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Direct Testimony for Temporary Rates of Stephen P. St. Cyr in DW 20-187

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INTRODUCTION

Q. Please state your name and address.

A. Stephen P. St. Cyr of Stephen P. St. Cyr & Associates, 17 Sky Oaks Drive, Biddeford, Me. 04005.

Q. Please state your present employment position and summarize your professional and educational background.

A. I am presently employed by St. Cyr & Associates, which provides accounting, tax, management and regulatory services. The Company devotes a significant portion of the practice to serving utilities. The Company has a number of regulated water utilities among its clientele. I have prepared and presented a number of rate case filings before the New Hampshire Public Utilities Commission. Prior to establishing St. Cyr & Associates, I worked in the utility industry for 16 years, holding various managerial accounting and regulatory positions. I have a Business Administration degree with a concentration in accounting from Northeastern University in Boston, Ma. I obtained my CPA certificate in Maryland although I'm not able to hold myself out as a CPA due to different state requirements.

Q. Is St. Cyr & Associates presently providing services to Lakes Region Water Company ("LRWC" or "Company")?

A. Yes. St. Cyr & Associates prepared the various exhibits, oversaw the preparation of the supporting schedules, prepared the written testimony and prepared other rate case filing requirements. In addition, St. Cyr & Associates prepares the Company's PUC Annual Report.

Q. Are you familiar with the pending rate application of the Company and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related schedules?

A. Yes, I am. The exhibits were prepared by me, utilizing the financial records of the Company.

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Q. Would you please summarize what the Company is requesting in its rate filing?

A. While the Company is interest in the consolidation of rates in all of its water system, for temporary rate purposes, the Company respectfully requests that the Commissioners approve an increase in revenues of $56,673 or 4.51%, $52,581 or 136.11% and $9,985 or 38.94% from LRWC (w/o DS & WW), DS & WW, respectively.

Q. What is the test year that the Company is using in this filing?

A. The Company is utilizing the twelve months ended December 31, 2019.

RECENT DEVELOPMENTS

Q. Before you explain the schedules, please provide a brief overview of the Company and some recent developments pertaining to the Company.

A. In 2016 the NHPUC approved the Company acquisition of the assets and utility franchise of the former Dockham Shores Estates Water Company serving approximately 60 customers in the Town of Gilford, NH. The NHPUC also authorized the Company to borrow up to $135,000 to finance the purchase of the utility assets and to make significant improvements to the water system. The NHPUC further authorized the Company to submit a subsequent step adjustment in the DS' revenue requirement in an amount not to exceed $6,620, to recover the approximately $60,000 in capital improvements. On December 4, 2018 the Company filed a petition with the NHPUC for a step adjustment in DS revenue of $53,894 from DS customers. The request was based on $300,599 of total plant. The Company incurred greater investment in the system due to greater need. NHPUC approved an annual step increase in revenues from DS' customers of $6,620, pursuant to the previously maximum amount of the step adjustment. The NHPUC further stated that "We note that the Company is not precluded from filing for the additional recovery, including acquisition costs, in either a future DS or LRWC rate case."

In 2018 the NHPUC approved the Company acquisition of the assets and utility franchise of the former Wildwood Water ("WW") Company serving approximately 49 customers in the Town of Albany, NH. The Company has now operated WW for more than a year. The Company has determined that the existing pump station is aging and in need of replacement. A new pump station will provide constant pressure, adequate iron removal, larger well storage and a

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backup generator. The proposed new pump station would include a new building, generator, storage tank and treatment equipment. The Company estimated that the new pump station will costs $260,000.

Also, in 2018, the PUC established DW 18-056, an Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions. In PUC Order No. 26,340, the PUC ordered the Company to record annual and cumulative regulatory to track tax savings realized from corporate tax rate decreases. The Commission also ordered LRWC to record a regulatory liability equivalent to its calculated excess deferred income tax reserve. The Commission's order was not meant to, nor did it in fact, make any decision with regard to the rates to be paid by LRWC's customers. The Company appealed the PUC order to the NH

Supreme Court (case No. 2020-0302). I a Joint Motion for summary disposition of the appeal, the parties agreed that "the Commission will stablish new rates for LRWC, as well as a necessary refund or credit, if any, including a reasonable amortization thereof, for any past over-recovery by LRWC only in the context of LRWC's next rate case." The Joint Motion for summary disposition was granted by the court.

