STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.
DW 18-____

2019 WATER INFRASTRUCTURE
AND CONSERVATION ADJUSTMENT FILING

DIRECT TESTIMONY OF

DEBRA A. SZABO

OCTOBER 15, 2018

Q. Ms. Szabo, please state your name and business address.

A. My name is Debra A. Szabo, and my business address is 600 Lindley Street, Bridgeport, Connecticut 06606.

Q. By whom are you employed and in what capacity?

A. I am employed by Aquarion Water Company of Connecticut, Inc. ("Aquarion CT") as Director of Rates and Regulation.

Q. Please describe your educational background.

A. I have a Bachelor's Degree in Accounting from The University of Connecticut. I am also a Certified Public Accountant in the state of Connecticut.

Q. Please describe your business/professional background.

A. I was hired by Aquarion in March 2015 as Accounting Manager. Prior to Aquarion, I was Director of Financial Reporting at Hubbell Inc. In March 2018, I was promoted to Director of Rates and Regulation for Aquarion where I am responsible for the preparation and presentation of rate case and other regulatory filings for Aquarion and our regulated water affiliates, including Aquarion Water Company of New Hampshire, Inc. ("Aquarion NH" or the "Company").

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

A. No, but I have previously provided written and live testimony for the Company's affiliate in Connecticut before the Public Utilities Regulatory Authority ("PURA").

Q. What is the purpose of your testimony?

A. My testimony addresses the proposed surcharge related to the revenue requirement for completed water infrastructure and conservation adjustment ("WICA") eligible projects placed in service from October 1, 2017 to September 30, 2018.

Q. Please summarize the basis for the Company's WICA surcharge filing in this case.

A. Pursuant to the Commission's Order No. 25,019 dated September 25, 2009 in Docket DW 08-098 and Order No. 25,539 dated June 28, 2013 in DW 12-085, the Company is authorized to apply for approval of a WICA surcharge adjustment on an annual basis to collect the revenue requirement associated with used and useful WICA-eligible infrastructure improvement projects completed in the preceding twelve months ending September 30. Specifically, Section II.H.3 of the settlement agreement approved by the Commission in Order No. 25,019 provides:

> The Company agrees to file the final project costs, supporting documentation and proposed WICA adjustment for completed projects previously determined to be WICA eligible. . . . No project shall be included for recovery in the WICA unless the project is used and useful in providing service to customers or will be used and useful by the effective date of the WICA.

Attachment CM-1 to Carl McMorran's direct testimony identifies Aquarion NH's completed 2018 WICA projects and their respective costs. The corresponding WICA surcharge and components are detailed in Attachment DS-1 to my testimony. The WICA surcharge incorporates depreciation, property tax expense, income tax expense, and associated rate of return on completed projects, as contemplated by the approved WICA program. Additionally, as proposed in our March 30, 2018 response to the Commision's Order No. 26,096 and filed under Docket No. IR 18-001, the WICA surcharge incorporates the return of excess revenues as a result of the Federal Tax Cuts and Jobs Act enacted on December 22, 2017 ("2017 Tax Act") which reduced the corporate federal tax rate from thirty-five percent to twenty-one percent, effective January 1, 2018.

Q. Ms. Szabo, please summarize the surcharge requested in this filing.

A. The projects in Attachment CM-1, shown as completed as of September 30, 2018, produce an overall surcharge of 4.43% to be applied to customers' existing water service billings. This is a decrease of 2.65% to the 7.08% overall surcharge previously allowed by Order No. 26,094. The reduction in the surcharge is attributed to the reduced corporate federal tax rate under the 2017 Tax Act which will be discussed later in my testimony. The surcharge is applied to all classes of customers. The WICA mechanism approved by the Commission has an annual cap of 5% and an aggregate cap of 7.5% between rate cases. The proposed 2019 surcharge does not exceed either of these two caps. This is the Company's fifth WICA filing since its last general rate case and is consistent with the goals of the WICA program to encourage accelerated replacement of aging infrastructure and reducing the frequency of general rate cases.

