STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DW 20-184

IN THE MATTER OF: AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

REQUEST FOR CHANGE IN RATES

DIRECT TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO DEPARTMENT OF ENERGY

March 2, 2022

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ATTACHMENTS

DHM-01	Professional Experience and Education of Donna H. Mullinax
DHM-02	Revenue Requirements Schedules
DHM-03	AWS response to DOE 4-3
DHM-04	Audit Staff, Department of Energy Final Audit Report (July 13, 2021)
DHM-05	AWS response to Staff 2-10
DHM-06	AWS response to Staff 1-3
DHM-07	AWS response to Staff 2-58
DHM-08	AWS response to Staff 2-20
DHM-09	AWS response to Staff 2-19
DHM-10	AWS response to DOE 3-19
DHM-11	AWS response to Staff 2-31
DHM-12	AWS response to Staff 2-25
DHM-13	AWS response to Staff 2-24
DHM-14	AWS response to DOE 3-17
DHM-15	AWS response to DOE 3-16
DHM-16	AWS response to Staff 2-27
DHM-17	AWS response to Staff 2-39
DHM-18	AWS response to DOE 3-15
DHM-19	AWS response to Energy TS 2-8
DHM-20	AWS response to Staff 2-33
DHM-21	AWS response to Staff 2-37
DHM-22	AWS response to DOE 4-8
DHM-23	DW 17-114, Joint Petition for Approval of Acquisition, October 13, 2017

<u>Introduction and Summary</u>

Q. Please state your full name.

A. My name is Donna Hubler Mullinax.

Q. By whom are you employed and what is your business address?

A. I am employed by Blue Ridge Consulting Services, Inc. My business address is 114 Knightsridge Road, Travelers Rest, SC 29690.

Q. Please summarize your education and professional work experience.

A. I graduated with honors from Clemson University with a Bachelor of Science in Administrative Management and a Master of Science in Management. I am a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Financial Planner (CFP)—Retired, and a Chartered Global Management Account (CGMA) designation holder. I am a member of the South Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

I have over 42 years of professional experience and have been a utility industry consultant for the last 26 years. My consulting assignments include numerous rate cases filed by public utilities and litigation support for various construction claims. Other project experience includes management, financial, and compliance audits; due diligence reviews; prudence reviews; and economic viability and financial studies.

Q. Have you included a more detailed description of your qualifications?

A. Yes. A description of my qualifications is included as Attachment DHM-1.

Q. Have you previously testified before the New Hampshire Public Utilities Commission?

A. Yes. I have testified before this Commission in Docket Nos. DE 16-383, DE 16-384, DG 17-048, DE-19-057, DE-19-064, DG-20-105, and DE 21-030. In addition, Blue Ridge has provided analysis and reported on our findings in Docket Nos. DG 17-070, DW 18-047, DW 18-054, and DW 18-056.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the New Hampshire Department of Energy (DOE).

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

A. The purpose of my testimony is to address the revenue requirements and revenue deficiency proposed by Aquarion Water Company of New Hampshire, Inc. (AWS or "Company") and to present the impact of DOE's recommended ratemaking adjustments on the Company's revenue deficiency (sufficiency).

Q. What revenue increase does DOE recommend?

A. DOE recommends a base rate decrease of no less than $1,409,041. The following table shows the Company's original and updated revenue requirement request and DOE's recommendation.

Table 1: DOE's Recommended Revenue Requirement

Company's Revenue Deficiency-Application	$	1,373,351
Company's Revenue Deficiency-11/30/21 Update		1,336,046
Recommended Adjustments		(2,745,087)
Recommended Revenue Deficiency (Sufficiency)	$	(1,409,041)

The following table summarize DOE's recommended adjustments to revenue requirements.

Table 2: Summary of DOE's Recommended Adjustments and the Effect on Rate Base, Net Operating Income, and Revenue Deficiency (Sufficiency)

Recommended Rate on Equity	4.95%
Recommended Rate of Return	4.74%
Revenue Conversion Factor	1.37142

			Rate Base	Operating Income	Revenue Deficiency (Sufficiency)
		Company's Request (11/30/21 Update)	$ 36,119,226	$1,970,235	$ 1,336,046
Adjustment 1	1a	Post-Test Year Plant Adjustments	$ (6,695,500)		(435,244)
	1b	Post-Test Year Plant Adjustments		$ 233,159	(319,760)
Adjustment 2	2	Cash Working Capital	(15,706)		(1,021)
Adjustment 3	3a	Audit Recommended Adjustments	(49,678)		(3,229)
	3b	Audit Recommended Adjustments		$ 414	(568)
Adjustment 4	4	Amortize Non-Recurring August 23, 2019, Boil Water Event		159,835	(219,201)
Adjustment 5	5	Remove Payroll Increase 12-Months Past End of Test Year		22,373	(30,682)
Adjustment 6	6	Exclude Shareholder Focused Short-Term and Long-Term Incentive Compensation		7,938	(10,886)
Adjustment 7	7	Flow Through of Payroll Tax		1,948	(2,671)
Adjustment 8	8	Remove Employee Benefits Increase 12-months Beyond Test Year and Modify Overhead Rate		14,223	(19,506)
Adjustment 9	9	Remove Supplemental Executive Retirement Plan Costs (SERP)		15,326	(21,018)
Adjustment 10	10	Sharing of D&O Liability Insurance		357	(490)
Adjustment 11	11	Normalize Legal Expenses		8,783	(12,045)
Adjustment 12	12	Remove Lobbying Expenses		1,154	(1,583)
Adjustment 13	13	Amortization of Expert Fees		6,249	(8,570)
Adjustment 14	14	Convert to Whole Life Depreciation Methodology		61,770	(84,713)
Adjustment 15	15	Amortization of Theoretical Depreciation Reserve Imbalance		10,760	(14,757)
Adjustment 16	16	Remove Customer Assistance Program		7,292	(10,000)
Adjustment 17	17	Remove Eversource Aquarion Merger Costs Recovery Amortization		18,206	(24,968)
Adjustment 18	18	Interest Synchronization		(121,006)	165,950
	19	Impact of Recommended Cost of Capital			(1,690,124)
	20	Recommended Adjustments	$ (6,760,884)	$ 448,781	$ (2,745,087)
	21	**Recommended Totals**	**$ 29,358,342**	**$ 2,419,016**	**$ (1,409,041)**

Q. Are you presenting any exhibits in connection with your direct testimony in this proceeding?

A. Yes. Besides my qualifications already mentioned as Attachment DHM-1, Attachment DHM-2 includes DOE's revenue requirement schedules, and Attachments DHM-3 through DHM-23 are copies of selected documents I reference in my testimony.

