 pay raises are already reflected in the 2020 Annual Report financial data that I used, thus it is not necessary to reflect Aquarion's estimates of these pay raises in the 2020 adjusted revenue requirement that I used.

Because I have adjusted to amounts at the 2020 Annual Report, this means that my adjustments are consistent with the generally accepted regulatory principles of "known and measurable and "matching." The adjustments that I propose can all be easily verified and traced

[9] The 2020 Aquarion book amounts reflect the most recent financial results available, and 2021 financial amounts will not likely be available until the books are closed and subject to audit sometime later in the first quarter of 2022.

to the 2020 Annual Report, so the amounts are known and measurable. Also, all of the adjustments that I propose are within the 2020 period, so I have properly "matched" all revenues and expenses in the operating statement, along with matching of plant in service and other relevant components in rate base. In contrast, Aquarion proposes revenues, expenses, and rate base components from a combination of periods 2019, 2020, and 2021 via its adjustments – and not all components are properly matched. It would have been more accurate to use "actual" 2020 data instead of Aquarion's estimates and surrogates of forward-looking 2020 data.

I have removed subjectivity and bias from the ratemaking process because I have used known and actual 2020 Annual Report balances, regardless of whether these amounts increased or decreased from the same types of 2019 balances. However, Aquarion selectively only includes <u>increases</u> in costs for payroll raises (and benefits) in the post test periods 2020 and 2021, but Aquarion did not propose any other offsetting decreases in costs for 2020 and 2021 (although I have documented cost decreases for 2020 in my testimony and per my revenue requirement adjustments, and also see Exhibit BCO-1, Schedule 6).

Finally, the following few examples show how my approach to adjusting the revenue requirement using actual 2020 financial data results in a conservative[10] and unbiased revenue deficiency that is beneficial to the interests of Aquarion in many respects, and helps reduce regulatory lag (compared to Aquarion's approach), as shown below:

1) Aquarion proposes an adjusted net plant in service of $42,462,993 (Exhibit BCO-1, Sch. 3, line 3, column F). I have proposed a larger net plant in service balance of $43,554,814 (Exhibit BCO-1, Sch. 3, line 3, column I), based on actual December 31,

[10] By conservative, I mean that my proposed revenue deficiency is somewhat overstated to the benefit of Aquarion due to: 1) including certain 2020 financial balances that exceed 2019 financial balances; and 2) not proposing any including other rate case type adjustments (other than the true-up or incorporation of three other adjustments proposed by Aquarion in its filing for depreciation, rate case expense, and the TCJA tax impact).

2020, balances from the Annual Report. Thus, I have proposed a larger rate base than Aquarion,[11] and this results in a greater revenue deficiency impact that is beneficial to Aquarion. Also, by using a larger net plant in service balance this means that a greater number of plant addition projects will earn a rate of return, and this helps eliminate regulatory lag. Utility companies favor the use of forecasted plant additions or other approaches to maximize the timely recovery of a return on their capital investment, and my approach of using 2020 plant in service financial data achieves this end result better than Aquarion's approach of using 2019 plant in service data, plus selective 2020 plant additions.

2) Although my revenue deficiency calculation is based on actual December 31, 2020, Annual Report balances, I am not proposing to reduce the revenue deficiency by additional traditional adjustments (and these adjustments would be justified for Aquarion's 2019 pro forma test period), per the following examples:

   a) Remove lobbying costs.
   b) Remove a percent of long and short-term incentive driven by financial performance related goals (which are not beneficial to customers).
   c) Remove Supplemental Executive Retirement Plan ("SERP") expenses.
   d) Remove a portion of D&O liability insurance, to share these costs between shareholders and ratepayers.
   e) Remove amortization costs of the Eversource Aquarion merger impact (that has not been ruled upon by the Commission).
   f) Remove excessive or nonrecurring legal expenses.
   g) Remove excessive or nonrecurring levels of customer assistance program costs.

I do not propose to directly incorporate any of the above-mentioned adjustments in its revenue deficiency calculation, which would typically be made if 2020 was the actual test period. However, these potential adjustments could be used as justification for offsetting any adjustments to address understated expenses in the 2020 period that might be proposed by Aquarion.

[11] Aquarion proposes an adjusted rate base of $36,091,050 and I propose an adjusted rate base of $37,010,376 (Exhibit BCO-1, Schedule 3).

Q. Is your approach of adjusting to the 2020 Annual Report balances considered reasonable in this case because of the stale 2019 test period?

A. Yes. It is reasonable to use my approach of adjusting to the 2020 Annual Report balances because the 2019 test period is stale, outdated, and more than two years old. In my experience it is highly unusual to use a test period that is more than two years old, especially when more recent results are readily available. In cases where this occurs, it is often required to update forecasted data when actual results become available for the subsequent period.

Q. Did you attempt to perform reasonable due diligence on the 2020 Annual Report data and determine if there were any operating income or rate base balances or events that required additional annualization, normalization, or other adjustments?

A. Yes. Joint Towns 4-5 and 4-6 data requests (Exhibits BCO-4 and BCO-5, respectively) were issued to Aquarion on October 19, 2021, in an attempt to determine why it would not be reasonable to adjust operating income (revenues, expenses, depreciation, and taxes) and rate base balances to the December 31, 2020, Annual Report balances. These data requests also asked why certain December 31, 2020, revenues, expenses, taxes, and rate base balances had changed from the related December 31, 2019, balances, if there were any 2020 balances that required additional annualization, normalization, or other adjustments, and if certain 2020 balances were recurring or nonrecurring. These data requests sought objective information about increases and decreases in 2020 balances, and no bias was intended in the data that was sought.

