

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

AQUARION WATER COMPANY OF NEW HAMPSHIRE, INC.

DOCKET NO. DW 20-184

DIRECT TESTIMONY

OF

DEBRA A. SZABO

December 18, 2020

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1 **I. INTRODUCTION AND OVERVIEW OF TESTIMONY**

2
3 **Q. Please state your name and business address.**

4 A. My name is Debra A. Szabo. My business address is 600 Lindley Street, Bridgeport,
5 Connecticut.

6
7 **Q. Are you the same Debra Szabo who prepared written testimony in support of**
8 **temporary rates in this case?**

9 A. Yes.

10
11 **Q. What is the purpose of your testimony in this case?**

12 A. The Company's application in this case seeks an overall increase of \$1,373,351, or
13 18.0%, in annual revenues over and above those amounts currently authorized in the last
14 rate case and the most recent Water Infrastructure and Conservation Adjustment
15 ("WICA") proceeding. My testimony discusses the Company's: (i) current financial
16 condition and need for rate relief; (ii) pro forma revenue and expense adjustments to the
17 historical test year data; (iii) balance sheet and pro forma rate base; (iv) pro forma
18 capitalization and rate of return; (v) billing analysis, revenue adjustments, rate design and
19 tariff changes; (vi) the WICA surcharge; and (vii) proposed step adjustments. My
20 testimony also provides support for several other ratemaking proposals, which are: (1) the
21 creation of an inclining block rate for the Company's residential customers (including
22 seasonal residential customers); (2) the Company's proposal to recover the cost of its
23 Customer Assistance Program and proposed Fee Free Program through base rates; (3) the
24 Company's proposal for post-test year Step Adjustments to recover the additional
25 revenue requirements associated with significant post-test year capital investments; and
26 (4) implementation of a property tax reconciliation mechanism and revenue adjustment
27 mechanism.

II. FINANCIAL CONDITION AND NEED FOR RATE RELIEF

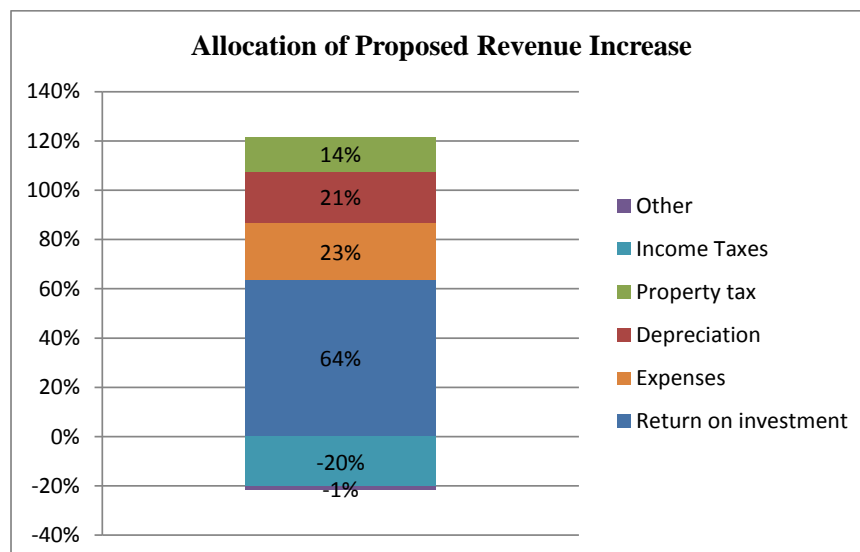
Q. Please describe the Company's current financial condition.

A. Since the Company's last general rate case, which had a December 2011 test year, the Company has made more than \$23.2 million of utility plant additions, included in this filing, which contributed to an increase in rate base of approximately \$12.8 million, of which \$4.7 million is currently authorized through the WICA program. Those improvements are discussed in detail in Mr. Lawrence's and Mr. McMorran's testimony. At the same time, the Company was required to file this rate case in accordance with Commission Order No. 26,245, dated May 2, 2019 in Docket Nos. DW 18-161 and DW 18-054 requiring a full rate proceeding to be filed no later than 2020, utilizing the prior year as its test year.

Our Test year ROE was 7.30%, and the company anticipates that without the rate relief requested in this proceeding our ROE is expected to decline to 4.97%

Q. What are the components that are driving the need for rate relief?

A. The chart below itemizes the key components of the request as compared to the overall amounts authorized in Docket No. DW 12-085.



1
2 **Return on Investment:** Rate base has increased \$12.8 million, or 55%, since the last rate
3 case. Approximately 37%, or \$4.7 million, of this increase has already been recovered
4 through the WICA surcharge and is therefore not part of the 18.0% increase sought
5 herein. The remaining \$8.1 million of rate base accounts for 64% of the overall increase
6 being sought. Absent the WICA mechanism, and assuming that capital spending
7 occurred at the same levels, the revenue increase sought in this rate case would have been
8 approximately \$520,000 higher, for an overall increase of 25.5%. (Section VI of my
9 testimony further discusses WICA and the associated benefits.) The investments
10 contributing to this increase in rate base are discussed in the testimony of Mr. Lawrence.

11
12 **Expenses:** The proposed operating and maintenance expenses in this case total \$3.5
13 million and reflect a compound annual growth rate of just 1.2% since the last rate case.
14 Operating expenses have increased \$316 thousand, or 10.0%, since the last rate case,
15 accounting for 23.1% of the overall increase being sought. The testimony of Mr.
16 McMorran addresses operational expenses in more detail.

17
18 **Depreciation:** Depreciation expense has increased \$346 thousand, or 35.8%, since the
19 last rate case. A portion of this increase has already been recovered through the WICA
20 surcharge; accordingly, \$56 thousand of this increase from the last case is not part of the
21 18.0% increase sought herein. The remaining \$290 thousand of increased depreciation
22 expense accounts for 21.1% of the overall increase being sought.

23
24 **Property Taxes:** Property taxes are comprised of property taxes from the Towns of
25 Hampton, North Hampton, Rye and Stratham and the State of New Hampshire. Property
26 taxes have increased by 49% when compared to the amounts from the last general rate
27 case. A portion of this increase has already been recovered through the WICA surcharge;
28 accordingly, \$93 thousand of this increase from the last case is not part of the 18.0%
29 increase sought herein. The remaining \$189 thousand of increased property tax expense
30 accounts for 13.8% of the overall increase being sought.

1 **Income Taxes:** Income taxes is comprised of both state and federal income taxes and
2 amortization of the regulatory liabilities established as a result of the Federal Tax Cuts
3 and Jobs Act (“TCJA”). Among other actions, the TCJA reduced the maximum corporate
4 income tax rate from 35 percent to 21 percent which gave rise to Excess Deferred Income
5 Tax (“EADIT”) owed to customers as well as tax savings to the Company. These tax
6 amortizations are discussed in Section III of my testimony. Income taxes have decreased
7 by 38% when compared to the amounts from the last general rate case, providing a 20.3%
8 reduction to the increases discussed above.

9
10 **Q. Have you prepared, or caused to be prepared, financial schedules in support of the**
11 **Company’s application to increase rates?**

12 A. Yes, I have. The Company has filed schedules that reflect its accounting and financial
13 condition that support the Company’s request for increased rates. The schedules that I
14 am supporting with direct testimony were prepared by me or under my supervision and
15 direction.