Q. How are DOE's revenue requirement schedules organized?

A. I organized DOE's revenue requirement schedules, included in Attachment DHM-2, into summary schedules and adjustment schedules, labeled Schedules 1, 1.1, 1.2, 2, 2.1, 3, 3.1 through 3.18, and 4.

Q. What is shown on Schedule 1?

A. Schedule 1 is a summary comparison of the Company's and DOE's computations of the revenue requirement and the revenue deficiency (sufficiency). The schedule summarizes the impact of all DOE's recommendation adjustments and reflects the revenue requirement needed for the Company to have the opportunity to earn DOE's recommended rate of return on DOE's proposed rate base.

Q. What is shown on Schedule 1.1?

A. Schedule 1.1 provides additional detail by major rate base and operating income categories and shows how DOE's recommended adjustments are applied to the Company's updated filings to obtain DOE's recommended revenue requirement and revenue deficiency (sufficiency).

Q. What is shown on Schedule 1.2?

A. Schedule 1.2 presents the calculation of the revenue conversion factor. The revenue conversion factor grosses up the Income Deficiency (Sufficiency) amount for income taxes to obtain the Revenue Deficiency (Sufficiency) amount. The conversion is needed to reflect that more than one dollar in gross revenue is needed for each dollar of net operating income because of the imposition of taxes on those earnings.

Q. What is shown on Schedules 2 and 2.1?

A. Schedule 2 summarizes the capital structure and cost of capital proposed by the Company and the capital structure and cost of capital recommended by DOE witness, Mark Ellis. Schedule 2.1 isolates the impact on the revenue deficiency (sufficiency) for the difference between the Company's proposed capital structure and cost of capital and those DOE recommends.

Q. What is shown on Schedule 3 and Schedules 3.1 through 3.18?

A. Schedule 3 summarizes DOE's adjustments to rate base and operating income (i.e., revenues less expenses). Schedules 3.1 through 3.18 provide further support and calculations for the adjustments DOE recommends.

Q. What is shown on Schedules 4?

A. Schedule 4 summarizes DOE's recommended Step adjustment revenue requirements.

Revenue Requirements

Aquarion's Requested Revenue Increase

Q. What revenue increase has been requested by the Company?

A. The Company's Application requested an increase in annual operating revenues of $1,373,351. Pending the Commission's final determination on the Company's request for a permanent rate increase, the Company sought temporary rates set at the level of its current rates.[1] The Commission authorized implementation of temporary rates set at the level of the Company's current rates.[2] On November 30, 2021, the Company filed a letter with the Commission that included an update to the base rate request and its Step 1 revenue requirements. The Company's updated request is for an increase in base rates of $1,336,046,[3] or a reduction of $37,306.

Q. What was reflected in the Company's November 30, 2021, letter?

A. The Company's letter included these items:

- Notification that the Company had received approval from the New Hampshire Drinking Water and Groundwater Trust Fund for a grant of $428,250 (approximately 25 percent of the estimated cost) pertaining to a project to provide treatment for per and polyfluoroalkyl substances (PFAS) present within groundwater at the Mill Road well field
- Notification that the Company was awarded a full grant of $1,284,750 from the New Hampshire PFAS Remediation Loan Fund ("PFAS RLF") to cover the remainder of the Mill Road Project costs
- Notification, in light of the above, that the Company would remove the Mill Road project costs, or $1,713,000, from Step Adjustment 1 that results in a revenue requirement reduction of $281,015 in Step Adjustment 1 from the amount initially filed

[1] Direct Testimony Debra A. Szabo for Temp Rates, page 3 (Temporary Bates 609)
[2] Commission Order No. 26,488 (June 21, 2021), page 1.
[3] DW 20-184 Letter to Chairman Daniel Goldner from Matthew J. Fossum (November 30, 2021).

- Updated revenue requirements schedules with post-filing adjustments identified during discovery
- Updated cost of service study incorporating identified adjustments
- Updated report of proposed rate changes incorporating adjustments

Q. Does DOE agree with the revision the Company made to its revenue requirement in its November 30, 2021, Corrections and Updates filing?

A. Yes. The Company's November 30, 2021, revisions have been incorporated in DOE's schedules and recommendations.

Establishment of Current Distribution Revenue Requirement

Q. When was the Company's current Distribution revenue requirement established?

A. The Company's current rates were established in Order No. 25,539 (June 28, 2013), based on a test year ending December 31, 2011. The current rates were the result of a Partial Settlement,[4] resulting in an increase in distribution revenues of $925,380, as compared with the Company's initial claim of a deficiency of $1,113,931 in distribution revenue.

Comparison of Rate Request to Prior Cases

Q. What distribution rate increases did the Company request in prior cases and what was approved by the Commission?

[4] The Partial Settlement in DW 12-085 addressed all issues except the determination of the rate of return.

A. The following table summarizes the Company's prior rate requests and what was approved by the Commission in the previous three distribution rate cases.[5] The Company's request in this proceeding is also shown for comparison.

Table 3: Comparison of Prior Rate Increases to the Current Proceeding

	DW 05-119	DW 08-098	DW 12-085	Application DW 20-184
Application	$ 885,605	$ 1,056,070	$ 1,113,931	$ 1,373,351
Approved	787,803	873,844	925,380	
% of Request	89.0%	82.7%	83.1%	

Test Year

Q. What test year is being used in this case?

A. The Company has based its request for a revenue increase on the general books and records and other supporting data within a historical test year of the 12 months ended December 31, 2019.[6] DOE's calculations use the same historical test year.