Aquarion provided its response to Joint Towns 4-5 and 4-6 data requests on November 12, 2021. Joint Towns 4-5 data request included eleven questions, subparts (a) to (k). Joint Towns 4-6 data request included eight questions, subparts (a) to (h). Aquarion did not provide responsive information to any of the Joint Towns questions in both of these data requests or provide any meaningful explanation of information showing why the known and measurable changes in 2020 should not be considered and used to adjust the test year amounts.[12] Instead, Aquarion provided the same response to both data requests, as summarized below:

1) The 2019 test year in Aquarion's filing is adjusted for appropriate known and measurable changes.

2) Responding to the data request would require Aquarion to undertake the onerous task of recreating essentially all of its schedules and materials assuming 2020 was used as a test year rather than 2019, a position the Towns has already rejected. The use of a 2020 test period would still require identification of and adjustments for known and measurable changes. Aquarion states it is unreasonable and unduly burdensome to recreate the referenced materials based on a different test year.

3) Aquarion also claimed that "the Towns rejected" a delay in filing which would have allowed for a test period later than 2019. It is my understanding from the Towns that this statement is not accurate and occurred during an appellate mediation that is strictly confidential under the rules of the Supreme Court Rule 12-A(11). I will therefore not respond except to note that post test year adjustments are proper within twelve months of the test period.

Q. Did Joint Towns subsequently issue data request TS 3-1 and 3-2, and did Aquarion's response provide information that it previously failed to provide in its response to Joint Towns 4-5 and 4-6?

A. As a result of the Technical Session on December 6, 2021, Joint Towns issued data request TS 3-1 and 3-2 (Exhibit BCO-6 and 7, respectively) to Aquarion on December 7, 2021, and these data requests asked essentially the same questions as previous Joint Towns data requests 4-5 and

[12] Although I have addressed Aquarion's failure to provide information requested in Joint Towns data requests 4-5 and 4-6 above, Aquarion did provide other helpful financial information in response to other data requests in the fourth series of data requests, including Joint Towns 4-7, 4-8, 4-10, 4-15, 4-22, and others.

4-6. Aquarion's December 14, 2021, response to TS 3-1 and 3-2 included the same type of overall objections and claims as 4-5 and 4-6. I believe that Aquarion performed a fairly thorough review of 2020 financial data, and I am not arguing with their level of review. However, I strongly disagree with Aquarion's findings and statements in its response to 4-5, 4-6 and TS 3-1 and 3-2, regarding:

1) The information that Joint Towns seeks regarding 2020 financial data is onerous, burdensome, and would require the Company to recreate all the same 2019 data in this rate case on a 2020 basis; and

2) Joint Towns is attempting to use a 2020 test period.

3) The 2020 period would require certain adjustments to revenues and expenses to decrease the operating income for purposes of using this data for ratemaking purposes and calculating a revenue deficiency (and this Aquarion finding conflicts with other Company documents, including 2020 management/variance reports).

Q. Why do you disagree that consideration of the 2020 financial data is onerous, burdensome, and would require the Company to recreate all the same 2019 data in this rate case on a 2020 basis?

A. Aquarion's response to Joint Towns data request TS 3-1 does mostly provide the information that Joint Towns originally requested in data requests 4-5 and 4-6, and which Aquarion originally failed to provide in its responses to these data requests. The response to TS 3-1 and 3-2 provides an analysis of certain 2020 account balances, reasons for change in accounts, and certain events or conditions that contributed to impacts on the 2020 account balances. However, I do not agree with Aquarion's findings and statements, because these conflict with other information in this rate case, including the Company's 2020 management/variance reports. This information is readily available to a regulated utility such as Aquarion and is not onerous or burdensome to produce.

Aquarion's response to TS 3-1 and 3-2 was about seven pages in total.[13] This is clearly not onerous, burdensome, and did not require the Company to recreate all of its 2019 rate case data on a 2020 basis. This information is important to consider because the Company proposed adjustments based on projections of 2020 and 2021 expenses that served to <u>increase</u> the revenue requirement. It was reasonable for me to conduct due diligence to try and determine if there were any other changes in 2020 costs or revenues that might offset the 2020 cost increases proposed by Aquarion. Therefore, it was reasonable for Joint Towns to consider whether known and measurable changes in 2020 should be considered for purposes of setting going-forward rates.

It is very common in rate cases to test the accuracy of a utility's estimates of forward-looking revenues and costs by comparing those to actual amounts in the subsequent test period. Because Aquarion proposed increases in costs via thirteen of its nineteen adjustments for the 2019, 2020 and 2021 periods, it is reasonable to attempt to review the subsequent actual costs, to test the accuracy of Aquarion's original estimated costs. For example, Aquarion proposed increases in payroll costs (for the 2020 and 2021 time periods), and also proposed increases in affiliate allocated costs. However, a subsequent review of these costs in 2020 indicated that these costs had actually decreased, and not increased. Please see Exhibit BCO-1, Schedule 6 for this information. Thus, if I would not have reviewed the 2020-related data, then I would not have discovered that these costs had actually decreased instead of increasing. The review of actual 2020-related data in this case was justified and is a reasonable and common audit procedure to determine the reasonableness of Aquarion's 2019, 2020, and 2021 related adjustments.

[13] Plus, Attachment 1 that is seven pages.

Q. Do you disagree with Aquarion's assertion in its response to Joint Towns data requests 4-5, 4-6, TS-1, and TS-2 that Joint Towns is attempting to use a "2020 test period" for this rate case?

A. No, I do not agree with Aquarion's statement that Joint Towns is attempting to use a "2020 test period" and I believe the use of 2020 data is reasonable. I will summarize some of the primary reasons why my approach does not constitute a "2020 test period", and why the use of 2020-related data is reasonable:

1) My initial analysis began with the same December 31, 2019 test period used by Aquarion. However, based on my review of actual 2020 results, I concluded that Aquarion's proposed adjustments were not a reasonable or accurate representation of its revenue requirement on a going-forward basis.