16
17 **Q. What is the source of the information in these schedules?**

18 A. The schedules have been prepared utilizing the general books and records of the
19 Company and other supporting data for a test year of the twelve months ended December
20 31, 2019. The test year data has been adjusted on a pro forma basis, where appropriate,
21 to reflect known and measurable changes which were not fully reflected in the test year
22 results and which will continue to impact operations in the future. These adjustments
23 will be explained in the following schedules.

24
25 **Q. What are the results displayed on Schedule A?**

26 A. **Schedule A** summarizes the computation of the total revenue deficiency and the
27 proposed revenue increase after pro forma adjustments. It shows that the Company is
28 experiencing an overall revenue shortfall of \$1,373,351 on a pro forma basis, resulting in
29 the need for an 18.0% increase to pro forma revenues based on the existing rates and
30 WICA surcharge.

Q. What is the impact of the proposed increase on customer rates?

A. During the test year, the average single family residential customer used approximately 50,500 gallons of water. Based on current rates (including the 7.5% WICA surcharge) a residential customer with average consumption would pay \$530.44 annually. With the proposed increase, that same customer would see an increase of \$79.71 per year, \$6.64 per month, \$0.22 per day). This results in a bill increase of 15.0%, which is below the overall 18.0% increase proposed in this case. This reflects the result of the cost of service study performed in this case whereby increases across the different customer classes range from 7.76% to 22.2%, as reported in the table below, along with the impact of a new inclining block structure in the residential class. Refer to the direct testimony of Mr. Guastella for additional discussion on this topic.

Rate/Class of Service	Est. Annual Revenue		Proposed Change	
	Present Rates	Proposed Rates	Amount	% Change
Residential	\$ 4,202,086	\$ 5,062,155	\$ 860,069	20.47%
Commercial	1,263,852	1,420,651	156,799	12.41%
Industrial	9,150	9,860	710	7.76%
Public Authority	112,266	127,077	14,811	13.19%
Seasonal	424,134	501,613	77,479	18.27%
Private Fire	457,261	508,677	51,416	11.24%
Public Fire	926,116	1,131,877	205,761	22.22%
Miscellaneous	221,927	227,665	5,738	2.59%
Adj for Rate Design		568	568	
	\$ 7,616,793	\$ 8,990,143	\$ 1,373,351	18.03%

Q. Has the Company retained any expert consultants for this case?

A. Yes. As previously directed by the Commission in Docket No. DW 12-085 (*See* Order No. 25,539 at 25), the Company retained the services of an expert witnesses to perform a cost of service study and rate design. Additionally, the Company retained experts to perform a depreciation study and to assist with the cost of capital and capital structure presented in this case. All of these services were retained through a competitive bid process. Specifically, the Company is utilizing the following service providers: (1) Ned Allis of Gannett Fleming LLC for the depreciation study; (2) Dylan W. D'Ascendis,

Director of ScottMadden,Inc for cost of capital and capital structure; and (3) John F. Guastella, of Guastella Associates, LLC, for cost of service study and rate design.

Q. Please describe the process that was utilized to retain the Company's expert consultants for this case.

A. The Company invited a set of skilled service providers to participate in each request for proposal ("RFP"). The Company designated an internal review committee for each RFP to evaluate submitted bids. The bid evaluation included assigning a score based on an assessment of each of the following criterion:

- (1) Overall capability of firm to provide the level of services required by the Company and to conduct the proceeding in a responsible and knowledgeable manner;
- (2) Experience and expertise of staff designated for work on the Company's filing, with a focus on knowledge of the state's regulation in general as well as ratemaking precedent and related requirements for base-rate review by the Commission;
- (3) Specific familiarity with Aquarion regulatory matters and familiarity with the Company's state-specific operations;
- (4) Fee structure and cost-containment strategy, and
- (5) Potential commercial impediments, including conflicts of interest.

The Company's external witnesses were ultimately selected based on this evaluation process and determination of the service provider that could best provide the necessary service at a reasonable price. Where appropriate, the Company invited some of these vendors to bid on services for rate cases in multiple proceedings, and cost savings that were expected to result from having a single provider serve multiple rate cases was factored into the evaluation.

Q. Is the Company proposing to recover expense incurred for use of these expert witness expenses in this proceeding?

A. Yes, the Company is proposing to recover estimated expenses of \$101,200 pertaining to the cost of service and rate design expert and depreciation study within this case over a six year amortization period as further described in Section III, Schedule 1L below.

The Company also estimates a total of \$150 thousand of other rate case costs associated with the cost of capital expert (approximately \$75 thousand), non-employee labor of affiliated companies used in preparation of the rate case (\$70 thousand) and customer notification letters and mailing (\$5 thousand). The Company proposes recovery through a 12 month rate case recoupment surcharge.

This method of recovery is consistent with treatment of such costs in Docket Nos. DW 12-085, DW 08-098 and DW 05-119. Ultimately, the costs and method of recovery will be determined by the Commission consistent with the Puc 1900 rules. However, the Company believes it reasonable and appropriate to include a proposed method for recovery at the outset for the Commission to consider.

III. REVENUE AND EXPENSES

Q. Please summarize the contents of Schedule 1.

A. **Schedule 1**, page 1 of 3 sets forth the income statement for the Company for the twelve months ending December 31, 2017, 2018 and 2019. It also reflects pro forma adjustments to the test year (explained in detail later in my testimony) to arrive at a pro forma income statement at present rates as well as pro forma net income at proposed rates. Page 2 of 3 also depicts the income statement; however, the format is modified to capture the calculation for Utility Operating Income (versus Net Income on page 1). Page 3 of 3 displays the quarterly consumption levels, and the customer count for each quarter of the test year.

Q. Please explain the results presented on Schedule 1A.

A. **Schedule 1A** compares pro forma revenues at present and proposed rates. It begins with book revenues. Pro forma adjustments are then applied to arrive at pro forma revenues at present rates. A further adjustment is then made to reflect the revenue increases from proposed rates, which then produces total pro forma revenues at proposed rates. The pro

1 form revenues at both present and proposed rates match the results derived in the billing
2 analysis in Schedule 5.

3
4 **Q. Please describe the pro forma adjustments to revenues at present rates, as shown on**
5 **page one of Schedule 1A.**

6 A. The pro forma adjustments are itemized more fully on Page 2 of the schedule and are for
7 four major areas:

- 8 1. Unbilled Elimination
- 9 2. WICA Adjustments
- 10 3. Tax Reform Refund Adjustments
- 11 4. Miscellaneous Items

12
13 **Q. Please discuss the unbilled elimination adjustment.**

14 A. This adjustment removes the revenue impact created by unbilled revenues booked in
15 December 2019, which are offset by the reversal of the December 2018 entry for unbilled
16 revenues. Although minimal, elimination of these entries allows for examination of
17 actual billed revenues within the twelve-month test year without the impact of estimates.

18
19 **Q. Please discuss the WICA adjustments.**

20 A. By Order No. 26,094 dated December 29, 2017, the Commission approved a WICA
21 surcharge of 7.08% effective January 1, 2018. By Order No. 26,245 dated May 2, 2019,
22 the Commission approved a WICA surcharge of 6.72% effective June 1, 2019 and the
23 increase of WICA surcharge from 6.72% to 7.5% effective January 1, 2020. Given that
24 the increase did not occur until after the end of the test year, a pro forma adjustment is
25 made to reflect the known and measurable change to the Company's revenues.