Q. Does the Company propose to change the term over which the surcharge is recovered?

A. Yes, but only as an alternative to the twelve-month recovery period and only in the event the Commission's decision is delayed past January 1st. The settlement in Docket DW 08-098, and as modified in Docket DW 12-325, allows the Company to seek authorization to implement the WICA surcharge on a service-rendered basis effective January 1st. In recent years, however, the Commission has not approved the WICA surcharge in time for the Company's January billing. Since the enactment of the WICA program, the Company has implemented monthly billing. Before monthly billing, the Company could accommodate delayed approval of the WICA by holding customer bills. But the Company cannot do so under monthly billing. Therefore, in the event the Commission's decision is delayed past January 1st, the Company proposes recovering the surcharge over ten (10) months instead of twelve (12) months. In such a case, the surcharge would be billed effective March 1st.

Q. Please elaborate on the contents of Attachment DS-1.

A. Attachment DS-1 consists of three pages detailing the calculation of the proposed 4.43% surcharge.

Page One – Summary Calculation: This schedule multiplies the September 30, 2018 used and useful eligible WICA project investment totals, net of the first year's accumulated depreciation, by the overall rate of return authorized by the Commission in Docket DW 12-325. Additions to this amount are made to account for: (1) an income tax gross-up on the equity portion of the eligible rate base investment, (2) depreciation expense, (3) property taxes reflecting nine months of expense for utility plant additions placed in service between October 1, 2017 and September 30, 2018, and twelve months of expense for those items placed in service and recognized as part of Docket DW 17-154, and (4) excess revenues as a result of the 2017 Tax Act . These components yield a total annual WICA-related revenue requirement of $307,247 since the Company's last general rate case. To determine the WICA surcharge necessary to obtain this level of revenue, the amount is divided by the last authorized water service revenues (i.e., gross revenues net of miscellaneous charges) to arrive at a WICA surcharge of 4.43%.

Page Two – Calculation by Project: This page shows the calculation of the surcharge on an asset class basis.

Page Three – Detailed Support: This page identifies additional details used in the derivation of property taxes and depreciation and includes: (1) PUC account numbers and depreciation rates, (2) project towns and respective property tax mill rates, (3) total and eligible[1] capital dollars, and (4) the associated total and eligible retirements that decrease the property tax and depreciation calculations. Depreciation expense is calculated by reducing the eligible project costs by the amount of eligible retirements and multiplying the resultant figure by the Commission-approved depreciation rates. The property tax is calculated similarly: eligible project costs, less retirements and accumulated depreciation, multiplied by the most recent mill rate for the respective town. Property tax

[1] Eligible capital costs exclude the first $50,000 of hydrants, services and valves pursuant to the approved settlement in Docket No. DW 12-235. The reduction of $50,000 is made proportionately to the pool of projects. Retirement values are also reduced accordingly.

expense recognized as part of Docket DW 17-154 has been updated to reflect a full 12 months of expense as well as the most recent mill rates. Also, based on the response to Data Request Staff 3-2 in DW 14-300, the Company has added an accumulated depreciation column to page 3 to calculate the return on investment, income tax expense and property tax expense. For the requested property tax amounts for the 2018 projects included in this filing, the figure is then divided by twelve and multiplied by nine to reflect the fact that the Company will only incur property tax expense for the last nine months of the 2019 surcharge period. Finally, all information on page three is shown on a project-by-project basis and supports the figures on pages one and two.

Q. Please explain why the completed hydrant and service investments on Attachment CM-1 are not included on Attachment DS-1 for the surcharge calculation.

A. As per the order in Docket No. DW 12-235, hydrants and services need to exceed $50,000 in annual capital expenditures before being eligible for WICA surcharge recovery. Referring to Attachment CM-1, the cost for the above referenced capital costs did not surpass the $50,000 threshold and, therefore, have not been included on Attachment DS-1.

Q. Please explain Attachment DS-2.

A. Attachment DS-2 provides the proposed updated tariff pages associated with the WICA surcharge.

Q. Does the Company have detailed documentation to support the project costs incorporated in this WICA filing?

A. Yes, the Company will provide Staff with the appropriate supporting invoices and system documentation in order to fully support the project totals.

Q. Please provide calculations showing the current projected WICA surcharges anticipated for 2020, 2021, and 2022.

A. Please refer to DS-3 for the anticipated WICA surcharges based on the projected costs for 2019, 2020, and 2021 projects. .