In 2019 the Company filed a petition for approval of $633,000 loan from CoBank, ACB to finance the following: to reimburse itself for the replacement of the pump station at DS ($215,000), replacement of the pump station at WW ($260,000) and water main replacements at two Paradise Shores system locations, Paradise Shore Road ($92,000) and Robin lane ($66,000). On August 14, 2020 the NHPUC Staff recommended that the Commission approve LRWC's petition. The Company is awaiting NHPUC approval.

Also, in 2019, the Company filed a request for change in rates, in part to fully recover its investment in the new pump station, for its DS customers. On December 4, 2020, the NHPUC Staff filed a Settlement Agreement, entered into by the NHPUC Staff and LRWC. The Settlement Agreement proposed both temporary and permanent rates. The permanent rates for DS are equivalent with LRWC's current consolidated general service – metered customer rates. On December 17, 2020 a hearing was held on the Settlement Agreement. LRWC is awaiting NHPUC approval.

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YEAR END RATE BASE

Q. Is there anything else that you would like to include before addressing the schedules?

A. Yes. I believe that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. My belief is based on the fact that the amount of the assets is known and measurable and all the 2019 assets are fully in use for the customers' benefit at December 31, 2019.

We are not pursuing year end rate base for temporary rate purposes. We believes that the issue of year end rate base is more appropriately addressed in the permanent rate phase of this proceeding.

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INTRODUCTION TO RATE CASE SCHEDULES

Q. Is there anything else prior to summarizing the schedules?

A. Yes. For temporary rate purposes, the Company is presenting three sets of schedules, one for each LRWC (w/o DS & WW), DS & WW. While it is the Company's desire to incorporate DS & WW into the consolidated rates, the Company believes that the issue of consolidated rates is more appropriately addressed in the permanent rate phase of this proceeding.

Please note that the description of certain schedules and adjustments are the same or similar throughout the three sets of schedules.

Q. Is there anything else prior to summarizing the schedules?

A. No.

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LRWC (w/o DS & WW)

Q Then, would you please summarize the LRWC schedules?

A Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue deficiency for LRWC for the test year amounts to $21,672. It is based upon an actual test year with a 13 month average rate base of $3,333,037 as summarized in Schedule 3, column o. LRWC's allowed rate of return, adjusted for changes in the capital structure and costs rates, is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $3,333,037, results in an operating income requirement of $289,4780 As shown on Schedule 1, column b, line 21, the actual net operating income for LRWC for the test year was $267,806. The operating income required, less the net operating income, results in an operating income deficiency of $21,672.

The proforma revenue deficiency for the LRWC for the test year amounts to zero. It is based upon a proformed test year rate base of $3,333,037, as summarized in Schedule 3, column q. LRWC is utilizing a proformed rate of return of 8.69% for the proformed test year. The proformed rate of return of 8.79% when multiplied by the rate base of $3,333,037, results in an operating net income requirement of $289,478. As shown on Schedule 1, column d, line 21 the proformed net operating income for LRWC for the test year is $289,478. The operating income required, less the net operating income, results in a deficiency of zero.

Q. Would you please explain LRWC Schedule 1 and supporting schedules?

A Schedule 1 reflects LRWC's Operating Income Statement. Column b shows the actual test year results for LRWC Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A – 1D. Column d shows the proforma test year results. Column e and Column f are actual results for 2018 and 2017, respectively.

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During the twelve months ended December 31, 2019, the actual Total Operating Revenues amounted to $1,485,606, a decrease of $12,737 over 2018. The decrease is due to lower Other Water Revenues and lower POASI revenues. The lower Other Water Revenues are due to lower rate case surcharge revenues and a PUC order reduction in revenues due tax savings refund in DW 18-056. The lower POASI revenues are due to lower water consumption. The lower revenues are offset by higher Water Sales Revenues due to higher consumption and more customers.