Q. Did the Company make adjustments to its historical test year?

Yes. The Company stated that the test year was adjusted on a pro forma basis, where appropriate, to reflect known and measurable changes which were not fully reflected in the test year results and which will continue to impact operations in the future.[7]

[5] AWS response to DOE 4-3 (Attachment DHM-3).
[6] Direct Testimony of Debra A.Szabo, page 6 (Bates 167).
[7] Direct Testimony of Debra A.Szabo, page 6 (Bates 167).

Q. Has the Company included adjustments that are beyond twelve months past the end of the test year?

A. Yes. A review of the Company's ratemaking adjustments shows several adjustments that are beyond twelve months past the end of the test year, and many of those are based on forecasts or estimates.

Q. Does DOE agree that it is appropriate to include adjustments that are beyond twelve months past the end of the test year?

A. No. While I will address specific adjustments later, in general, DOE has limited included adjustments to those that are known and measurable and within twelve months past the end of the test year.

Q. Please explain DOE's position on adjustments that are beyond twelve months past the end of the test year.

A. DOE supports the Commission's long-standing practice of using a historical, adjusted test year to determine the revenue requirement. This approach employs the *most recent* base year data available, adjusted for known and measurable changes that occur no later than 12 months after the end of the base year. For instance, operating results may be adjusted to annualize the impact of payroll increases that occurred in the middle of the test year; this contrasts with an event that transpires over 12 months after the test year. Reflecting adjustments for items far removed from the test year is not a good ratemaking practice and could lead to biased and unreliable results.

Q. Is there a Commission rule or precedent that limits known and measurable adjustments to those that occur within twelve months of the end of the test year?

A. I am not aware of a Commission rule that limits known and measurable adjustments to those that occur within twelve months of the end of the test year. Many of the distribution rate cases in New Hampshire resolve through settlements, which do not specifically address the issue. However, the long-standing Commission practice to disallow extensive adjustments to operating results beyond twelve months after the end of the test year was expressed as far back as 1993 in Order 20,776 (DR 91-212 EnergyNorth Natural Gas, Inc. rate case):

> III. COMMISSION ANALYSIS.
>
> In computing the Company's required revenues we will apply our traditional historical 'test year' methodology. That is, we will establish the Company's revenue requirement through an examination of a thirteen point average of the Company's rate base during the twelve month test year *with pro rata modifications to operation and maintenance expenses for 'known and measurable' changes in the twelve months following the test year*. While we acknowledge that this methodology is neither statutorily nor constitutionally required (Cf., RSA 378:30-a), and that no methodology for setting rates into the future is perfect, we have found that this methodology has resulted in just and reasonable rates to both utilities and their customers absent extraordinary circumstances. In this particular case we find no such extraordinary circumstances to justify a modification to our traditional methodology [emphasis added].

DOE continues to support this long-standing precedent to limit pro rata modifications to operation and maintenance expenses "for 'known and measurable' changes in the twelve months following the test year."

Relevant to this proceeding with a test year ending December 31, 2019, pro forma adjustments should be limited to those that are known and measurable through December 31, 2020. Thus, the Department recommends disallowing all adjustments that would be effective in 2021.

Q. Under what circumstance would DOE find it acceptable to reflect pro forma test year adjustments for 2021?

A. The Company would have to update the unadjusted test year to reflect actual results for the twelve months ended December 31, 2020. In doing so, potential items that could mitigate the Company's proposed cost increases in 2021 would be appropriately captured and reflected in the revenue requirement.

Audit of Company's Filing

Q. Did the DOE Audit Staff audit the Company's rate filing?

A. Yes. DOE Audit Staff completed the audit and filed the final report on July 13, 2021. The audit report is included as Attachment DHM-4. The audit report identified 12 issues as summarized in the following table. Three of the audit issues affect the Company's rate request (see highlighted cells in the following table) and are addressed later in my testimony.

Table 4: Audit Recommendations and Revenue Requirement Effect[8]

Issue	Description	Revenue Requirement Effect
1	Company is required to comply with USoA for Water Utilities, as defined in Puc rule 607.07	None
2	Incorrect Additions/Adjustments on Annual Report on the 2019 F-8 of the annual report	None
3	Capitalized Next Generation Strategy Public Relations, Public Affairs Costs	Adjustment to reduce Rate Base by $49,678 reflected in **DOE Adjustment 3** (Schedule 3.3)
4	Right of Use include in wrong account	None
5	Miscellaneous Current and Accrued Liabilities and account numbers for Accounts Payable need to comply with the USoA for Water Utilities	None
6	Accounting for Elimination of Consolidated Corporate Level ad Balance Sheet presentation	None
7	Inter-company interest expense should be booked to wrong account	None
8	A. $900 was booked to account 662202 for overdue 2018 paper ads. B. In August 2019 Aquarion had a boil water alert in effect. $15,792.25 was booked to account 665002 for public affairs consulting regarding the alert. They also purchased $3,292.80 in water to distribute to customers which was booked to account 665003. A total of $19,085.05 was paid due to the boil water alert. C. $179,160 journal entry was booked to account 903203 for credits given to customers for the August boil alert. D. A P-Card charge, in the amount of $499, was booked to account 921201. Audit reviewed the supporting documentation which detailed a restaurant receipt showing alcohol and dessert purchases along with lunch. E. Account 923201 contained an allocation amount of $2,567 for Deloitte year end financials. The supporting documentation showed the NH total was $30,800 and was allocated at 7%. A recalculation of the allocated amount shows $2,156 should have been booked to account 923201. F. A $14,058.75 invoice was booked to account 923214 for public affairs consulting work associated with the Environmental Champion Awards. G. Aquarion noted that the wage amount used to book payroll benefits and taxes for CT employees' allocated time was incorrect. Due to this the amount booked to general ledger accounts 926011 and 408011 were overstated.	A. Company reflected adjustment in update. B. and C. Boil Water adjustment reflected in **DOE Adjustment 4** (Schedule 3.4) D. Company reflected adjustment in update. E. Company reflected adjustment in update. F. Company reflected adjustment in update. G. No affect on revenue requirements.
9	Incorrect Property Tax amount in 2019 annual report	None
10	State Education tax portion included in municipal tax bills	Adjustment reflected in **DOE Adjustment 3** (Schedule 3.3)
11	Incorrect Investment Tax Credit on 2019 annual report	None
12	Separate JE needed for allocated IT labor	None

Adjustments to Rate Base

Q. What rate base had the Company proposed?

A. The Company originally requested a rate base of $36,091,050.[9] The rate base was revised to $36,119,226.[10]

Q. Is DOE proposing any adjustments to the Company's proposed rate base?

A. Yes. DOE proposes adjustments to the following rate base items.

---

[8] Summarized from Final Audit Report (July 13, 2021), pages 106–127 (Attachment DHM-4).
[9] Filing Requirements Schedule No. A, (Bates DW 20-184, Page 528).
[10] DW 20-184 Letter to Chairman Daniel Goldner from Matthew J. Fossum (November 30, 2021), Schedule No. 3.