26
27 **Q. Please discuss the Tax Reform Refund adjustment.**

28 A. This adjustment removes the impact of the accrual recorded to account for the 2019
29 annual income tax expense savings from that included in the current revenue requirement
30 for Aquarion as a result of TCJA, and reductions in the New Hampshire Business Profits
31 Tax ("BPT") and New Hampshire Business Enterprise Tax ("BET"). This regulatory

1 liability was established consistent with Commission Order No. 26,245 dated May 2,
2 2019 and is further addressed in the discussion below regarding Schedule 1K, TCJA.

3
4 **Q. Please discuss the miscellaneous adjustments.**

5 A. The miscellaneous adjustments include: 1) adjustment of antenna rental income based on
6 contractual increases and corrections for new and/or expired leases; and 2) adjustment to
7 late payment fees based upon all other pro forma adjustments made to operating
8 revenues.

9
10 **Q. Please discuss in detail the pro forma adjustments represented in Schedule 1B**
11 **through Schedule 1W.**

12 A. **Schedule 1B is entitled** Summary of Pro Forma Adjustments to O&M Expense. This
13 schedule simply summarizes the operation and maintenance expense adjustments to the
14 test year figures as well as the corresponding detailed schedule references and major
15 account classifications. As can be seen, the Company is proposing to decrease test year
16 operating expenses by \$64,900 on a pro forma basis.

17
18 **Schedule 1C, Salaries and Wages,** details all wages and salaries incurred by or charged
19 to the Company. Total wages, which are comprised of two components, are calculated as
20 follows:

21 1) The first component of the wages relates to the direct charges for the employees of
22 the Company. The current annualized wages for exempt and non-exempt, non-union
23 employees amount to a pro forma total of \$268,120, including a 3% pay increase
24 expected to go into effect on April 1, 2021. Pro forma wages of \$520,547 relate to
25 annualized salary levels at December 1, 2020 for seven union employees adjusted to
26 reflect a 3.0% union contract salary increase will become effective as of December 1,
27 2021. Finally, pro forma standby and shift differential pay are based on the amounts
28 included in the test year plus the 3.0% union contract increase for these charges. The
29 resulting amount of gross pro forma wages of \$871,585 was then multiplied by the
30 89.1% test year expense ratio to arrive at pro forma wages charged to expense of

1 \$776,582. Test year wages charged to expense of \$714,247 were subtracted from the
2 pro forma wages to arrive at the \$62,335 pro forma adjustment.

3
4 2) The second component of wages represents service company personnel whose time
5 was charged to the New Hampshire operations in the test year. This time represents
6 services from AWCCT's Accounting, Finance, Accounts Payable, Engineering,
7 Human Resources, Administration and Water Quality departments. The portion of
8 this time charged to utility expense during the test year amounts to \$128,981. This
9 amount was adjusted upward \$7,855 to account for a 3% pay increase that went into
10 effect on April 1, 2020 and a 3% pay increase expected to go into effect on April 1,
11 2021.

12
13 **Schedule 1D, Employee Welfare**, includes employee medical costs, 401K plan expense,
14 auto allowance, life insurance long-term disability, and benefit overhead for service
15 company wages. Medical costs are based on a premium-based plan for twelve full-time
16 New Hampshire employees. Pro forma expenses for medical expense are based on the
17 current annualized costs of those plans, less the amount contributed by employees. 401K
18 plan expense is based on the current annualized matching expense based on each
19 employee's current contribution. Union employees receive a 50% Company match and
20 non-union employees receive a 75% Company match. Pro forma auto allowance is based
21 on a \$500 per month allowance for the Operations Manager. Pro forma life insurance
22 and long-term disability expense are based on multiples of base wages, as shown on
23 Schedule 1C, times the current insurance rates. For pro forma purposes, all of the above
24 costs have been reduced to reflect only the amount charged to utility expense. The
25 resulting pro forma adjustment is an increase of \$20,826.

26
27 **Schedule 1E, Employee Bonus Program**, shows the expense associated with the bonus
28 program for non-union employees. The program is designed to help the Company and its
29 affiliates retain and attract employees and to incentivize positive employee behavior that
30 supports the Company's customer service, service quality and product quality goals.
31 Amounts for the bonus are based on a percentage of the participating employees' annual

1 salary for those employees achieving their goals and meeting performance targets. Pro
2 forma amounts are based on those percentages applied to the wage levels utilized in
3 Schedule C. The pro forma amounts have been reduced for the percentage charged to
4 utility expense. The resulting pro forma adjustment is an increase of \$2,454.

5
6 **Schedule 1F – Legal** reflects expense for general legal services and yearly legal expense
7 related to the Company’s WICA filings. The pro forma adjustment is an increase of
8 \$4,101.

9
10 **Schedule 1G, Chemicals Expense,** shows actual current chemical prices and adjusted
11 test year chemical usage. The current chemical prices reflect the Company’s yearly
12 bidding process. On a 4 to 6 month basis the Company requests bids from chemical
13 vendors to provide the lowest cost of required chemicals to treat the specific sources for
14 potable water for consumption. The Company has incorporated the most recent prices in
15 effect in order to determine the pro forma adjustment proposed in this case. . The test
16 year usage has been adjusted to reflect a chemical change that was made at several of the
17 Company’s facilities. The resulting pro forma adjustment is an increase of \$17,303.
18 Further details regarding the change in the use of the chemicals are discussed within the
19 testimony of Mr. McMorran.

20
21 **Schedule 1H, Purchased Power – Electric,** reflects the Company’s electric
22 expense. The Company has two electric service providers, Public Service of New
23 Hampshire and Unitil Energy Services. The pro forma power costs are based on the test
24 year usage at the most recent prices for both electric distribution companies as approved
25 by the Commission. Also included in the amounts covered by this schedule are the costs
26 of electric supply that is purchased from competitive suppliers. The resulting pro forma
27 adjustment is an increase of \$17,322. Mr. McMorran discusses this item in more detail.

28
29 **Schedule 1I, Building Lease Expense,** shows the change increase in expense of \$3,986
30 related to the Company’s building lease expense. The pro forma expense is based on the
31 lease agreement for the 7 Scott Road location.

1
2 **Schedule 1J, Corporate Insurance**, reflects the Company's allocated insurance expense
3 as of the January 1, 2020 policy year. The Schedule sets forth the type of policy as well
4 as the methodology behind the Company's allocation for each insurance expense item.
5 The latest policy year yields a pro forma expense decrease of \$49,672, or 46%, as
6 compared to the test year expense. The decrease is primarily due to the Company moving
7 from fixed cost general and excess liability insurance to self insured and reduction in
8 automotive insurance by combining insurance policies within the Eversource family.
9

10 **Schedule 1K, Tax Cuts and Jobs Act ("TCJA")**, reflects the amortization of the
11 regulatory liabilities established consistent with Commission Order No. 26,245 dated
12 May 2, 2019. The regulatory liabilities were created to account for the impact of federal
13 and state statutory income tax rate reductions as of January 1, 2018 resulting from the
14 TCJA, and reductions in the New Hampshire BPT and New Hampshire BET. Those tax
15 reductions resulted in an EADIT liability owed to customers and annual income tax
16 expense savings from that included in the current revenue requirement for Aquarion.
17