2) Traditional ratemaking principles in New Hampshire support adjustment of test-year results based on actual known and measurable changes during the twelve month period subsequent to the test year "for the sake of furnishing the most accurate possible prediction of the utility's fortunes in the period following the rate order." There is no Commission or general regulatory principle that prohibits or restricts the number of 2020-related adjustments to be included in a 2019 test period rate case.

3) Aquarion opened the door to my 2020-related adjustments because it proposed only selective 2020 and 2021-related adjustments that increase the revenue requirement (and Aquarion did not include any 2020 and 2021-related adjustments that decrease the revenue requirement) – although such adjustments exist as shown by my 2020-related adjustments.

4) Aquarion's nineteen rate case adjustments recognize that 2019 results do not reasonably reflect a going-forward more current revenue requirement. However, it is more reasonable, accurate, and objective to use the "actual" 2020 adjusted balances instead of Aquarion's estimates.

5) My 2020-related adjustments are within twelve months of the 2019 test period and are not a violation of the Commission Order No. 20,776 (Exhibit BCO-3) that opposes adjustments more than twelve months following the test period. In contrast, Aquarion proposes certain 2021-related payroll/medical cost adjustments that occur more than twelve months following the test period and should be rejected because it violates the principle of matching.

6) The June 3, 2021 Settlement Agreement between parties does not prevent Joint Towns from incorporating 2020-related adjustments in the rate case. It expressly reserved the right to make recommendations as to whether permanent rates are just and reasonable.

7) My 2020-related adjustments and revenue deficiency calculation are conservative, and I could have incorporated other traditional and acceptable ratemaking adjustments to arrive at a reduced revenue deficiency – but that is not my recommendation. If I would have adopted a pure 2020 test period, then I would have made numerous other adjustments to this 2020 test period (similar to Aquarion's numerous adjustments to its 2019 test period), but I have not made any other adjustments except to incorporate several Aquarion adjustments that were removed in the process of adjusting to 2020 Annual Report balances (along with a revision of Aquarion's depreciation expense adjustment as part of this process).

8) Aquarion's 2019, 2020, and 2021 adjustments result in a mismatch of various period adjustments that are not consistent with the matching regulatory principle. My adjustments consistently reflect known 2020 amounts that are properly matched with all other revenue requirement components in the same time period. The Commission's Order No. 20,776 (pages 119 and 120) supports the matching principle.

Q. Aquarion's response to Joint Towns data request TS 3-1 and TS 3-2 attempts to degrade the use of 2020 financial results for ratemaking purposes, please explain how the Company's 2020 internal management reports fail to support this contention?

A. Aquarion's response to Joint Towns data request 4-17 (Exhibit BCO-9) provided copies of monthly internal financial management/variance reports for certain years, including 2020.[14] The purpose of these management/variance reports is to summarize the monthly and year-to-date financial status, by showing how actual financial results for the current year vary from budget and prior year results in terms of revenues, expenses, taxes, ROE, and the capital budget. In addition, these reports identify those reasons and events that are causing significant or important variances from budget and prior year results. The Company uses the term "favorable" or "unfavorable" to

[14] Joint Towns data request 4-22 asked for copies of management variance reports, and the response referred to the Company's response to 4-17.

explain how the Company is performing on a monthly basis in regards to budget and prior year results.

The Company's response to TS 3-1 and TS 3-2 claims that revenues were overstated and certain costs were understated in 2020 due to certain events or reasons, and provide the impression that 2020 results were not as positive as they appear. This would lead one to believe it is not reasonable to rely on 2020 financial results for regulatory purposes without making certain rate-case type adjustments to decrease the otherwise favorable earnings.

I do not agree with Aquarion's conclusions regarding the 2020 financial results, and no significant rate case adjustments are necessary to reflect 2020 results on a reasonable regulatory basis (other than Adjustments JT-2, JT-3, JT-4 and JT-5 that I incorporated from Aquarion's filing). I reviewed the monthly variance reports for 2020 and did not find any mention of significant overstated revenues or significant understated expenses that Aquarion identifies as cause for adjustment in response to TS 3-1 and 3-2.[15] There are several important points of emphasis from the 2020 variance reports:

First, Aquarion's variance reports do not identify or focus on any single significant factor or event that caused 2020 earnings to be overstated, excessive, or unusual. Most importantly, the reports do not focus on any negative financial reasons identified in Aquarion's response to TS 3-1 and 3-2. The reports do state that revenues were favorable due to hot dry weather in certain months, but 2020 revenues were only $4,800 greater than Aquarion's pro forma adjusted test period revenues, so this was not a material factor. The reports do identify some "unfavorable" increases in certain expenses for 2020, but these cause the Company's 2020 earnings to be

[15] Most of the revenues and expenses that Aquarion identifies as outliers or requiring adjustment in TS 3-1 and 3-2 are not significant, and many are not even related to the 2020 period (they are related to the 2019 period).

understated and not overstated – so these 2020 financial results are not unreasonable to use for regulatory purposes.

Second, the bottom line is that Aquarion's 2020 variance reports do not support the Company's response to TS 3-1 and TS 3-2 that attempt to paint the 2020 test period as an outlier that requires regulatory adjustments to significantly reduce earnings to a normalized basis for regulatory purposes.

Q. Do you agree with Aquarion's response to Joint Towns data request TS 3-1 and TS 3-2 that addresses concerns with certain amounts in the 2020 financial statements?

A. No, for the most part I do not agree with Aquarion's responses to TS 3-1 and TS 3-2. Joint Towns issued TS 3-1 and TS 3-2 to perform due diligence on the 2020 revenue, expense and rate base components, to determine if these amounts were reasonable and reliable for use in this rate case, and to determine if there were any significant adjustments that needed to be made to these 2020 amounts. Joint Towns TS 3-1 and TS 3-2 included comprehensive questions to determine if these 2020 revenues, expenses, and rate base components were overstated, understated, included nonrecurring or extraordinary items or events that impacted amounts, and to determine if any other annualization/normalization adjustments were necessary.