- Post Test Year Plant Adjustments
- Cash Working Capital
- Audit Recommended Adjustments—Rate Base

Post-Test Year Plant Adjustments

Q. Please explain DOE's recommended adjustment to Post-Test Year Plant Adjustments.

A. The Company proposes to include in rate base $6.7 million in pro forma plant additions, net of retirements, that were placed in service after the end of the test year. DOE recommends that, consistent with the long-standing Commission precedent, these post-test year plant additions be excluded from permanent rates. As shown on Schedule 3.1, DOE's recommended adjustment to Plant in Service *reduces* Rate Base by $6,695,500. The adjustment to Plant in Service also *reduces* depreciation expense by $181,316 and property taxes by $138,444, which *increases* Net Operating Income by $233,159.

Q. Instead of including this post-test year plant in rate base as part of the permanent rates, what does DOE recommend?

A. DOE recommends one step adjustment and that the non-revenue producing, used and useful, net post-test year plant that is removed from permanent rates should be recovered in this step adjustment. This following net plant has been reflected in the step adjustment as shown on Schedule 4.1.

Table 5: Post-Test Year Plant to be Included in Step Adjustment

Post Test Year Plant	
Mill Road Water Treatment Facility	$ 2,873,962
Well 22 Water Supply	1,721,939
Mill Road Water Main Replacement	1,224,541
Locke Road Water Main Replacement	1,017,487
Subtotal	$ 6,837,929
Less Retirements	(142,429)
Total Post-Test-Year Plant	$ 6,695,500

Cash Working Capital

Q. Please explain DOE's recommended Cash Working Capital adjustment.

A. DOE's adjustment to Cash Working Capital updates cash working capital to reflect DOE's adjustments that are discussed within this testimony. DOE's adjustment uses the rate developed by the Company's lag study of 5.55%.[11] As shown on Schedule 3.2, DOE's adjustment to Cash Working Capital *reduces* Rate Base by $15,706.

Audit Recommended Adjustments–Rate Base

Q. Please explain DOE's recommended adjustment Audit Recommended Adjustments—Rate Base.

A. DOE's Audit Staff report recommended in Audit Issue #3 that the Company reduce the filing to remove from plant in service $49,678 for Next Generation Strategies costs that were capitalized. The public relations costs should have been booked to an expense account below the line and should be considered non-recurring.

Audit found that the Company had charged $48,048 to plant in service for public relations and public affairs costs performed by Next Generation Strategies with regard to

[11] DW 12-85 Puc 1604.01 Section 28. The lag study rate was 6.83% in the last base distribution rate case (DW 12-85).

PFC treatment and contamination of Well #6 in Hampton/North Hampton. The Company also capitalized an additional $1,630 of Next Generation Strategies charges related to public relations and public affairs costs for the Route 101 Main Extension project communications. The public affairs consulting relates to social media, communication, email, and other communication with the Hampton Chamber of Commerce related to updates on the project. DOE removed these costs from rate base. Since these costs are considered below the line and non-recurring, DOE has not included them in net operating income. As shown on Schedule 3.3, DOE's adjustment to Audit Recommended Adjustment—Rate Base *reduces* jurisdictional Rate Base by $49,678. I will address other audit-recommended adjustments later in my testimony.

Q. What is the impact of DOE's recommended adjustments to the Company's requested rate base?

A. The Company's updated requested rate base was $36,119,226. DOE's recommended adjustments *reduce* the rate base by $6,760,884, which results in a total recommended rate base of $29,358,342.

<u>Adjustments to Net Operating Income</u>

Q. What net operating income has the Company proposed?

A. The Company's original request reflected net operating income of $1,940,736.[12] The Company's revised net operating income at current rates is $1,970,235.[13]

---

[12] Filing Requirements Schedule No. A, (Bates DW 20-184, Page 528).
[13] DW 20-184 Letter to Chairman Daniel Goldner from Matthew J. Fossum (November 30, 2021), Schedule No. 1.

Q. Is DOE proposing any adjustments to the Company's proposed net operating income?

A. Yes. DOE recommends adjustments to these expense components:

- Audit Recommended Adjustments—Net Operating Income
- Amortize Non-Recurring August 23, 2019, Boil Water Event
- Remove Payroll Increase 12-Months Past End of Test Year
- Exclude Shareholder Focused Short-Term and Long-Term Incentive Compensation
- Flow Through of Payroll Taxes
- Remove Employee Benefits Increase 12-months Beyond Test Year and Modify Overhead Rate
- Remove Supplemental Executive Retirement Plan Costs (SERP)
- Sharing of Directors' and Officers' (D&O) Liability Insurance
- Normalize Legal Expenses
- Remove Lobbying Expenses
- Amortization of Expert Fees
- Convert to Whole Life Depreciation Methodology
- Amortization of Theoretical Depreciation Reserve Imbalance
- Remove Customer Assistance Program
- Remove Eversource Aquarion Merger Costs Recovery Amortization
- Interest Synchronization

Audit Recommended Adjustments—Net Operating Income

Q. Please explain DOE's recommended adjustment Audit Recommended Adjustments—Net Operating Income.

A. DOE's Audit Staff report discusses two issues (Issues # 8 and #10) that have effects on the Company's proposed net operating income. Audit Issue #8 included seven sub-parts, A–G, related to O&M expenses. The Company agreed with sub-parts, A, D, E, and F and reflected Audit's recommendation in its updated revenue requirements. Sub-part G had no effect on revenue requirements. Audit Issue #8, sub-parts B and C are related to a boil-water event. Audit's recommendation is reflected in DOE Adjustment 4, which I discuss later in my testimony.