18 The EADIT regulatory liability of \$1,754,818 is primarily comprised of accelerated
19 depreciation and will be amortized using the Reverse South Georgia Method. Under the
20 Reverse South Georgia method, the excess tax reserve on all utility property in the plant
21 account is computed based on the weighted average life or composite rate used to
22 calculate depreciation for regulatory purposes. The excess tax reserve so computed is
23 then reduced ratably over the regulatory life of the property. This results in an annual
24 amortization credit of \$68,178 to be recognized over approximately 30 years. This is
25 partially offset by annual amortization debits of \$17,528 associated with pension and
26 retiree medical components of the EADIT resulting in a net annual amortization credit of
27 \$50,650.
28

29 A cumulative regulatory liability of \$928,837, representing tax savings realized from
30 January 1, 2018 through the proposed effective date of approved permanent base rates in
31 this general rate proceeding, was determined based on the Commission approved

1 calculation of an annual tax savings amount of \$293,317. The annual tax savings is based
2 on FERC Order No. 475, which employs a formula approach using data from Aquarion's
3 most recent rate case (DW 12-085) to approximate the cost of service impact (as if the
4 new tax rates were in effect at the time of the last rate order). The Company has proposed
5 a ten-year amortization period for this liability resulting in an annual amortization credit
6 of \$92,884.

7
8 **Schedule 1L, Expert Fees** As previously directed by the Commission in Docket No. DW
9 12-085 (See Order No. 25,539 at 25), the Company retained the services of an expert
10 witnesses to perform a cost of service study. As such, the Company retained the services
11 of John F. Guastella, of Guastella Associates, LLC, to perform this service as well as rate
12 design. Additionally, the Company retained the service of Ned Allis of Gannet Fleming
13 LLC to perform a depreciation study. The services were retained through a competitive
14 bidding process as described in Section I above and the Company is proposing to recover
15 these expenses totaling \$101,200 based on a six year amortization period, or \$16,867 a
16 year.

17
18 Staff discovery in Docket Nos. DW 18-054 and DW 18-161 included an investigation
19 and report by its consultant, Blue Ridge Consulting Services, Inc. , which reviewed the
20 tax change effect calculations submitted by Aquarion in this docket. Pursuant to RSA
21 365:37 and in accordance with Commission Order No. 26,245 dated May 2, 2019,
22 Aquarion paid the \$10,284 cost incurred by the Commission for its consultant and
23 recorded that cost as a deferred regulatory asset to be considered for recovery in during
24 this rate proceeding. The Company proposes a one year amortization period for recovery
25 of this cost.

26
27 **Schedule 1M, Customer Programs**, presents adjustments to incorporate costs associated
28 with a Customer Assistance Program ("CAP") and a proposed Fee Free
29 payment processing program for residential customers.

30

1 Through the CAP, which was implemented in 2020, the Company has allocated an
2 annual sum of \$10,000 to assist customers in need with the payment of their water bills.
3 A one-time voucher in the amount of \$50 will be granted to up to 200 customers who are
4 either homeowners in Aquarion's service territory or contractual renters (water bill must
5 be in renter's name) who pay a monthly water bill. Once the \$10,000 has been allocated,
6 the program will conclude for the calendar year. The program is administered by
7 Wellspring, a private, non-profit third party.
8

9 To apply for assistance, customers complete an application form and attach proof of
10 eligibility. Customers qualify for the Program if they currently receive assistance from
11 one or more of the following sources:

- 12 • Emergency Aid to Elderly, Disabled and Children
13 (EAEDC)
- 14 • Supplemental Security Income (SSI)
- 15 • Social Security Disability Insurance (SSDI)
- 16 • Section 8 (Housing Choice Voucher Program)
- 17 • Food Stamps
- 18 • Fuel/Heating Assistance
- 19 • Medicaid
- 20 • Veteran's Assistance

21 With the expansion of the Company's e-billing option, customer portal, and other
22 enhancements, there is a growing demand from customers for a "fee free" credit/debit
23 card transaction program. Aquarion customers are currently able to make bill payments
24 by credit and debit card subject to a transaction fee, and the transaction fee has been an
25 increasing point of contention and a challenge to customer satisfaction. The Company
26 proposes to implement a "fee free" program that would enable Aquarion customers to
27 pay their water bills by credit or debit card without incurring a transaction fee. As
28 customers rely increasingly on digital tools, payments are also being made electronically
29 to a greater extent. Accordingly, the costs of providing electronic and digital service
30 options, including fee free credit and debit card acceptance, should be part of the cost of
31 doing business for today's utilities.
32

1 The Company utilizes KUBRA as its third-party vendor to process credit and debit card
2 payments, and will continue to do so if the fee free proposal is approved. The Company
3 analyzed customer payment activity during 2019 where a total of \$361,304 fees were
4 charged to all Aquarion's customers across the three states in which it operates. To reflect
5 the cost of these services, for pro forma purposes, a portion of the Connecticut company's
6 customer service cost is allocated to the New Hampshire operation. The same cost
7 allocation methodology described in Schedule 1P below, based on the relative percentage
8 of New Hampshire customers to the Company's total customers, was used to determine
9 the pro forma cost adjustment of \$13,886 as shown in Schedule 1M.

10 The Company's proposal is that customers will not be assessed a credit/debit card
11 transaction fee, rather the \$13,886 cost of the service will be charged to the Company and
12 the Company proposes to recover the cost of this service through rates. The Company
13 will not undertake this endeavor without the Commission's approval.

14
15 **Schedule 1N, Shared Facility Costs**, presents the allocation of costs associated with
16 common facilities for the various Aquarion Water Company subsidiaries. AWCCT
17 maintains three common facilities: an operations center, a corporate office and the
18 customer service call center. The shared office costs are calculated by deriving a building
19 overhead rate per facility then applying such rate to labor charged from each facility to
20 the Company, which is based on the formula contained in the Service Agreement with
21 Aquarion Water Company. The resulting amount of \$46,737 for all three buildings
22 requires a pro forma reduction of \$3,093 to test year expense.

23
24 **Schedule 1O, Management Allocation**, sets forth the derivation of the Company's
25 allocated share of management expense from Aquarion Company, the parent company of
26 Aquarion Water Company, which in turn owns Aquarion Water Company of New
27 Hampshire. These charges include charges to Aquarion Company for services provided
28 by its corporate parent Eversource Energy ("Eversource"), which are provided under a
29 separate service agreement between Eversource and Aquarion Company. Under the
30 service agreement between Eversource and Aquarion Company, Eversource provides

1 corporate audit and consulting services, strategic planning, asset management, legal and
2 financial services, and board of director services. The audit and consulting expenses
3 include fees for internal and external audits, as well as accounting, tax and pension
4 advisory services. Asset management and director costs include charges allocated by
5 Eversource for the time and expense devoted to assist Company management in the
6 governance of the business. These costs are allocated between the parent's regulated
7 utilities and non-regulated entities based on the Massachusetts formula methodology.
8 The three-part formula uses a weighted cost average ratio comparing gross revenues,
9 plant and payroll. Costs allocated to the regulated utilities are then spread to the
10 individual utilities based on each utility's respective customer count. The utilities
11 received 98.7% of the overall cost, of which 4.43% is allocated to the Company based on
12 customer count, yielding an overall 4.38% allocation. Based on this methodology, pro
13 forma corporate expenses will increase \$2,531 to \$58,138.