Aquarion provided the same objections to TS 3-1 and TS 3-2 that it did in response to previous Joint Towns data requests 4-5 and 4-6 (which included the same questions), but Aquarion did provide some comments expressing concerns with certain 2020 revenue and expense amounts. I am relying on Aquarion's responses to TS 3-1 and TS 3-2 to have been a fairly thorough evaluation and due diligence review of the 2020 period, to identify any potential concerns with revenues and expenses – although I do not agree with Aquarion's conclusions. I will now address the concerns raised by Aquarion regarding 2020 revenues and expenses, and indicate if I agree or disagree for each of the issues that I consider to be significant or necessary to address.

1) **<u>TS 3-1(b) – Impact of COVID on Revenues</u>**:

Aquarion states that due to COVID, residential consumers are spending more time at home and this caused residential consumption to increase and commercial/public authority consumption to decrease. Although Aquarion provided this change in terms of consumption volumes (thousand gallons), the Company did not provide this impact on actual revenues. First, the total increase from Aquarion's pro forma adjusted revenues to 2020 revenues was only $4,813 (Exhibit BCO-1, Sch. 4, line 4, column H), so it does not appear that revenues increased significantly due to COVID (or the impact is masked by other factors). Also, my adjustment for 2020 revenues is the same as this $4,813 revenue increase, and this amount is not material.

Second, a review of Aquarion's financial variance reports for all of the months in 2020 did not identify any significant impacts on revenues due to the stated reason of "COVID" in these reports. In fact, the December 2020 variance report notes that revenues exceeded budget by $43,000 due to dry, hot weather, and not due to COVID. Third, Witness Donald J. Morrissey[16] states that in 2020, the Company implemented a Customer Assistance Program to provide a $50 credit to certain customer's bills that are struggling with making ends meet. This customer credit would cause a reduction in 2020 revenues compared to 2019 revenues, so 2020 revenues are actually understated in regards to this issue.

[16] Direct testimony, Morrissey, page 12, lines 10-13.

In conclusion, Aquarion has not provided adequate documentation to show that 2020 revenues have increased significantly from 2019 to 2020 due to COVID or any other unusual reasons that require any adjustment. Aquarion has not provided any meaningful justification or documentation to explain why 2020 revenues are not reasonable to use in my revenue requirement calculation.

2) <u>TS 3-1(c) – Impact on Customer Accounting Expenses:</u>

Aquarion states that 2020 O&M expenses are $352,034 less than the 2019 O&M expenses, and the 2020 expenses are not reasonable because they do not include: a) 2019 related customer goodwill credits of $179,160 (issued in response to a boil water alert in 2019 per Staff data request 2-58); b) and do not include 2019 customer program expenses of $23,886. First, the 2019 customer goodwill credits of $179,160 are a nonrecurring event and expense in 2019 that caused the 2019 O&M expenses to be greater than normal, and these nonrecurring expense amounts should be removed from the 2019 period as a rate case adjustment. However, these goodwill credit expenses related to the boil water alert of $179,160 should not be included as an adjustment to increase 2020 expenses as proposed by Aquarion. Besides, if the goodwill credit expenses were recurring, they would have already been reflected in the 2020 expenses, and they were not. Aquarion's argument is not justified, and it further supports an adjustment to reduce 2019 test period expenses and does not support an increase to 2020 expenses.

Similar to the same argument I propose for the customer goodwill credits, the customer program expenses of $23,886 incurred in 2019 appear to be a nonrecurring expense that should be removed from the 2019 test period, and this does not impact the 2020 expenses. Also, if these expenses were recurring, they would have been included in the 2020 expenses, and they were not. Aquarion's argument is not justified, and it supports an adjustment to reduce 2019 test period expenses by $23,886 and not an increase to 2020 expenses. Aquarion has not provided any meaningful justification or documentation to explain why 2020 Customer Accounting expenses are not reasonable to use in my revenue requirement calculation.

3) <u>TS 3-1(c) – Impact on Other Operating Expenses:</u>

Aquarion's explanation is disjointed and difficult to understand. It appears Aquarion is arguing that its 2019 labor costs were $65,000 greater than 2020 labor costs, but Aquarion does not explain why it believes the 2020 labor costs are unusually or unreasonably understated on its books, if that is the argument. Also, Aquarion appears to state that its payroll adjustment in the rate case includes increased expenses reflecting the impact of 3 percent pay raises that occur in both April 2020 and April 2021, and the 2020 period only reflects nine months of the 2020 pay raise.

First, the 2021 pay raise expenses do not belong in Aquarion's 2019 test period adjusted payroll costs (and should not be included in 2020 book costs), because these expenses are a violation of Commission Order No. 20,766 that disallows expenses more than twelve months beyond the test period. Second, although the 2020 test period may not include three months of 2020 pay raises, these expenses are relatively immaterial and do not significantly impact a revenue requirement relying upon 2020 expenses.

Third, the information in the table below shows that 2020 payroll costs were less than 2019 payroll costs, and Aquarion has not explained why 2019 payroll expenses were overstated or why 2020 payroll expenses were understated (Aquarion provides no explanation for adjusting these payroll costs related to unusual or nonrecurring events), thus the 2020 payroll costs appear reasonable for use in my revenue requirement. Finally, Aquarion states that the 2020 expense to capital ratio is 89.1 percent, and I'm not sure if Aquarion is claiming that this causes 2020 payroll expenses to be understated, but that argument is incorrect. Per the payroll information in the table below (from the Annual Reports), both 2019 and 2020 have a similar expense to capital ratio of 90.85 percent and 90.45 percent, so this issue of the capital to expense ratio is not impacting payroll amounts between the two periods.