LRWC's total operating expenses amounted to $1,231,037, a decrease of $111,310 over 2018. The decrease in total operating expenses was due to decreases in income taxes and depreciation expenses, offset by an increase operating and maintenance expenses, primarily transmission and distribution expenses. The 2019 LRWC Net Operating Income amounted to $267,806. LRWC's Net Income for 2018 was $259,801.

The Company has made 3 proforma adjustments to operating revenues totaling $64,036. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

<u>Proforma Adjustment to Revenues</u>

1. Sales of Water – Special Contract - Property Owners Association at Swissevale, Inc. ("POASI") – ($17,747).

The Company has a water supply agreement with POASI. The Agreement allows the Company to adjust the amount charged to POASI based on its actual costs to provide service to them. In 2019, the Company recorded revenues of $228,515. In 2020, after adjusting the amount for 2019 actual costs, the Company anticipates revenues of $210,768, a decrease of $17,747. While the Company anticipates a decrease in revenues from the POASI agreement, such revenues will be offset by a like amount of increased revenues from other customers.

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $56,673.

The Company has increased test year revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

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Total Proforma Adjustment to Water Sales is $38,926.

3. Rate Case Surcharge – ($0).

4. DW 18-056 Tax Savings Refund - $0.

5. Revenue from Contract Work - $25,110.

The Company credits revenue from contract work to PUC account 415, Revenues from … Contract Work. Since account 415 is reflected in Other Income and Expenses, the Company is reclassifying the revenues to Other Water Revenues. The expenses associated with such contract work are reflected in test year expenses.

The Total Proforma Adjustments to Other Water Revenues amounts to $25,110. Total Proforma Adjustments to Operating Revenue amounts to $64,036.

The Company has made 2 proforma adjustments to operating expenses totaling $42,364. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

<u>Proforma Adjustments to Expense</u>

1/2. Federal Income and State Business Taxes - $42,364.

With the proposed increase in revenue offset by the proposed increase in expenses, there is also a related increase in the federal income and state business taxes. The increase in federal income taxes represents the additional tax liability due to the increase in taxable income. The increase in state business taxes represents the additional tax liability due to the increase in gross profits. See Sch 1C & 1D.

The total proforma adjustments to Operating Expenses amounts to $42,364.

The net of the proforma adjustments to operating revenue $64,036 and the proforma adjustments to operating expenses $42,364 results in net proforma adjustment of $21,672. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $289,478. The proforma test year

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net operating income of $289,478 allows LRWC to cover its expenses and earn a 8.69% return on its investments.

Q. Does that complete your description of the proforma adjustments to revenues and expenses?

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C shows the income tax computation. The proforma total rate base amounts to $3,333,037. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Total Company, Schedule 4). When the proforma weighted average cost rate for equity capital of 6.86% is applied to the proforma total rate base, the proforma net operating income required amounts to $244,602. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $90,850, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $25,830 and the federal income tax at 21% amounts to $65,021.

Schedule 1D shows effective tax factor including the federal and state corporate tax rates.

Q Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

A. Schedule 3 reflects the LRWC's Rate Base for both the actual 13 month average test year and the 2019 proforma test year. Columns b – n shows the actual month end balances. Column o shows the 13 months average balances. Column p shows the proforma adjustments. Column q shows the 2019 proforma balances. The balances are further supported by Schedules 3A – 3J.

The rate base consists of Utility Plant in Service less Accumulated Depreciation, plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred Debits, less Deferred Taxes and less Contributions in Aid of Construction plus Accumulated Amortization of CIAC and Cash Working Capital.

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The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $3,333,037 and $3,333,037, respectively.

Q. Would you please explain Schedule 3A, Rate Base Adjustments?

A. There are no proforma adjustments for temporary rate purposes.

Q. Please explain Schedule 3B.

A. Schedule 3B shows the computation of cash working capital for 2019 proforma amount and 2019, 2018 and 2017 actual amounts. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Would you please explain Schedule 4, Rate of Return Information?

A. See Total Company Schedule 4, which reflects the overall rate of return for both the actual test year and the proforma test year. The Actual Rate of Return for the test year is 8.69%.

Q. Please explain the Report of Proposed Rate Changes for LRWC.

A. If LRWC's filing is approved as submitted, its total water Operating Revenues will amount to $1,562,879. The Total Sales of Water amounts to $1,524,532 of which $1,313,764 comes from LRWC's 1,702 unmetered and metered customers.