14
15 **Schedule 1P, Shared Customer Service Costs**, sets forth the Company's allocation of
16 shared customer service costs. The Company's Connecticut affiliate at its centralized
17 customer service center performs almost all of the customer service functions. These
18 services include the overall administration of customer service, the collection of cash
19 payments for New Hampshire's water bills through a lock box, management of
20 uncollectibles, late payments and delinquencies, and support for service representatives
21 located in New Hampshire to assist with non-routine issues. However, the Company's
22 New Hampshire office receives some calls directly from customers.

23
24 The customer service employees in Connecticut do not directly charge payroll time to
25 any affiliate, and they are not included on Schedule 1C, Salaries and Wages, as service
26 company wages. To reflect the cost of these services, for pro forma purposes, a portion
27 of the Connecticut Company's customer service cost is allocated to the New Hampshire
28 operation. As Schedule 1P shows, the allocation of costs is based on customer count.
29 The customer count used for the New Hampshire operation allocation is 7,156, which is
30 75% of the actual count of 9,541 customers. This allocation reduction recognizes the fact
31 that a certain number of calls are directly answered in the New Hampshire office, but

1 administrative and support services are still provided by the Connecticut operations. As a
2 result of this computation, pro forma expense is \$86,832, a reduction of \$2,550 from test
3 year.

4
5 **Schedule 1Q, Shared IT Costs**, sets forth the Company's share of information
6 technology ("IT") costs incurred for computer and networking services, software and
7 hardware maintenance, and data processing services provided by AWCCT under the
8 Service Agreement with Aquarion Water Company. Those services include SAP
9 software systems and licenses along with technical support. All costs incurred in
10 rendering shared IT services to Aquarion Water Company's water subsidiaries are
11 allocated among all utilities receiving such services based on the number of customers
12 served at the immediately preceding calendar year end. The schedule shows a downward
13 adjustment reflecting the fact the SAP software was fully depreciated as of end of March
14 2020, thus eliminating the return on investment and depreciation of the SAP software
15 from the allocable cost pool. The pro forma expense is \$181,865, a reduction of \$80,662
16 from test year.

17
18 **Schedule 1R, Depreciation Expense**, sets forth the Company's pro forma depreciation
19 expense. Company Witness Ned Allis prepared a detailed depreciation study for this case.
20 Aquarion has incorporated the results of that study into its proposed depreciation
21 expense. Please see Mr. Allis's direct testimony for the detailed support of the updated
22 depreciation rates. Aquarion has calculated a pro forma depreciation expense of
23 \$1,310,407. This is an increase of \$286,177 from the Test Year amount of \$1,024,230.
24 The Company has applied the depreciation rates presented on pages VI-4 and VI-5 of the
25 2019 Depreciation Study prepared by Mr. Allis to the pro forma depreciable plant. The
26 pro forma depreciable plant balance is composed of account balances as of the end of the
27 Test Year and \$6.7 million pro forma plant additions, net of retirements, associated with
28 four projects placed in service during 2020. Please refer to the rate base discussion in
29 section IV below and Mr. Lawrence's testimony for a more detailed discussion of the pro
30 forma plant additions. Test year expense was subtracted from the resulting pro forma
31 depreciation expense to arrive at the pro forma adjustment.

1
2 **Schedule 1S, Payroll Taxes** shows the adjustment in payroll taxes that results from the
3 change in wages reflected on Schedule 1C. FICA, federal and state unemployment
4 insurance taxes are adjusted to correspond to the new salary and wage levels. This
5 includes payroll taxes relating to both full and part time employees as well as service
6 company employees. The pro forma payroll tax expense is an increase of \$12,152 over
7 test year expense.

8
9 **Schedule 1T, Property Taxes**, sets forth pro forma property tax expense based on the
10 latest property tax bills received by the Company in July 2020. This schedule also
11 includes estimated property taxes for the four projects placed in service in 2020 which are
12 included as pro forma plant adjustments in Schedule 1R for which actual property tax
13 bills have not been received by the Company. The pro forma property tax expense
14 reflects an increase of \$183,522 in property taxes as compared to the test year amount.
15 Given the magnitude of the property tax increase, the Company plans to update this
16 expense for the property tax bills that will be received in July 2021 during this
17 proceeding.

18
19 **Schedule 1U, Interest Expense**, sets forth pro forma interest expense, which includes
20 interest charges on the long-term debt borrowings shown on Schedule 4D and interest
21 charges on the inter-company note shown on Schedule 4E that are discussed later in my
22 testimony. The resulting pro forma adjustment is an increase of \$14,387.

23
24 **Schedule 1V, State Income Taxes**, shows the calculation of the state business profits
25 tax, which is applied to state taxable income for the Company. State Income taxes are
26 computed as follows: the Company first calculates pre-tax income by reducing revenues
27 by the amount of Operations and Maintenance expenses, depreciation, other taxes,
28 interest expense and net other income; the pre-tax income is then adjusted for timing
29 differences to arrive at state taxable income. The same methodology is applied to the net
30 pro forma adjustments, detailed in schedules 1A through 1U, and revenue requirement.

1 The resulting pro forma state income tax expense is an increase of \$105,704 over test
2 year expense.

3
4 **Schedule 1W, Federal Income Taxes**, shows the computation of Federal Income Taxes.
5 Federal Income Taxes are computed by starting with taxable income from the state tax
6 calculation page, Schedule 1V, Line 18, for the test year and all noted adjustments. From
7 that value, the amount of disallowed bonus depreciation is added back and the State
8 Income Taxes are deducted to arrive at taxable income, and the federal statutory rate of
9 21% is applied. To that value the Company adds, for rate making purposes, the annual
10 amortization of a tax regulatory asset carried forward from the Company's previous
11 owner, American Water Works, and a deferred federal income tax. Additionally, a pro
12 forma adjustment is made to remove the non-recurring "provision to return" adjustment
13 for amounts related to a prior period. The resulting pro forma federal income tax expense
14 is an increase of \$266,086 over test year expense.

15
16 **Schedule 1X, Eversource Aquarion Merger Costs Recovery**, sets forth the
17 amortization of the transaction cost as a result of the 2017 merger between Eversource
18 and Aquarion. Specifically, Schedule 1X demonstrates that the proforma Test Year
19 reflects merger-related savings of \$43,475 annually. These savings represent Aquarion's
20 savings achieved related to lower short term interest rates, insurance expense and
21 Aquarion's share of savings associated with lower audit, consulting and legal costs
22 allocated through the management allocation described in schedule 1O. The allocation of
23 merger-related costs is based on customer count, or 4.38%, equating to \$249,671, as
24 shown on Schedule 1X. Net of Aquarion's share of the total \$5.7 million of merger costs
25 amortized over 10 years, or \$24,967, net savings are \$18,508. Over the 10-year post-
26 merger period, the savings generated by the merger will far outweigh the costs incurred
27 to complete the merger. The Company should be allowed to recover its merger-related
28 costs of \$24,967 annually because the merger could not have been achieved without
29 incurring transaction costs and, of greater significance, Aquarion's merger-related costs
30 are exceeded by the actual savings achieved, thereby producing substantial net benefits
31 for customers.

1
2 **IV. BALANCE SHEET AND RATE BASE**

3
4 **Q. Please discuss the contents of Schedule 2 and its supporting sub-schedules.**

5 A. **Schedule 2** provides the Company's balance sheet as of December 31, 2019, 2018 and
6 2017. Additionally, the schedule shows the 13-month average balance from the period
7 ended December 31, 2019. A column is also present to reference the detailed supporting
8 schedules of key balance sheet items.