A	B	C	D
Source: F-58 Annual Reports	2019	2020	Amount Change
Payroll expensed	858,695	850,443	(8,252)
Payroll capitalized	86,511	89,786	3,275
Total Payroll Costs	945,206	940,229	(4,977)
Percent expensed	90.85%	90.45%	
Percent capitalized	9.15%	9.55%	
Total	100.00%	100.00%	

Aquarion states that 2020 outside expenses were curtailed by the pandemic, but does not support this statement with any specific dollar impact or calculations. Aquarion has not provided any meaningful justification or documentation to explain why 2020 payroll expenses and other expenses are not reasonable to use in my revenue requirement calculation.

4) <u>TS 3-1(c) – Impact on Administrative and General ("A&G") Expenses:</u>

Aquarion provides a list of expenses (and reduction in expenses) that are included in 2019 and not 2020, to explain why 2020 expenses are understated, and I will address the larger amounts. First, Aquarion states that 2020 does not include a reduction in income tax expense related to the amortization of the Tax Cuts and Job Act ("TCJA"), although the Company included this adjustment in its rate case for its 2019 pro forma expenses. I am not sure why the Company is not recording the proper impact of the TCJA on its financial books for each year, but that is a separate issue. However, I have included the Aquarion's TCJA income tax expense amortization adjustment (reduction of income taxes) of $143,534 as one of the five adjustments that I propose in this rate case.

Second, the remaining list of expenses that Aquarion claims should be included in 2020 financial results are either relatively immaterial (change to self insured liability, change to internal legal, Next Gen champion award), they are nonrecurring costs that do not belong in any test period, they have not been approved by the Commission (amortization of merger expenses), I have previously addressed (greater wages/benefits), or I have already adjusted for in the revenue requirement (rate case expense, amortization of TCJA).

5) <u>TS 3-1(d) – Impact on Property Tax Expense:</u>

Although Aquarion's information shows that 2020 property taxes are $130,961 greater than 2019 property taxes, the Company states it still needs to recover additional property taxes of $52,562 per its property tax annualization adjustment. I do not entirely oppose reflecting the additional $52,562 in my revenue requirement calculation. However, if this adjustment were to be made, there are other corresponding adjustments that should be implemented to reduce 2020 costs using traditional ratemaking principles, such as the following:

- Remove lobbying costs.
- Remove a percent of long and short-term incentive driven by financial performance related goals (which are not beneficial to customers).
- Remove Supplemental Executive Retirement Plan ("SERP") expenses.
- Remove a portion of D&O liability insurance, to share these costs between shareholders and ratepayers.
- Remove amortization costs of the Eversource Aquarion merger impact (that has not been ruled upon by the Commission).
- Remove excessive affiliate allocations (Exhibit BCO-10).

- Remove excessive or nonrecurring legal expenses.
- Remove excessive or nonrecurring levels of customer assistance program costs.

Bottom line, I am not convinced by Aquarion's response to TS 3-1 and TS 3-2 that any other significant adjustments are necessary to reflect 2020 financial results on a reasonable basis for regulatory ratemaking purposes.

III. Other Revenue Requirement Adjustments

ADJUSTMENT JT-2 – DEPRECIATION EXPENSE

Q. Please explain Aquarion's depreciation expense adjustment at Schedule 1R of its filing to annualize depreciation expense at the Company's proposed new depreciation rates?

A. Aquarion proposed an adjustment to annualize depreciation expense at its proposed new depreciation rates. Aquarion begins with its adjusted pro forma gross plant in service of $56,033,346[17] and applies its proposed new depreciation rates to each of the respective accounts, to arrive at annualized depreciation expense (at proposed new depreciation rates) of $1,310,407.[18] Aquarion then adjusted the 2019 depreciation expense per books to its annualized depreciation expense of $1,310,407, resulting in an adjustment (and increase) to depreciation expense of $286,177. Aquarion provides calculations at its Schedule 1R, to break out the $286,177 depreciation expense adjustment between depreciation expense annualized at existing depreciation rates of $157,798, and incremental depreciation expense annualized at proposed new depreciation rates of $128,379 ($157,798 + $128,379 = $286,177). The adjustment is shown in Table 3 below:

[17] Aquarion's adjusted plant in service is calculated as the 2019 gross plant in service per books, and adds $6,695,500 of post test period 2021 plant additions, equaling an adjusted pro form balance of $5,033,346.
[18] The depreciation expense of $1,310,407 is net of $24,975 of reserve deficiency amortization.

Table 3– Summary of Aquarion Depreciation Expense Adjustment

A	B	C
		Aquarion
Line	Description	Adjustment
1	2019 depreciation expense per books	1,024,230
2	Increase in deprec. expense - annualized at existing deprec. rates	157,798
3	Increase in deprec. expense - annualized at proposed deprec. rates	128,379
4	Proposed adjustment	286,177
5	Adjusted depreciation expense rate case	1,310,407

Q. Will you explain your revision to Aquarion's depreciation expense adjustment, which also reflects depreciation expense at Aquarion's proposed new depreciation rates?