Audit Issue #10 is related to State Education Tax. Audit found that the Company paid the Statewide Education Tax through both municipal property taxes and Statewide Utility property tax. Audit recommended that the Company ensure the towns cease to assess the Statewide Education portion of the property tax rate. Audit recommended the filing be updated to reduce property tax expense to ensure that the municipal pro forma figures do not include the Statewide Education portion. As shown on Schedule 3.3, DOE's recommended adjustment *increases* net operating income by $414.

Amortize Non-Recurring August 23, 2019, Boil Water Event

Q. What was the August 23, 2019, Boil Water Event?

A. The Company issued a boil-water order on August 23, 2019. The Company explained,

> The order was issued after results of a routine water sample taken on August 21, 2019 reported the presence of E. Coli and Total Coliform in one of the ten samples. As stated in our September 5, 2019 report to the Commission, the Company believes the positive results were due to a contaminated sample as subsequent water testing completed from August 23, 2019 to August 24, 2019, confirmed no presence of E. Coli bacteria or Total Coliform in any of the source wells or the water distribution system, and that the water sources were continually disinfected."[14]

Q. What costs were reflected in the Test Year?

A. The table below lists the costs related to the boil-water order.

Table 6: Costs Included in Test Year for August 23, 2019, Boil Water Event

Customer Goodwill Credit	179,160
Outside Services	34,147
Monitoring of Wells	8,740
Office Supplies	5,162
Total Boil Water Event	227,209

Q. Does DOE believe these costs are normal, recurring costs?

A. No. The costs associated with this boil-water event are not normal, recurring costs.[15] DOE recommends that these costs be removed from the Test Year so that the $227,209 is not recovered *annually* from ratepayers. DOE recommends that the Customer Goodwill Credit of $179,160 should not be borne by ratepayers and, thus, should be excluded. The remaining balance of $48,049 should be amortized over six years. The adjustment is shown on Schedule 3.4 and *increases* Net Operating Income by $159,835.

[14] AWS response to Staff 1-3 (Attachment DHM-6).
[15] Final Audit Report (July 13, 2021), Issue #8, sub-parts B and C, pages 119–121 (Attachment DHM-4).

Remove Payroll Increase 12-Months Past End of Test Year

Q. Please explain DOE's recommended adjustment Remove Payroll Increase 12-Months Past End of Test Year

A. The Company has proposed wage and salary increases for 2020 and 2021. As discussed earlier, DOE supports the Commission's long-standing practice to limit known and measurable adjustments to those within twelve months of the end of the test year. Thus, DOE supports the 2020 increase as it is known and measurable and within twelve months of the end of the test year. However, the 2021 increase is more than twelve months past the end of the test year and should be denied. The adjustment is shown on Schedule 3.5 and *increases* Net Operating Income by $22,373.

Exclude Shareholder Focused Short-Term and Long-Term Incentive Compensation

Q. Please explain DOE's recommended adjustment Exclude Shareholder Focused Short-Term and Long-Term Incentive Compensation.

A. Aquarion has a short-term and a long-term incentive compensation program for non-union employees. Both programs are awarded based on a financial/operational performance split of approximately 70%/30%. The financial and operational performance goals are further sub-divided as shown in the following table.

Table 7: Incentive Plans Performance Weights[16]

		Individual Weight	Total Weight
Financial Performance	70%		
Net Income		60%	42%
Investment in Rate Base		20%	14%
Strategic Initiatives and Regulatory Outcomes		20%	14%
		100%	
Operational Performance	30%		
Service Quality		25%	8%
Product Quality		25%	8%
Other		50%	15%
		100%	100%

The financial goals included net income, investment in rate base, and strategic initiatives and regulatory outcomes.[17] These financial performance goals align with the interest of the Company's shareholders, and DOE recommends transferring the portion of the Incentive Compensation focused on shareholder goals to shareholders.

Q. Please explain why focusing on shareholder-related goals should not be borne by ratepayers.

A. Reducing expenses drives up net income or profitability that should benefit ratepayers. However, if management focuses *too heavily* on profitability in order to receive incentive compensation payouts, the shareholders could receive benefits at the expense of ratepayers. The following example is for illustration. Expenses can be reduced by deferring maintenance. Expenses could be further reduced by failing to adequately staff Customer Service. With a reduced Customer Service staff, customers could experience low water pressure and find it difficult to contact Customer Service to report the problem. With reduced staff, Customer

[16] AWS response to Staff 2-20, Attachment 3, pages 4–7 (Attachment DHM-8).
[17] AWS response to Staff 2-20 (Attachment DHM-8).

Service would also have increased wait times for other inquiries or complaints. In such a case, by reducing expenses, the Company's management could meet its net income goal, which is weighted heavily to gain incentive pay (42% of total goals) even though the resulting failures in customer service would cause the Company to miss Service Quality goals, which is less than 8% of the total goals. Thus, management would benefit in incentive pay at the expense of the customer.

Having goals to incent performance is a good management practice; however, it is important that incentive payments balance performance goals so as to derive the desired behaviors. The Company has made the decision to incent shareholders' goals more than those of the ratepayers. Therefore, shareholders should fund the awards that accrue to management for achieving the goals that benefit them. Ensuring that the competing interests are balanced is also important. This balance is achieved by requiring the sharing of incentive costs between ratepayers and shareholders. Therefore, DOE recommends the portion of the Incentive Compensation that more closely benefits shareholders be funded by shareholders. The adjustment is shown on Schedule 3.6 and *increases* Net Operating Income by $7,938.

Flow Through of Payroll Taxes

Q. Please explain DOE's recommended adjustment Flow Through of Payroll Taxes.

A. Payroll taxes reflects the effective tax rate for the Company's Social Security and Medicare taxes that correspondingly decrease as a result of DOE's adjustments to Payroll. The adjustment is shown on Schedule 3.7 and *increases* Net Operating Income by $1,948.