9
10 **Schedule 2A** provides balance sheet detail for each month included in the computation of
11 the 13-month average shown in **Schedule 2**.

12
13 **Schedule 2B** provides a monthly balance sheet account level detail of the Utility Plant
14 line item from **Schedules 2** and **2A**.

15
16 **Schedule 2C** shows monthly balances of Property Held for Future Use, a component of
17 Utility Plant as per Schedule 2.

18
19 **Schedule 2D** shows accumulated depreciation by account at December 31, 2019, and at
20 the end of the two prior 12-month periods ending December 31. Additionally, Pages 2
21 through 4 reflect a summary of individual retirements over \$5,000 since the Company's
22 last rate case to end of the test year.

23
24 **Schedule 2E** presents, by account, materials and supplies balances for the months
25 December 2018 through December 2019, as well as a 13-month average. The schedule
26 also provides annual materials and supplies balances as of the end of the test year as well
27 as the years ending December 31, 2018 and December 31, 2017, respectively.

28
29 **Schedule 2F** presents, by account, deferred tax balances for the months December 2018
30 through December 2019 and a corresponding 13-month average.

1 **Schedule 2G** presents, by account, deferred expense balances for the months December
2 2018 through December 2019 and a corresponding 13-month average.

3
4 **Schedule 2H** presents, by account, contributions in aid of construction (CIAC) balances
5 for the months December 2018 through December 2019 and a corresponding 13-month
6 average. Additionally, activity is shown since the Company's acquisition by Aquarion
7 Water Company in 2002.

8
9 **Q. Please discuss the contents of Schedule 3 and its supporting sub-schedules.**

10 A. **Schedule 3** depicts the Company's rate base as of December 31, 2019, as well as the two
11 prior years ending December 31, 2018 and December 2017, respectively. Additionally,
12 the schedule shows the 13-month average balance for the period ended December 31,
13 2019, as well as the Company's computation of rate base on a present pro forma basis.

14
15 **Q. Has the Company used a 13-month average of rate base for ratemaking purposes?**

16 A. No. For computation of the net plant in service portion of pro forma rate base, the
17 Company used values for plant in service and accumulated depreciation as of December
18 31, 2019, rather than a thirteen-month average, plus actual pro forma plant adjustments.
19 The Company believes that, consistent with evolving practice at the Commission, it is
20 critical that a year-end rate base balance adjusted for pro forma plant additions be used in
21 order to give the Company a reasonable opportunity to achieve its authorized return as its
22 rate base additions are almost exclusively non-growth in nature.

23
24 All other components of the pro forma rate base are determined using a 13-month
25 average. The rate base addition for the working capital allowance 13-month average has
26 been decreased \$83,419 to incorporate the results of the lag study provided in response
27 number 26 to the Standard Filing Requirements.

1 **Q. Please describe the pro forma plant additions included in the net plant in service**
2 **portion of rate base.**

3 A. The \$6.7 million of pro forma plant additions represent four significant projects, net of
4 retirements, placed in service after the test year, as summarized in the table below:

5

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	<u>1,017,487</u>
Subtotal	\$6,837,929
Less: retirements	<u>(142,429)</u>
Net pro forma plant	\$6,695,500

6

7 These projects are all known, measurable, and in service and accordingly presented as
8 pro forma plant additions. Additional detail is provided in the testimony of Mr.
9 Lawrence.

10

11 **Q. Please describe the detailed schedules supporting Schedule 3, Rate Base.**

12 A. **Schedule 3A** provides a monthly account level of detail of the Utility Plant grouping
13 from Schedule 3. Schedule 3A is identical to Schedule 2B.

14

15 **Schedule 3B** shows, on a monthly account level basis, accumulated depreciation and rate
16 base additions for materials and supplies, prepayments, deferred expenses and a working
17 capital allowance.

18

19 **Schedule 3C** shows, on a monthly account level basis, rate base deductions for customer
20 advances, contributions in aid of construction and deferred taxes.

21

22 **Schedule 3D** shows the detailed calculation for working capital for the test year and the
23 two prior 12 month periods ending on December 31, 2019 and December 2018,
24 respectively, as well as a 13-month average for the months December 2018 through

1 December 2019. The rate used of 5.39% is calculated in a lag study included in the
2 Standard Filing Requirements, item number 26.
3

4 **Q. Are all of the rate base additions included in the Company's rate case filing used**
5 **and useful in providing service to its customers?**

6 A. Yes.
7

8 **V. RATE OF RETURN**
9

10 **Q. What overall rate of return is the Company seeking in this application?**

11 A. The Company is requesting an overall rate of return of 8.15%
12

13 **Q. How did the Company derive this proposed overall rate of return?**

14 A. As shown on **Schedule 4A**, the Company began with its actual capital structure as of
15 December 31, 2019, reflecting the balances for three factors: (i) total debt, including
16 long-term debt and inter-company debt; (ii) preferred stock; and (iii) common equity.
17 Next, the Company established the overall weighted costs for each of the three capital
18 components with the results shown on **Schedule 4**. The weighted cost of long-term debt,
19 inter-company debt and preferred stock were calculated as detailed on **Schedule 4D**,
20 **Schedule 4E** and **Schedule 4F**, respectively. The weighted cost of common equity of
21 10.25% was derived based on the recommendations from the cost of capital and capital
22 structure study performed by the Company's consultant, Dylan W. D'Ascendis, Director
23 of ScottMadden, Inc. This study is provided in the direct Testimony of Mr. D'Ascendis.
24

25 **Q. Has the Company made any adjustments to its cost of long term debt?**

26 A. No.
27
28

VI REVENUE, RATE DESIGN AND TARIFF CHANGES

Q. Please discuss the billing analysis compiled for this case.

A. The billing analysis is contained within **Schedule 5**. Using actual test year billing detail and the adjustment as per Schedule 1A as its basis, **Schedule 5A** sets forth the pro forma revenues by class at both present and proposed rates. **Schedules 5B through 5F** represent each of the metered classes of customers based on the detailed billing units and quantities from the test year. **Schedules 5G and 5H** provide pro forma revenues for public and private fire service. Finally, **Schedule 5I** represents miscellaneous revenues.

Q. Please comment on the accuracy of the billing analysis.

A. The accuracy of the billing analysis is measured by taking its derived results and comparing them to the actual book revenues after taking into consideration any appropriate pro forma adjustments. A minimal variance is needed as the units contained within the billing analysis are multiplied by the proposed rates to produce the ultimate revenues requested within the case. The results in this case are extremely accurate. The difference between total reported revenues and adjusted billed revenues is only 0.26%.

Q. Please describe the development of the rate design.

A. As stated earlier in this testimony, the Company was required to file a cost of service study in this case. In conjunction with this the Company also asked the cost of service expert to investigate the appropriateness of inclining block rates which has been a request of the Towns.

A summary of the rate impact across customer classes was provided in Section I above. Schedule A of the rate filing shows a required revenue increase of \$1,373,351 over pro forma revenues at present rates, including WICA, of \$7,616,793, or 18.0% increase. Within the \$7,616,793 of revenues, though, are miscellaneous charges which will not be increased. Subtraction of these unaffected miscellaneous revenues yields a revenue pool of \$7,425,892 to be increased at the rate of 18.49%. This percentage is applied to the late payment fee revenues of \$31,027, an increase of \$5,738. This leaves \$1,367,613 to be collected from the remaining \$7,394,865 of pro forma revenues. To achieve this, the rate

design reflects increases across the different customer classes ranging from 7.764% to 22.22% along with the impact of a new inclining block structure in the residential class. Refer to the direct testimony of Mr. Guastella for additional discussion on this topic.