A. This is explained after Table 4 below.

Table 4 – Summary of Ostrander/Joint Towns Depreciation Expense Adjustment

A	B	C	D	E
		Depreciation	Depreciation	
	Aquarion Adjustment:	Expense	Expense	Source
1	2019 depreciation expense per books		1,024,230	Note 1
2	Aquarion adj. - annualize deprec. expense at existing deprec. rates	157,798		Note 1
3	Aquarion adj. - annualize deprec. expense at proposed new deprec. rates	128,379		Note 1
4	Proposed adjustment	286,177	286,177	Note 1
5	Aquarion adjusted depreciation expense in rate case		1,310,407	Note 1
6				
7	**Ostrander Adjustment - Adjust to December 31, 2021 Balance:**			
8	Adjust Aquarion deprec. expense to Dec. 31, 2021 deprec. expense		(268,001)	
9	Depreciation expense at December 31, 2020		1,042,406	Note 2
10	**Ostrander Adjustment - Revise Aquarion Deprec. Expense Adjustment:**			
11	Include deprec. expense at Aquarion's proposed new depreciation rates		113,215	
12	Ostrander adjusted deprec. expense		**1,155,621**	
13				
14	**Reconciliation of Ostrander Depreciation Expense Adjustment:**			
15	2019 depreciation expense per books	1,024,230	1,024,230	
16	2020 Annualize depreciation expense at existing deprec. rates	18,176	18,176	
17	2020 depreciation expense per books	1,042,406		
18	Ostrander adj. - annualize deprec. expense at proposed new deprec. rates	113,215	113,215	
19	Ostrander adjusted deprec. expense at proposed new deprec. rates	1,155,621	1,155,621	
20				
21	Sources:			
22	Note 1 - Aquarion filing, Schedule (Adjustment) 1R.			
23	Note 2 - Depreciation expense per 2020 Annual Report			

Per above Table 4, I started with Aquarion’s adjusted pro forma depreciation expense of $1,310,407 (line 5, column D), and then I reduced depreciation expense by $268,001 (line 8, column D) to adjust to the December 31, 2020 depreciation expense balance of $1,042,406 (line 9, column D). By adjusting to the December 31, 2020 balance, this effectively removed Aquarion’s pro forma adjustment to depreciation expense. However, I believe that a pro forma depreciation expense adjustment is reasonable within certain boundaries, and so I added my revised adjustment to reflect depreciation expense at annualized levels, including Aquarion's proposed new depreciation rates. Although I do not necessarily agree with Aquarion's proposed new depreciation rates, I have included an allowance for this in my calculated revenue deficiency at this time – although I am continuing to evaluate this issue. Therefore, I increased the December 31, 2020 depreciation expense by $113,215 (line11, column D, and line 18, columns C and D) to allow for increased depreciation expense at proposed new depreciation rates. Therefore, my depreciation expense adjustment consists of two components, similar to Aquarion's approach.

First, I have allowed an annualized increase in depreciation expense at existing depreciation rate levels, and this is an amount of $18,176 (line 16, columns C and D), which is the difference between the 2019 depreciation expense per books of $1,024,230 and the 2020 depreciation expense per books of $1,042,406.

Second, I have allowed an annualized increase in depreciation expense at proposed new depreciation rate levels, and this is an amount of $113,215 that I previously addressed. The reconciliation (lines 14 to 19, columns C and D) shows the beginning 2019 depreciation expense of $1,024,230, adding $18,176 for depreciation expense annualized at existing depreciation rates, plus adding $113,215 for depreciation expense annualized at proposed new depreciation rates, equals my adjusted forward-looking depreciation expense of $1,155,621.

Q. Does Aquarion's annualized depreciation expense at existing depreciation rates appear to be unusually high compared to actual 2020 depreciation expense, and how did you address this?

A. Yes. This is explained by information in Table 5 below. Aquarion's adjusted depreciation expense at existing depreciation rate levels is $1,182,028 (line 3, column C), based on adjusted pro forma gross plant in service of $56,033,346 (including $6.7 m of 2020 plant additions). The actual 2020 depreciation expense is $1,024,230 based on 2020 gross plant in service of $57,573,255. It appears unusual that Aquarion's adjusted depreciation expense at existing depreciation rate levels of $1,182,028 (based on adjusted plant of $56,033,346) is $157,798 greater than actual 2020 depreciation expense of $1,024,230 (based on December 31, 2020, plant of $57,573,255).[19] Aquarion's adjusted plant of $56.0 million and related forward-looking depreciation expense of $1,182,028, should be reasonable surrogates for actual depreciation expense incurred in 2020, although Aquarion's calculation produces depreciation expense that is $157,798 greater than the actual 2020 depreciation expense. Therefore, I have used the actual increase from 2019 depreciation expense to 2020 depreciation expense of $18,176 as the increase annualized increase in depreciation expense at existing depreciation levels (as shown in prior Table 7).

Table 5 – Aquarion Depreciation Expense at Existing Depreciation Rate Levels

A	B	C
Line	**Aquarion Depreciation Expense Adjustment - Schedule 1R**	Deprec. Expense
1	2019 depreciation expense per books	1,024,230
2	Deprec. expense annualized at existing deprec. rates	157,798
3	Adjusted depreciation expense	1,182,028
4	Deprec. expense annualized at new proposed deprec. rates	128,379
5	Aquarion adjusted pro forma depreciation expense	1,310,407

Q. How did you adjust Aquarion's depreciation expense to reflect the impact of proposed new depreciation rates?

A. First, per Table 6 below, I calculated a ratio of: a) Aquarion's incremental increase in depreciation expense related to the Company's proposed new depreciation rates ($128,379, see

[19] Although increase in this plant balance occur throughout the 2020 period.

prior Table 8); to the b) amount of Aquarion's adjusted depreciation expense at existing depreciation rates ($1,182,028, see prior Table 8), and this ratio is 10.86 percent. This ratio/percent is intended to show how much Aquarion's depreciation expense at proposed new depreciation rates exceeds its depreciation expense at existing depreciation rate levels.

Second, per Table 7 below, I increased the actual 2020 depreciation expense of $1,042,406 (which I previously explained is my surrogate for Aquarion's depreciation expense at existing depreciation rates), by the 10.86 percent (ratio of depreciation expense at proposed new depreciation rate levels), to arrive at my depreciation expense increase (and adjustment) of $113,215 related to reflect depreciation expense at proposed new depreciation rate levels.