Remove Employee Benefits Increase 12-months Beyond Test Year and Modify Overhead Rate

Q. Please explain DOE's recommended adjustment Remove Employee Benefits Increase 12-months Beyond Test Year.

A. The Company Employee Welfare adjustment includes employee medical costs, 401k plan expense, auto allowance, life insurance, long-term disability, and benefit overhead of service company employees. The pro forma employee medical costs derive from a premium-based plan[18] and were updated to reflect 2021 pricing. The pro forma life insurance and long-term disability derive from the 2021 pro forma wages. Consistent with the Commission's long-standing practice to limit known and measurable adjustments to those within twelve months of the end of the test year, DOE removed the 2021 pro forma increase for these expenses.

The Service Company employee benefits were developed by applying a benefits overhead rate of 52% to pro forma 2021 wages. DOE recommends two adjustments to Service Company employee benefits: (1) removing the 2021 pro forma increase for the wages, and (2) modifying the 52% Benefits Overhead Rate. Regarding the Benefits Overhead Rate, the ratio was developed by using the actual wages and benefits for Connecticut. The Company provided a list of the benefits and their actual costs.[19] DOE recommends removing those costs related to discretionary benefits that are not necessary for the provision of utility service: Benefits, Recreational—$38,373, Supplemental Pension Expense (or SERP)—$16,568, and Social and Recreation—$31,658. Removing these items reduces the Benefits Overhead Rate from 52% to 51.3%.

[18] Direct Testimony of Debra A. Szabo, page 12, lines 13–16 (Bates 173).
[19] AWS response to Staff 2-25 (Attachment DHM-12).

The adjustments are shown on Schedule 3.8 and *increase* Net Operating Income by $14,223.

Remove Supplemental Executive Retirement Plan Costs (SERP)

Q. Please explain DOE's recommended adjustment Remove Supplemental Executive Retirement Plan Costs (SERP).

A. A Supplemental Executive Retirement Plan (SERP) is a benefit available to top-level executives that is in addition to qualified benefits covered in a company's standard retirement savings plan. Because SERP is a non-qualified plan and provides no immediate tax advantage to the company or the executive, it can be offered selectively to key executives whose contributions to the company's qualified plan, such as a 401(k), are limited by the maximum annual contribution or the income eligibility limits, or both.

The Company's rate request includes management-allocated expense of $29,018 related to SERP costs.[20] DOE recommends that the SERP costs be disallowed and that shareholders should pay the costs of SERP. For ratemaking purposes, shareholders should bear the additional costs associated with supplemental benefits to highly compensated executives since these costs are not necessary for the provision of utility service but are instead discretionary costs to attract, retain, and reward already highly compensated executives. This recommendation means that ratepayers will pay for the executive benefits included in the Company's regular pension plan and shareholders will pay for the additional executive benefits included in the supplemental plan. As shown on Schedule 3.9, DOE's recommended adjustment *increases* net operating income by $15,326.

[20] AWS response to Staff 2-27 (Attachment DHM-16).

Sharing of Directors' and Officers' (D&O) Liability Insurance

Q. Please explain DOE's recommended adjustment Sharing of Directors' and Officers' (D&O) Liability Insurance.

A. DOE's adjustment removes one-half of the D&O Liability Insurance expense. The adjustment reflects a sharing of the expense between shareholders and ratepayers. As shown on Schedule 3.10, DOE's recommended adjustment *increases* net operating income by $357.

Q. Why should the cost of D&O Liability Insurance Expense be shared between shareholders and ratepayers?

A. D&O Liability Insurance protects the officers and directors from the costs of a lawsuit.[21] Shareholders benefit from payouts under the policy that would reduce the cost not recoverable from ratepayers. On the other hand, ratepayers benefit because having the insurance improves the ability of the Company to attract and retain qualified directors and officers and enables the directors and officers to make decisions without fear of personal liability. As a result, it is reasonable for shareholders to bear some of the cost of D&O Liability Insurance.

Normalize Legal Expenses

Q. Please explain DOE's recommended adjustment Normalize Legal Expenses.

A. The Company requested $37,456 for general legal services and yearly legal expense related to the Company's WICA filings. The pro forma legal expenses is a 12% increase over the

[21] AWS response to Staff 2-39 (Attachment DHM-17).

test year. During discovery, the Company explained that the increase in legal costs was due to a change in the manner in which legal costs are charged to the Company by its affiliate. In 2019, legal services provided to the Company by its affiliate were included as part of the management allocation and not part of the test year legal expense. The pro forma legal expense reflects a change in methodology to charge legal services provided by the affiliate directly to the Company. Effective January 2020, legal services provided by the affiliate are either directly charged to the Company based on actual time incurred providing services to the Company or through the management allocation for services related to multiple affiliates.[22]

Q. What does DOE recommend?

A. Since the Company is changing how general legal services and legal expenses associated with annual WICA filing expenses are charged, DOE recommends that legal fees be normalized based on a historical five-year average. The Company provided a summary of its legal expenses for 2016–2020.[23] As shown in the following table, DOE isolated the general legal services and legal expenses associated with annual WICA filing expenses and then calculated a five-year average.

[22] AWS response to DOE 3-15 (Attachment DHM-18).
[23] AWS response to Energy TS 2-8 (Attachment DHM-19).

Table 8: Legal Expenses 2016–2020

						Averages		
Description	**2016**	**2017**	**2018**	**2019**	**2020**	**WICA Filing**	**General Legal**	**Comment**
WICA Filing	$ 11,879	$ 7,513	$ 8,223	$ 14,105		$ 10,430		
Rate Design Filing/Monthly Billing	16,276							Rate Case
Wiggin Way	1,078	13,535	2,860	15,703	$ 7,148		$ 8,065	
Hampton/North Hampton Hydrant Matter		2,833					2,833	
DES Water Sampling Matter		1,265					1,265	
Tax Reform			2,498	2,503				Non-recurring
Easement Release				715			715	
Hampton Compliant				330			330	
Management Fee Allocation				1,774			1,774	
NH Regulatory					32,391			
NH Rate Case					6,626			Rate Case
Total	$ 29,233	$ 25,145	$ 13,581	$ 35,129	$ 46,165	**$ 10,430**	**$ 14,981**	
						$ 25,411		

DOE recommends including general legal services and legal expenses associated with annual WICA filing expenses of $25,411. As shown on Schedule 3.11, DOE's recommended adjustment *increases* net operating income by $8,783.