Q. What is the impact of the proposed WICA surcharge to the average residential customers?

A. The typical residential customer using 53,300 gallons of water per year currently pays $42.53 monthly under existing base rates. The current overall WICA surcharge of 7.08% comprises $3.01 per month of that bill. Thus, under the typical residential customer analysis, and based on twelve months, the bill totals $45.54. The proposed 2019 WICA will reduce the surcharge by 2.65% (or $1.88), a decrease in the customer's monthly bill by $1.13. Thus, under the typical residential customer analysis, and using a twelve-month recovery term for comparison purposes, thebill would decrease to $44.41. This analysis would be different in the event the Commission's decision is delayed, as described above, and the Commission approves a ten-month recovery term.

Q. Are there any additional details you would like to explain concerning the effects of Federal and State Corporate Tax Reductions?

A. Yes. As noted in Order No. 26,096, the 2017 Tax Act was enacted on December 22, 2017 and certain tax changes became effective on January 1, 2018. The 2017 Tax Act reduced the corporate tax rate from thirty-five percent to twenty-one percent.

As stated in the Company's filing dated April 2, 2018 in Docket No. DW 18-054, this change impacts the Company's revenue requirement in the following ways:

1. The lower tax rate reduced the Company's accumulated deferred income tax liability ("ADIT"). The resulting Excess Deferred Income Taxes ("EDIT") were re-classified to a regulatory liability at December 31, 2017 and will be amortized over the average life of the Company's assets.; and;
2. The lower tax rates will act to reduce the cost of service and thereby lower the Company's revenue requirement effective January 1, 2018.

Attachment DS-4 shows the calculation of the excess revenues related to: (1) the annual amortization of the EDIT multiplied by an income tax gross-up and (2) the lower cost of service as the difference between the Company's 2018 estimated federal tax provision at 35% and 21% which is then multiplied by an income tax gross-up.

Q. Why does the Company propose using the WICA to incorporate the savings into customer rates?

A. Using the WICA to pass the tax savings through to customers is beneficial for the following reasons: (a) the WICA is a ready true-up mechanism that is reviewed and audited by the Commission; (b) the Commission approved the WICA as the preferred mechanism to pass savings to customers when the IRS changed the Tangible Property Regulations[2] (See Order No. 25,750); (c) it will provide a direct and prompt benefit to customers in the amount by which the Company benefits from the changes in tax rates; (d) it will help s reduce customers' bills and offset the impact of anticipated future WICA surcharges; and (e) using the WICA mechanism will result in less regulatory costs than creating a separate mechanism to process the savings.

Q. Are there any special considerations regarding bill implementation that Aquarion wishes to bring to the Commission's attention?

A. Yes. Due to the fact that the Company bills on a monthly basis, it is important for the Company to have a final decision before January 1, 2019 in order to meet the proposed January 1st implementation date. The Company has filed the instant WICA filing in mid-October to allow the Commission and its Staff additional weeks to review and approve the Company's WICA tariff. In prior WICA dockets when the Commission's decision has been delayed, the Company has withheld issuing bills until it received the Commission's order. The Company

[2] As the Commission may recall, in September 2013, the IRS adopted final rules allowing taxpayers to expense certain repair and maintenance costs that had historically been capitalized for tax and ratemaking purposes. See Treasury Decision 9636 pertaining to Internal Revenue Code §§162(a), 167, 168, and 263(A). This resulted in a credit of approximately $905,000, which the Commission authorized Aquarion-NH to credit to customers over three years (2015, 2016, and 2017) through its existing WICA. See Commission Order No. 25,750, dated January 12, 2015.

was in a position to make such an accommodation because the Company billed customers on a quarterly basis. Now that the Company bills on a monthly basis, the Company and its customers are less able to absorb a delayed approval. For example, if the Company were to withhold issuance of bills to its 9,000 metered customers it would have a dramatic impact on customers because customers would receive and pay two bills within days of each other. The Company is sensitive to the adverse impact paying two bills in quick succession would have on its customers' budgets. In an attempt to avoid the complications of a potential delayed approval and such adverse impacts, the Company is making its WICA filing early and proposes the above-described alternative of a ten-month recovery period in the event the Commission's decision is delayed.

Q. Does this conclude your testimony?

A. Yes.