Q. Has the Company proposed any other revisions to its tariffs?

A. No. The Company has not proposed any substantive revisions to its tariffs. The Company's present tariffs do contain supplements that the Company is proposing to delete. Because those supplements relate to time-restricted items where the relevant time periods have expired, the deletion of those supplements does not affect the terms and conditions in the remainder of the tariff.

VII. WATER INFRASTRUCTURE AND CONSERVATION ADJUSTMENT (WICA)

Q. Please describe the WICA program as adopted by the Commission?

A. The Company's existing WICA program was approved as a pilot program as part of its rate case in Docket No. DW 08-098. WICA was implemented to assist the Company in systematically replacing its aging infrastructure in a timely and cost-effective manner.

The WICA surcharge is based on capital spending for an identified list of eligible projects. It is calculated as a percentage, based on the original cost of completed approved projects, multiplied by the last allowed rate of return, grossed up for income taxes, associated depreciation, and property tax expense, and divided by the total retail water revenues approved in the most recent filing for the regulated activities of the Company. Eligible projects include those that are intended to improve or protect the quality and reliability of service to customers including: replacement of mains, valves, services, meters and hydrants; main cleaning and re-lining projects; relocations that are non-reimbursable; purchases of leak detection equipment; and the installation of production meters and pressure reducing valves. The terms of the WICA filing were outlined in the settlement agreement adopted by the Commission in the Company's Docket No. DW 08-098 rate case. A copy of those terms is provided as Attachment

1 DAS-1 to this testimony. The WICA was continued, with some amendments, as part of
2 the Company's 2012 rate case, Docket No. DW 12-085.

3
4 **Q. Please summarize the Company's WICA filings to date.**

5 A. Since the time of its 2012 rate case, the Company has submitted six WICA filings
6 representing \$4,846,417 of eligible plant placed in service from 2013 to 2018. The 2019
7 WICA eligible plant is included in the net plant in service at December 31, 2019 of
8 \$35,767,493, as reported in Schedule 3, while the Mill Road and Locke Road main
9 replacements, which were placed in service in 2020, have been included in the pro forma
10 plant adjustments.

11
12 Through the most recent order, Order No. 26,245 dated May 2, 2019 in Docket Nos. DW
13 18-054 and DW 18-161, the Commission approved the 2018 WICA projects and
14 authorized a WICA surcharge of 7.5% effective January 1, 2020 thereby reaching the
15 maximum WICA surcharge.

16
17 **Q. Is the WICA program meeting the goals upon which it was established by the**
18 **Commission in Order Nos. 25,019 and 25,539 and based on such should it be**
19 **continued as a permanent program?**

20 A. Yes. The WICA program is meeting the primary goals of accelerating needed
21 infrastructure replacement, and striking a reasonable balance between reducing rate shock
22 to customers at the time of each rate case, and as such should be continued as a
23 permanent program.

24 The purpose of the WICA program was reflected in Order No. 25,019 where the
25 Commission stated:

26 In support of the program, the OCA testified that the WICA may help to delay
27 future rate cases, address needed non-revenue producing asset additions on a
28 timely basis, have limited rate impact, and would include the parties in the review
29 process before the dollars are actually spent. . . .
30

31 Aquarion testified that due to the need to replace a considerable amount of
32 infrastructure, it is consistently and significantly under-earning on its return and

1 that the WICA is one way to continue the replacement of aging infrastructure and
2 allow Aquarion to receive a timely return on its investment. . . .
3

4 As a pilot program, Staff testified that it is interested in seeing whether the
5 program provides the incentive necessary to increase Aquarion's rate of
6 infrastructure replacement. Staff testified that it believes that, under the WICA
7 process, the Commission will have greater oversight of projects for Aquarion,
8 including more review and debate concerning priorities. In addition, the WICA
9 charge is expected to mitigation rate shock between rate cases, which will benefit
10 ratepayers by making rate increases more gradual.
11

12 Order No. 25,019 at 15-16 (citations omitted).

13 In approving the WICA pilot, the Commission stated:
14

15 The WICA program appears to strike a reasonable balance between reducing rate
16 shock to customers at the time of each rate case and providing an incentive to
17 Aquarion to accelerate needed infrastructure replacement. For these reasons, we
18 will approve Aquarion's WICA proposal, as modified by the settlement
19 agreement, on a trial basis.
20

21 Order No. 25,019 at 17.
22

23 Within the framework of the WICA, the Company has been able to increase its level of
24 capital spending to address the problems associated with aging infrastructure that can
25 enhance service reliability and quality and reduce lost water levels over time. This is
26 addressed in more detail in the testimonies of Mr. Lawrence and Mr. McMorran.
27

28 With regard to delaying the timeframe between rate cases, the Company has not filed a
29 rate case in eight years. The ability of the WICA program to allow recovery of eligible
30 investments between rate cases provides a significantly shorter lag from the traditional
31 ratemaking model utilized in New Hampshire and is certainly a contributing factor to the
32 time between the last rate case and this proceeding.
33

34 The intent of the WICA mechanism to mitigate rate shock between rate cases, which
35 benefits ratepayers by making rate increases more gradual, is evident in the fact that
36 while the proposed rate increase in this case is 18.0%, the increase would have been

1 significantly higher in the absence of the WICA surcharges implemented over the last
2 eight years. Moreover, the Company would not have been able to avoid a rate case for as
3 long as it has had the WICA mechanism not been in place and functioning as it has been.
4

5 In addition, through the WICA process, combined with the Company's existing advisory
6 groups and other public forums, key stakeholders have been afforded numerous
7 opportunities to provide input, advice and suggestions related to the capital spending of
8 the Company.
9

10 For all of the reasons above, the Company urges the Commission to continue the WICA
11 program indefinitely so that the Company can continue making much needed
12 infrastructure improvements at accelerated levels.
13

14 **Q. When will the WICA surcharge be reset to zero?**

15 A. The Company is requesting, in its request for temporary rates, to roll the 7.50% WICA
16 surcharge currently in place into base rates to be effective with bills rendered on or after
17 February 1, 2021. The WICA will then be reset to zero. This request of rolling the WICA
18 rate into base rates, without any further changes or adjustments to rates, will result in \$0
19 revenue increase and hence no bill impact to customers.
20

21 **Q. Has the Company, in accordance with the terms of its 2019 Settlement, provided a**
22 **reconciliation between the WICA revenues it actually billed during 2019 and the**
23 **WICA surcharges that would have been billed during 2019 by applying the 6.86%**
24 **12-month percentage to its full year base revenues?**
25
26
27
28
29
30

A. The Company has performed a reconciliation of the 2019 WICA revenues which indicate an under collection of \$3,879 as follows:

Base revenue on which WICA is applied	
Allowed revenues per DW 12-085	\$ 7,129,043
Misc charges not subject to WICA	(189,059)
Adjusted base revenues on which WICA applied	<u>\$ 6,939,984</u>
2019 12 month WICA % (Settlement Agreement, Attachment D)	6.86%
2019 allowed WICA	\$ 476,197
Actual 2019 WICA revenue	\$ 472,318
WICA revenue over (under) collected	<u>\$ (3,879)</u>

Q. When will the Company make its next WICA filing?

A. If continuation of the WICA program is approved by the Commission, the Company anticipates making its next WICA filing on or before November 15, 2021 to include investment from January 2020 through October 2021 for inclusion in the Step Adjustment 1 with rates going into effect commensurate with permanent rates of February 1, 2022. WICA filings would be made annually thereafter for eligible investments made during the twelve month period ending October 30th.