Third, per Table 8 below, this shows a comparison, and the difference, between Aquarion's proposed depreciation expense adjustment and the depreciation expense adjustment that I propose.

Table 6 – Ratio of Depreciation Expense at Proposed New Rates

Ratio of Proposed Deprec. Rates to Deprec. Expense at Existing Rates Annualized:		Ratio
Increase in deprec. expense - annualized at proposed new deprec. rates	128,379	
Aquarion adjusted deprec. expense - annualized at existing deprec. rates	1,182,028	10.86%

Table 7 – Apply Ratio to Ostrander Proposed Depreciation Expense

Ostrander Depreciation Adjustment at Aquarion's Proposed Depreciation Rates:	
Actual 2020 depreciation expense per Annual Report	1,042,406
Ratio of Aquarion proposed deprec. rates to deprec. rates/expense	10.86%
Joint Towns allowed adjustment for new proposed deprec. rates	113,215

Table 8 – Summary of Aquarion and Ostrander Depreciation Expense Adjustments

A	B	C	D	E
			Joint	Joint
		Aquarion	Towns	Towns Adjusted
Line	Description	Adjustment	Adjustment	Deprec. Expense
1	2019 depreciation expense per books	1,024,230		1,024,230
2	Increase in deprec. expense - annualized at existing deprec. rates	157,798	(139,622)	18,176
3	Increase in deprec. expense - annualized at proposed deprec. rates	128,379	(15,164)	113,215
4	Proposed adjustment	286,177		131,391
5	Adjusted depreciation expense rate case	1,310,407	**(154,786)**	1,155,621

Q. Did you perform additional analysis to determine if your adjusted depreciation expense is within in a range of reasonableness?

A. Yes. Per Table 9 below, I compared the ratio of actual depreciation expense to actual gross plant in service for the periods 2018 to 2020 (including average balances for gross plant also), to see if my adjusted depreciation expense falls within a range of reasonableness. The information shows that the ratio of depreciation expense to gross plant in service typically falls in a range of 1.81 percent for 2020 year-end data (line 5, column F) to an upward range of 2.10 percent for 2018 year-end data.[20] My proposed depreciation expense (at annualized depreciation proposed new rate levels) of $1,155,621 (related to corresponding 2020 gross plant of $57,572,255) is at 2.01 percent, and this falls within the range of 1.81 percent to 2.10 percent that I previously identified, so my adjustment is reasonable.

[20] I did not include Aquarion's adjusted depreciation expense in this range, because I was testing my calculation against "actual" amounts per books from prior years, and not against Aquarion's "estimated" depreciation expense adjustment for which I had concerns.

Table 9 – Reasonableness Test of Depreciation Expense Adjustment

A	B	C	D	E	F
				Gross	Ratio of
			Depreciation	Plant	Deprec.
Line	Party	Description	Expense	in Service	Exp. To Plant
1	Aquarion	2018 Year-End	968,602	46,103,736	2.10%
2	Aquarion	2019 Year-End	1,024,230	49,337,846	2.08%
3	Aquarion	2018/2019 Average	996,416	47,720,791	2.09%
4	Aquarion	Aquarion 2019 Adjusted Pro Forma Amounts	1,310,407	56,033,346	2.34%
5	Aquarion	2020 Year-End	1,042,406	57,573,255	1.81%
6	Aquarion	2019/2020 Average	1,033,318	53,455,551	1.93%
7	Aquarion	Depreciation expense - annualized at current rates	1,182,028	56,033,346	2.11%
8	Aquarion	Depreciation expense - annualized at proposed rates	1,310,407	56,033,346	2.34%
9	Ostrander	Adjusted depreciation expense - at proposed rates	1,155,621	57,573,255	2.01%
10	Ostrander	Adjusted depreciation expense - at proposed rates	1,155,621	56,033,346	2.06%
11					
12		Note 1: Plant balances from Sch. No. 3 or Annual Report for respective year.			
13		Note 2: Depreciation expense from Sch. No. 1 or Annual Report for repective year.			

ADJUSTMENT JT-3 – RATE CASE EXPENSE

Q. Please explain your adjustment to include Aquarion's rate case expense adjustment in your revenue requirement calculations?

A. When I made adjustments to operating expenses to reflect amounts at December 31, 2020, balances, this effectively removed Aquarion's proposed rate case expense amortization adjustment of $27,151. I have made a separate adjustment to add this rate case adjustment back into my proposed revenue requirement because I am not opposed to this adjustment, and it is reasonable for Aquarion to recover these costs (along with any reasonable trued-up amounts).

ADJUSTMENT JT-4 – TCJA Income Tax Expense

Q. Please explain your adjustment to include Aquarion's TCJA income tax expense adjustment in your revenue requirement calculations?

A. Aquarion's response to Joint Towns data request TS 3-1(c) states that the impact of TCJA upon income tax expense has not been reflected in the 2020 period. Therefore, I have made an adjustment to include this impact in my revenue requirement, at the same amount that Aquarion used in its revenue requirement. This results in a decrease to income tax expense of $143,534 for the effect of the amortization of excess deferred income taxes per the TCJA. I have also made a corresponding adjustment to reduce accumulated deferred income taxes in rate base by the same amount.

ADJUSTMENT JT-5 – CAPITAL STRUCTURE ADJUSTMENT

Q. Please explain your adjustment to Aquarion's capital structure?

A. I will explain this adjustment using Tables 10, 11, and 12 below. Table 10 is Aquarion's proposed capital structure with the related 10.25 percent ROE and overall ROR of 8.1507 percent. The focus of my adjustment will be on Table 11, which is the 2020 capital structure per books, and Table 12, which is my proposed capital structure that includes Aquarion's 10.25 percent ROE and a revised ROR of 7.6119 percent based on the adjustment that I propose to the capital structure.