Q. Is LRWC proposing any changes to the methodology used in calculating the rates?

A. No. LRWC is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. When is LRWC proposing that the new rates be effective?

A. LRWC is proposing that the new rates be effective February 15, 2021.

Q. Is there anything that you would like to discuss?

A. No.

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Dockham Shores (“DS”)

Q. What do the DS schedules?

A. The schedule entitled “Computation of Revenue Deficiency for the Test Year ended December 31, 2019,” summarizes the supporting schedules. The actual revenue deficiency for DS for the test year amounts to $46,025. It is based upon an actual test year with a 13 month average rate base of $333,548 as summarized in Schedule 3, column o. DS’s actual rate of return is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $333,548, results in an operating income requirement of $28,969. As shown on Schedule 1, column b, line 19, the actual net operating income for DS for the test year was ($17,056). The operating income required, less the net operating income, results in an operating income deficiency before taxes of $46,025. DS did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for DS of $46,025.

The proforma revenue deficiency for the DS for the test year amounts to zero. It is based upon a proformed test year rate base of $333,548, as summarized in Schedule 3, column q. DS is utilizing a proformed rate of return of 8.69% for the proformed test year. The proformed rate of return of 8.69% when multiplied by the rate base of $333,548, results in an operating net income requirement of $28,969. As shown on Schedule 1, column d, line 19 the proformed net operating income for DS for the test year is $28,969. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for DS of zero.

Q. Would you please explain DS Schedule 1 and supporting schedules?

A Schedule 1 reflects DS’s Operating Income Statement. Column b shows the actual test year results for DS. Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A – 1D. Column d shows the proforma test year results. Column e is actual results for 2018.

During the twelve months ended December 31, 2019, the actual Total Operating Revenues amounted to $38,808, an increase of $1,968 over 2018. The increase is due to increased water consumption.

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DS's total operating expenses amounted to $55,864, an increase of $4,305 over 2018. The increase in total operating expenses was due to increases in pumping and treatment expenses. The 2019 DS Net Operating Income (Loss) amounted to ($17,056). DS's Net Income (Loss) for 2018 was ($14,719).

The Company has made 2 proforma adjustments to operating revenues totaling $53,383. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

<u>Proforma Adjustment to Revenues</u>

1. Sales of Water – Special Contract - Property Owners Association at Swissevale, Inc. ("POASI") – ($0).

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $52,581.

The Company has increased test revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

Total Proforma Adjustment to Water Sales is $52,581.

3. Rate Case Surcharge – ($0).

4. DW 18-056 Tax Savings Refund - $0.

5. Revenue from Contract Work - $802.

The Company credits revenue from contract work to PUC account 415, Revenues from … Contract Work. Since account 415 is reflected in Other Income and Expenses, the Company is reclassifying the revenues to Other Water Revenues. The expenses associated with such contract work are reflected in test year expenses.

The Total Proforma Adjustments to Other Water Revenues amounts to $802. Total Proforma Adjustments to Operating Revenue amounts to $53,383.

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The Company has made 2 proforma adjustments to operating expenses totaling $7,358. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

<u>Proforma Adjustments to Expense</u>

1/2. Federal Income and State Business Taxes - $7,358.

With the proposed increase in revenue, there is also a related increase in the federal income and state business taxes. The increase in federal income taxes represents the additional tax liability due to the increase in taxable income. The increase in state business taxes represents the additional tax liability due to the increase in gross profits. See Sch 1C & 1D.

The total proforma adjustments to Operating Expenses amounts to $7,358.

The net of the proforma adjustments to operating revenue $53,383 and the proforma adjustments to operating expenses $7,358 results in net proforma adjustment of $46,025. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $28,969. The proforma test year net operating income of $28,969 allows DS to cover its expenses and earn a 8.69% return on its investments.

Q. Does that complete your description of the proforma adjustments to revenues and expenses?

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C shows the income tax computation. The proforma total rate base amounts to $333,548. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Total Company, Schedule 4). When the proforma weighted average cost rate for equity capital of 7.34% is applied to the proforma total rate base, the proforma net operating income required amounts to $24,478. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $9,092, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount

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results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $2,585 and the federal income tax at 21% amounts to $6,507.