Remove Lobbying Expenses

Q. Please explain DOE's recommended adjustment Remove Lobbying Expenses.

A. The Company reported that the test year included dues paid to New Hampshire Water Works Association, National Association of Water Companies, and American Water Works Association. When asked whether these entities conduct lobbying activities and how the Company excluded these costs from it rate request, the Company stated that all these organizations conduct some lobbying activities for the water industry and their memberships at the federal and/or state level. The Company estimated that approximately 15% of the dues were associated with lobbying and that applying the 15% to the 2019 expense would be $1,583.[24] DOE recommends excluding this amount from the Company' rate request. As

[24] AWS response to Staff 2-33 (Attachment DHM-20).

shown on Schedule 3.12, DOE's recommended adjustment *increases* net operating income by $1,154.

Amortization of Expert Fees

Q. Please explain DOE's recommended adjustment Amortization of Expert Fees.

A. The Company is seeking recovery of expert fees for (1) a depreciation study, (2) a cost-of-service study, and (3) the fees associated with NHPUC Staff's expert that reviewed the tax-change-effect calculations submitted by Aquarion in DW 18-054 and DW 18-161. In the DW 18-054 and DW 18-161 Settlement, it was agreed that the NHPUC Staff's expert fees paid by the Company would be booked to a regulatory asset and resolution of recovery of those expenses would be deferred to the next full rate case.[25] The following table summarizes the Company request.

Table 9: Expert Fees and Company's Proposed Annual Recovery

Description	Cost	Recovery	Annual
Depreciation Study–Guastella Associates, LLC	$ 43,200	6	$ 7,200
Cost of Service Study–Gannet Fleming, LLC	$ 58,000	6	$ 9,667
2017 Tax Act Study–Blue Ridge Consulting Services, Inc.	$ 10,284	1	$ 10,284

As shown in the table above, the Company proposes annual recovery of 1/6th of the costs for the depreciation study and cost of service study. For the NHPUC Staff's expert fees, the Company seeks full recovery in one year. Under the Company's proposal, the full amount of the NHPUC's Staff expert will be recovered *annually* until the next full rate case implying the costs would be recurring each year. DOE recommends that the NHPUC Staff expert fees be amortized over six years consistent with the Company's proposed recovery of the

[25] AWS response to Staff 2-37 (Attachment DHM-21).

depreciation study and cost of service study costs. As shown on Schedule 3.13, DOE's recommended adjustment *increases* net operating income by $6,249.

Convert to Whole Life Depreciation Methodology

Q. Please explain DOE's recommended adjustment Convert to Whole Life Depreciation Methodology.

A. The Company proposes an adjustment to depreciation expense to reflect the use of the Remaining Life Methodology to establish depreciation accrual rates going forward. DOE recommends rejecting the use of the Remaining Life Methodology. Depreciation accrual rates should be set using the Commission's long-standing use of straight-line, average life, whole life depreciation with an amortization period to recover any difference between book depreciation reserve and the theoretical depreciation reserve by account. The whole-life technique is consistent with the Commission's practice for setting depreciation accrual rates for other electric, natural gas, and water utilities. As shown on Schedule 3.14, DOE's recommended adjustment *increases* net operating income by $61,770.

Amortization of Theoretical Depreciation Reserve Imbalance

Q. Please explain DOE's recommended adjustment Amortization of Theoretical Depreciation Reserve Imbalance.

A. If DOE's recommendation of continuing the use of the Whole Life Methodology in setting depreciation accrual rates is adopted, the Theoretical Depreciation Reserve Imbalance must be amortized separately. Applying the Whole Life Methodology to the Company's depreciation study results in a Theoretical Reserve Imbalance of $(147,560).[26] DOE recommends that the Theoretical Depreciation Reserve Imbalance be amortized over ten years, the average duration between depreciation studies. The following table provides the time between rate case depreciation studies for the last several base distribution rate cases.

Table 10: Period Between Depreciation Studies

	Year Study Performed		Time between
Docket No.	Current	Prior	Studies
DW 20-184	2019	2008	11
DW 12-085	No Study		
DW 08-098	2008	1998	10
DW 99-057	1998		
Average			10.5

Adoption of a ten-year amortization period *reduces* depreciation expense by $14,756. As shown on Schedule 3.15, DOE's recommended adjustment *increases* net operating income by $10,760.

Remove Customer Assistance Program

Q. Please explain DOE's recommended adjustment Remove Customer Assistance Program.

A. As discussed in the testimony of DOE Witness Anthony Leone, DOE recommends removing the proposed $10,000 funding of the Customer Assistance Program. As shown on Schedule 3.16, DOE's recommended adjustment *increases* net operating income by $7,292.

[26] AWS response to DOE 4-8 (Attachment DHM-22). The calculated accrued depreciation is less than the booked depreciation reserve.

Remove Eversource Aquarion Merger Costs Recovery Amortization

Q. Please explain DOE's recommended adjustment Remove Eversource Aquarion Merger Costs Recovery Amortization.

A. The Company is seeking recovery of Aquarion's share of the transaction costs from the 2017 merger between Eversource and Aquarion. The Company stated the transaction costs were $5.7 million, and it has allocated 4.38% (based on customer count) of the total merger transaction costs or $249,671. The Company's seeks recovery over ten years or $24,967, ($249,671 / ten years).[27]

Q. What does DOE recommend?

A. DOE recommends that the recovery of the transaction costs be disallowed. In Docket No. DW 17-114, Eversource stated that "there will be no transaction premium and **no related costs to Aquarion customers associated with the merger**" (emphasis added). Presumably, this affirmation influenced the Commission's decision that Eversource's acquisition of Aquarion's parent company would have no adverse effect on rates, terms, service, or operations and that Commission approval was not required under RSA 369:8, II(b)(1).[28]

To now seek recovery of transaction costs is contrary to the testimony of Eversource when it sought approval of the transaction. As such, it is unreasonable that the New Hampshire ratepayers should bear any of the $5.7 million the Company spent to consummate the merger. As shown on Schedule 3.17, DOE's recommended adjustment *increases* net operating income by $18,206.