First, consistent with operating and rate base accounts, I have made an adjustment to reflect the capital structure at December 31, 2020, balances per Aquarion's Annual Report. Table 11 shows that the 2020 capital structure includes "Paid in Capital" in the Total Equity balance of

$4,080,250 (line 5, column C) and also includes "Short-Term Debt" of $2,833,281 (line 11, column C) at a cost of .78 percent (weighted cost of $.0604 percent).

Second, Aquarion's response to Joint Towns data request 4-10 (Exhibit BCO-8) on November 2, 2021 states that the Company transferred Short-Term Debt of $1,600,000 to the Paid in Capital account on December 30, 2020, and this increased the Paid in Capital (equity) account from its 2019 balance of $2,480,250 (Table 10) at 2019 to its 2020 balance of $4,080,250 (Table 11), and also decreased the Short-Term Debt balance by the same amount. Aquarion states that it transferred the Short-Term Debt to the Paid in Capital account so the Company's capital structure remained at a reasonable level within the industry range,[21] and this caused the Equity/Debt ratio to change from 52/48 percent in 2019 to 54/46 percent in 2020, increasing the equity ratio by about 2 percent. I would also note that the timing of this transaction appears somewhat odd or unusual, to transfer $1.6 million of Short-Term Debt to Paid in Capital on December 30, 2020, right before the beginning of the 2021 calendar year. This transaction had the impact of increasing equity balances by $1.6 million and reducing the Company's reported ROE in its December 31, 2020, Annual Report, to an ROE of 7.98 percent – the ROE would have been 8.47 percent without this $1.6 million increase in equity.

Third, as Table 12 shows that I reversed the Aquarion transaction and removed the $1,600,000 from Paid in Capital account (line 5, column C) and placed it back in the Short-Term Debt balance (line 10, column C) at the prior 2019 cost of 2.42 percent, and this results in an Equity/Debt ratio of 50/50 percent for the adjusted 2020 period.

[21] Per Aquarion's response to Joint Towns data request 4-10.

I do not believe it was reasonable for Aquarion to transfer Short-Term Debt amounts to Paid in Capital amounts, because these are two different types of original capital sources. Also, Aquarion states the purpose of this transfer was to keep the capital structure remained in line with the industry range, but Aquarion did not provide any supporting documentation for the "industry range", of which they supported an Equity/Debt ratio of 54/46 percent. In prior years, Aquarion's Equity/Debt ratio was about 40/60 percent, and now the Company's capital structure has almost reversed to the proposed 54/46 percent. I do not believe that a further increase in the Equity balance is warranted via the Company's paper accounting entry to achieve this result. Also, by reversing this transaction, I have maintained the Paid in Capital balance at $2,480,250, which is the same amount proposed by Aquarion in the capital structure of this rate case (Table X8, line 5, column C).

Table 10 – Aquarion's Capital Structure

A	B	C	D	E	F
		Schedule 4 and 4A of Filing			
		Aquarion Proposed Capital Structure			
					Weighted
Line	Description	Amount	%	Cost	Cost
1	Preferred Stock	2,300	0.01%	6%	0.0%
2					
3	Common Stock	2,187,075			
4	Premium on capital stock	3,557,940			
5	Other paid in capital	2,480,250			
6	Retained earnings	8,373,058			
7	Total Equity	16,598,323	52.36%	10.25%	5.3669%
8					
9	Long-Term Debt - Bonds	13,900,000	43.85%	6.14%	2.6922%
10	Short-Term Debt Transferred to Paid in Capital in 2020				
11	Short-Term Debt/Note Payable	1,200,000	3.79%	2.42%	0.0916%
12	Total Debt	15,100,000	47.63%		
13					
14	Rate of Return	31,700,623	100.00%		**8.1507%**

Table 11 – Ostrander's December 31, 2020 Capital Structure per Books

A	B	C	D	E	F
		Joint Towns - December 31, 2020 Capital Structure			
					Weighted
Line	Description	Amount	%	Cost	Cost
1	Preferred Stock	2,300	0.01%		0.0%
2					
3	Common Stock	2,187,075			
4	Premium on capital stock	3,557,940			
5	Other paid in capital	4,080,250			
6	Retained earnings	10,023,211			
7	Total Equity	19,848,476	54.25%	10.25%	5.5611%
8					
9	Long-Term Debt - Bonds	13,900,000	37.99%	6.14%	2.3329%
10	Short-Term Debt Transferred to Paid in Capital in 2020				
11	Short-Term Debt/Note Payable	2,833,281	7.74%	0.78%	0.0604%
12	Total Debt	16,733,281	45.74%		
13					
14	Rate of Return	36,584,057	100.00%		**7.9544%**

Table 12 – Ostrander's Adjusted December 31, 2020 Capital Structure

A	B	C	D	E	F
		Note 2 (with Joint Towns adjustment)			
		Joint Towns - December 30, 2020 Adjusted			
					Weighted
Line	Description	Amount	%	Cost	Cost
1	Preferred Stock	2,300	0.01%		0.0%
2					
3	Common Stock	2,187,075			
4	Premium on capital stock	3,557,940			
5	Other paid in capital	2,480,250			
6	Retained earnings	10,023,211			
7	Total Equity	18,248,476	49.88%	10.25%	5.1128%
8					
9	Long-Term Debt - Bonds	13,900,000	37.99%	6.14%	2.3329%
10	Short-Term Debt Transferred to Paid in Capital in 2020	1,600,000	4.37%	2.42%	0.1058%
11	Short-Term Debt/Note Payable	2,833,281	7.74%	0.78%	0.0604%
12	Total Debt	18,333,281	50.11%		2.4991%
13					
14	Rate of Return	36,584,057	100.00%		**7.6119%**

Q. Does this conclude your direct testimony?

A. Yes.