Schedule 1D shows effective tax factor including the federal and state corporate tax rates.

Q Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

A. Schedule 3 reflects the DS's Rate Base for both the actual 13 month average test year and the 2019 proforma test year. Columns b – n shows the actual month end balances. Column o shows the 13 months average balances. Column p shows the proforma adjustments. Column q shows the 2019 proforma balances. The balances are further supported by Schedules 3A – 3D.

The rate base consists of Utility Plant in Service less Accumulated Depreciation, plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred Debits, less Deferred Taxes and less Contributions in Aid of Construction plus Accumulated Amortization of CIAC and Cash Working Capital.

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $333,548 and $333,548, respectively.

Q. Would you please explain Schedule 3A, Rate Base Adjustments?

A. There are no rate base adjustments for temporary rate puproses.

Q. Please explain Schedule 3B.

A. Schedule 3B shows the computation of cash working capital for 2019 proforma amount and 2019 and 2018. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Would you please explain Schedule 4, Rate of Return Information?

A. See Total Company Schedule 4, which reflects the overall rate of return for both the actual test year and the proforma test year. The actual rate of return is 8.69%.

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Q. Please explain the Report of Proposed Rate Changes for DS.

A. If DS's filing is approved as submitted, its total water Operating Revenues will amount to $92,191. The Total Sales of Water amounts to $91,212 and would come from DS's 61 metered customers.

Q. Is DS proposing any changes to the methodology used in calculating the rates?

A. No. DS is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. When is DS proposing that the new rates be effective?

A. DS is proposing that the new rates be effective February 15, 2021.

Q. Is there anything that you would like to discuss?

A. No.

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Wildwood Water ("WW")

Q Then, would you please summarize the WW schedules?

A Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue deficiency for WW for the test year amounts to $11,614. It is based upon an actual test year with a 13 month average rate base of $33,253 as summarized in Schedule 3, column o. WW's actual rate of return is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $33,253, results in an operating income requirement of $2,888. As shown on Schedule 1, column b, line 19, the actual net operating income for WW for the test year was ($8,726). The operating income required, less the net operating income, results in an operating income deficiency before taxes of $11,614. WW did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for WW of $11,614.

The proforma revenue deficiency for the WW for the test year amounts to zero. It is based upon a proformed test year rate base of $33,253, as summarized in Schedule 3, column q. WW is utilizing a proformed rate of return of 8.76% for the proformed test year. The proformed rate of return of 8.69% when multiplied by the rate base of $33,253, results in an operating net income requirement of $2,888. As shown on Schedule 1, column d, line 19 the proformed net operating income for WW for the test year is $2,888. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for WW of zero.

Q. Would you please explain WW Schedule 1 and supporting schedules?

A Schedule 1 reflects WW's Operating Income Statement. Column b shows the actual test year results for WW. Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A – 1D. Column d shows the proforma test year results. Column e is actual results for part of 2018.

During the twelve months ended December 31, 2019, the actual Total Operating Revenues amounted to $26,039, an increase of $12,996 over 2018. The increase is due to full year of revenue in 2019.

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WW's total operating expenses amounted to $34,765, an increase of $18,337 over 2018. The increase in total operating expenses was due to a full year of expenses. The 2019 WW Net Operating Income (Loss) amounted to ($8,726).

The Company has made 2 proforma adjustments to operating revenues totaling $10,786. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

<u>Proforma Adjustment to Revenues</u>

1. Sales of Water – Special Contract - Property Owners Association at Swissevale, Inc. ("POASI") – ($0).

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $9,985.

The Company has increased test revenues for the proposed amount of revenues necessary to cover its expenses and allow it to earn its proposed rate of return.

Total Proforma Adjustment to Water Sales is $54,737.

3. Rate Case Surcharge – ($0).

4. DW 18-056 Tax Savings Refund - $0.

5. Revenue from Contract Work - $801.

The Company credits revenue from contract work to PUC account 415, Revenues from … Contract Work. Since account 415 is reflected in Other Income and Expenses, the Company is reclassifying the revenues to Other Water Revenues. The expenses associated with such contract work are reflected in test year expenses.