[27] Direct Testimony of Debra A. Szabo, 21:16–31 (Bates 182).
[28] DW 17-114 Letter from Debra A. Howland (October 13, 2017) (Attachment DHM-23).

Interest Synchronization

Q. Please explain DOE's recommended adjustment Interest Synchronization.

A. The interest synchronization adjustment synchronizes rate base and cost of capital with the tax calculation. It is calculated by multiplying rate base by the weighted cost of debt to derive the interest expense. The calculated interest expense is then compared against the interest expense used by the Company in its computation of test year income tax expense. The adjustment for interest synchronization is the tax effect of the difference in interest expense. This adjustment ensures that the revenue requirement reflects the tax costs or tax savings from a change the interest earned on rate base. As shown on Schedule 3.18, DOE's recommended adjustment *reduces* net operating income by $121,006.

<u>Step Adjustment</u>

Q. Does DOE have any comments regarding the Step Increase?

A. DOE supports one step adjustment with the following recommended conditions:

1) The Step 1 Adjustment would include the actual amounts related to 2021 non-revenue-producing plant additions that have been examined and verified by DOE's Audit Staff.
2) The Step 1 Adjustment would include 2020 net post-test-year plant additions of $6,695,500 that are recommended to be excluded from the Company's permanent rate request, subject to verification by DOE's Audit Staff.
3) The Step Adjustment revenue requirement calculation should reflect the Commission-approved rate of return in this proceeding.

4) The Company will not make a WICA filing in 2022. The WICA-eligible projects from 2021will be included in the Step 1 Adjustment.
5) The Step 1 Adjustment should reflect the Commission-approved depreciation accrual rates.
6) The Step 1 calculation methodology should be modified to improve transparency and auditability as provided on Schedule 4.1.
7) The timing of filings for the Step 1 Adjustment is in compliance with the timing presented by DOE Witness Robyn Descoteau.

The Company-proposed initial Step 1 Adjustment was $927,636.[29] It was modified in its November 30, 2021, update to $646,621.[30] At this time, subject to adjustment as discussed in items 1–7 above, DOE recommends a Step Increase of $988,354. This amount includes the post-test-year projects that were removed from Schedule 3.1. DOE's recommended Step Increase is provided in Schedule 4.

Conclusions

Q. In conclusion, what is DOE's recommended increase to base revenue?

A. DOE is recommending a base rate decrease of no less than $1,409,041. The following table shows the Company's original and updated revenue requirement request and DOE's recommendation.

[29] AWS Schedule No 6(a), line 2.
[30] DW 20-184 Letter to Chairman Daniel Goldner from Matthew J. Fossum (November 30, 2021), Schedule No 6(a), line 2.

Table 11: DOE's Recommended Revenue Requirement

Company's Revenue Deficiency-Application	$	1,373,351
Company's Revenue Deficiency-11/30/21 Update		1,336,046
Recommended Adjustments		(2,745,087)
Recommended Revenue Deficiency (Sufficiency)	$	(1,409,041)

The following table summarizes DOE's recommended adjustments to revenue requirements.

Table 12: Summary of DOE's Recommended Adjustments and the Effect on Rate Base, Net Operating Income, and Revenue Deficiency (Sufficiency)

Recommended Rate on Equity	4.95%
Recommended Rate of Return	4.74%
Revenue Conversion Factor	1.37142

			Rate Base	Operating Income	Revenue Deficiency (Sufficiency)
		Company's Request (11/30/21 Update)	$ 36,119,226	$1,970,235	$ 1,336,046
Adjustment 1	1a	Post-Test Year Plant Adjustments	$ (6,695,500)		(435,244)
	1b	Post-Test Year Plant Adjustments		$ 233,159	(319,760)
Adjustment 2	2	Cash Working Capital	(15,706)		(1,021)
Adjustment 3	3a	Audit Recommended Adjustments	(49,678)		(3,229)
	3b	Audit Recommended Adjustments		$ 414	(568)
Adjustment 4	4	Amortize Non-Recurring August 23, 2019, Boil Water Event		159,835	(219,201)
Adjustment 5	5	Remove Payroll Increase 12-Months Past End of Test Year		22,373	(30,682)
Adjustment 6	6	Exclude Shareholder Focused Short-Term and Long-Term Incentive Compensation		7,938	(10,886)
Adjustment 7	7	Flow Through of Payroll Tax		1,948	(2,671)
Adjustment 8	8	Remove Employee Benefits Increase 12-months Beyond Test Year and Modify Overhead Rate		14,223	(19,506)
Adjustment 9	9	Remove Supplemental Executive Retirement Plan Costs (SERP)		15,326	(21,018)
Adjustment 10	10	Sharing of D&O Liability Insurance		357	(490)
Adjustment 11	11	Normalize Legal Expenses		8,783	(12,045)
Adjustment 12	12	Remove Lobbying Expenses		1,154	(1,583)
Adjustment 13	13	Amortization of Expert Fees		6,249	(8,570)
Adjustment 14	14	Convert to Whole Life Depreciation Methodology		61,770	(84,713)
Adjustment 15	15	Amortization of Theoretical Depreciation Reserve Imbalance		10,760	(14,757)
Adjustment 16	16	Remove Customer Assistance Program		7,292	(10,000)
Adjustment 17	17	Remove Eversource Aquarion Merger Costs Recovery Amortization		18,206	(24,968)
Adjustment 18	18	Interest Synchronization		(121,006)	165,950
	19	Impact of Recommended Cost of Capital			(1,690,124)
	20	Recommended Adjustments	$ (6,760,884)	$ 448,781	$ (2,745,087)
	21	**Recommended Permanent Totals**	**$ 29,358,342**	**$ 2,419,016**	**$ (1,409,041)**

Q. Does this conclude your testimony?

A. Yes.