The Total Proforma Adjustments to Other Water Revenues amounts to $801. Total Proforma Adjustments to Operating Revenue amounts to $10,786.

The Company has made 2 proforma adjustments to operating expenses totaling ($828). The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

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<u>Proforma Adjustments to Expense</u>

1/2. Federal Income and State Business Taxes – ($828).

The decrease is federal and state business taxes appear to be due to more of LRWC tax expense being allocated to WW, particularly given WW net loss. See Sch 1C & 1D.

The total proforma adjustments to Operating Expenses amounts to ($828).

The net of the proforma adjustments to operating revenue $10,786 and the proforma adjustments to operating expenses ($828) results in net proforma adjustment of $11,614. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $2,888. The proforma test year net operating income of $2,888 allows WW to cover its expenses and earn a 8.69% return on its investments.

Q. Does that complete your description of the proforma adjustments to revenues and expenses?

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C shows the income tax computation. The proforma total rate base amounts to $33,253. See Schedule 3. The proforma weighted average cost rate for equity capital is 7.3387 (See total Company, Schedule 4). When the proforma weighted average cost rate for equity capital of 7.3387% is applied to the proforma total rate base, the proforma net operating income required amounts to $2,440. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $906, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $258 and the federal income tax at 21% amounts to $649.

Schedule 1D shows effective tax factor including the federal and state corporate tax rates.

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Q Please continue with an explanation of Schedule 3, Rate Base and the supporting schedule.

A. Schedule 3 reflects the WW's Rate Base for both the actual 13 month average test year and the 2019 proforma test year. Columns b – n shows the actual month end balances. Column o shows the 13 months average balances. Column p shows the proforma adjustments. Column q shows the 2019 proforma balances. The balances are further supported by Schedules 3A & 3B.

The rate base consists of Utility Plant in Service less Accumulated Depreciation, plus Plant Acquisition Adjustment less Accumulated Amortization of Utility Plant Acquisition Adjustment plus Material and Supplies and Miscellaneous Deferred Debits, less Deferred Taxes and less Contributions in Aid of Construction plus Accumulated Amortization of CIAC and Cash Working Capital.

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $33,253 and $33,253, respectively.

Q. Would you please explain Schedule 3A, Rate Base Adjustments?

A. There are no proforma adjustments for temporary rate purposes.

Q. Please explain Schedule 3B.

A. Schedule 3B shows the computation of cash working capital for 2019 proforma amount and 2019 and 2018. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Would you please explain Schedule 4, Rate of Return Information?

A. See Total Company Schedule 4, which reflects the overall rate of return for both the actual test year and the proforma test year. The actual rate of return is 8.69%.

Q. Please explain the Report of Proposed Rate Changes for WW.

A. If WW's filing is approved as submitted, its total water Operating Revenues will amount to $36,825. The Total Sales of Water amounts to $35,630 and would come from WW's 49 unmetered customers.

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Q. Is WW proposing any changes to the methodology used in calculating the rates?

A. No. WW is generally using the same methodology. It is applying the rate increase to the various components of rates.

Q. When is WW proposing that the new rates be effective?

A. WW is proposing that the new rates be effective January 31, 2021.

OTHER MATTERS

Q. Is there anything else that the Company would like to address?

A. As indicated in my permanent rate testimony, the Company is interested in exploring with the PUC Staff and any other parties the possibility of billing monthly instead of billing quarterly. Also, the Company is interested in exploring with the PUC Staff and any other parties the possibility of meter program whereby water system that are not metered get metered over time with a separate meter program recovery mechanism. However, both matters are more appropriately addressed in the permanent rate phase of the proceeding.

CONCLUSION

Q. Would you please summarize what the Company is requesting in its rate filing?

While the Company is interest in the consolidation of rates in all of its water system, for temporary rate purposes, the Company respectfully requests that the Commissioners approve an increase in revenues of $56,673 or 4.51%, $52,581 or 136.11% and $9,985 or 38.94% from LRWC (w/o DS & WW), DS & WW, respectively.

Q. Is there anything further that you would like to discuss?

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.