VIII. STEP ADJUSTMENTS

Q. Is the Company proposing step adjustments as part of this filing?

A. Yes. The Company is requesting that the Commission approve Step Adjustments to recover the revenue requirements associated with incremental capital investments placed in service after the test year in 2020, 2021, 2022 and 2023. The estimate of the Step Adjustments is as follows:

1

	Step 1 2020/2021	Step 2 2022	Step 3 2023
PFAS Treatment at Well 6	\$1,713,000		
Well 22 Chemical Treatment		\$3,590,000	
Well 22 Arsenic Treatment			\$2,385,000
Other Non WICA investments	2,232,236	1,150,003	614,600
2020 WICA investments	871,845		
2021 WICA investments	1,456,968		
Estimated retirements	(433,068)	(86,691)	(65,736)
Step Investment Totals	\$5,840,981	\$4,653,312	\$2,933,864
Total Estimated Revenue Requirement	\$927,636	\$725,434	\$463,790

2

3 **Q. What is the purpose of the Step Adjustments?**

4 **A.** The purpose of the Step Adjustments is to provide regulatory support for necessary
5 investments placed in service to ensure the continued provision of safe drinking water
6 while avoiding the need to file a rate case in the near future, or potentially multiple,
7 sequential rate cases, which is administratively inefficient and costly to customers.
8 These investments will result in a growth in rate base that outpaces revenues generated
9 by rates. The Company is seeking Step Adjustments to provide the Company with a
10 reasonable opportunity to earn its allowed rate of return after permanent rates go into
11 effect while continuing to invest in the system and provide safe, reliable drinking water.
12 The testimony of Mr. Lawrence provides a thorough discussion of the three treatment
13 projects listed above.

14

15 **Q. What are the components of the Step Adjustment revenue requirement**
16 **calculation?**

17 **A.** The revenue requirement for Step Adjustments consists of: depreciation expense;
18 property taxes; and a return on rate base. Additionally, Step 1 includes incremental
19 operating expense of \$59,000 associated with the new PFAS treatment. The costs cover

1 the replacement of filter media, water quality sampling for process control, and heating of
2 the renovated space where the equipment will be installed. Refer to Schedule 6 for the
3 detailed revenue requirement calculation for Step Adjustments 1-3.

4
5 **Q. Has the Company included WICA investments in the step adjustments?**

6 A. The Company proposes that the revenue requirement related to the remaining 2020
7 WICA investments, those not already included as part of the pro forma plant adjustment,
8 and the 2021 WICA investments be included as part of the Step 1 adjustment. It is likely
9 that an order regarding permanent rates in this case will be issued effective February 1,
10 2022 allowing for such investments to be considered in the Step 1 rate adjustment.

11
12 **IX. RATE ADJUSTMENT MECHANISMS**

13
14 **Q. Please describe the Company's property tax reconciliation mechanism.**

15 A. The Company proposes a property tax reconciliation recovery mechanism to allow for the
16 recovery of property taxes paid in excess of those authorized in rates. On June 21, 2019,
17 the Governor signed HB 700, which established a methodology for valuing utility
18 distribution assets for property tax purposes, codified as RSA 72:8-d and -e. Part of that
19 law established a new methodology for assessing utility property, and a five-year phase-
20 in period to fully transition to that new methodology. The first property tax year of the
21 phase-in period is the tax year beginning April 1, 2020. The law also requires the
22 Commission to establish by order a rate recovery mechanism for the property taxes paid
23 by a public utility. Thus, the Company's proposal for a property tax reconciliation
24 adjustment mechanism is supported by the recent law.

25
26 **Q. What ratemaking treatment is the Company proposing to address this problem?**

27 A. The Company proposes a full property tax reconciliation adjustment mechanism that each
28 year compares the most recent municipal and state property tax bills to the amount
29 currently collected in rates in accordance with the law which states:

30 **72:8-e Recovery of Taxes by Electric, Gas and Water Utility Companies.** For the
31 implementation period of the valuation of utility company assets under RSA 72:8-d, VI

1 and terminating with the property tax year effective April 1,
2 2024, the public utility commission shall by order establish a rate recovery mechanism
3 for any public utility owning property that meets the definition of utility company assets
4 under RSA 72:8-d, I. Such rate recovery mechanism shall either:

- 5 I. Adjust annually to recover all property taxes paid by each such utility on such
6 utility company assets based upon the methodology set forth in of RSA 72:8-d; or
7 II. Be established in an alternative manner acceptable to both the utility and the
8 public utility commission.
9

10 **Q. Please describe the Company's proposal for a decoupling revenue adjustment**
11 **mechanism ("RAM").**

12 A. The proposed decoupling mechanism will be based on a "total revenues" construct, and
13 would reconcile the difference between the actual annual revenues and the revenues
14 authorized by the Commission in the company's most recent general rate case, as adjusted
15 by the steps described previously.
16

17 **Q. Please describe the decoupling periods, the timing of the decoupling filing and when**
18 **rates will be effective.**

19 A. The decoupling period will be January 1 to December 31. Between rate cases, the
20 company would file an annual reconciliation by March 1st following each year, to
21 compare the authorized revenues to actual revenues as follows:
22

23 **Adjustment = Actual Revenues – Authorized Revenues**

24 where:

25 Actual Revenues = actual annual revenues, excluding other miscellaneous revenues and
26 surcharges, corresponding to each full calendar year following the effectiveness of rates
27 authorized in a general rate case, as adjusted by the steps described previously, by the
28 Commission.
29

1 Authorized Revenues = annual revenues authorized, excluding other miscellaneous
2 revenues and surcharges, by the Commission in the Company's most recent general rate
3 decision, as adjusted by the steps described previously.

4
5 The first filing will be made no later than March 1, 2023.

6
7 **Q. Please explain how the Company proposes to flow through the RAM to customers.**

8 A. The Company proposes to recover (or refund) the RAM through an adjustment on
9 customer bills as either a credit (resulting from a positive Adjustment) or a charge
10 (resulting from a negative Adjustment), beginning April 1st following each such year.
11 The adjustment will be a separate line item identified as "Revenue Adjustment
12 Mechanism" and expressed as a percentage, carried to two decimal places, and will be
13 applied to the effective portion of the service and usage amounts billed to each customer
14 under the Company's otherwise applicable rates and charges.

15
16 **Q. Ms. Szabo, does this conclude your testimony?**

17 A. Yes, it does.

WICA TERMS PER ORDER NO. 25,019 in Docket No. DW 08-098

Specifically, the Company agrees to file a compliance tariff provision adopting a WICA consistent with the sample tariff pages attached as Attachment C, modified as follows:

1. The Company may make an annual filing, seeking to adjust the WICA.
2. The Company agrees to file a three year projected budget of proposed WICA eligible projects no later than November 1 of each year. Each such budget shall show projects broken down into three years. Year 1 projects are those proposed to be constructed in the succeeding twelve month period. Year 2 projects are those proposed to be constructed in the next twelve month period. Year 3 projects are those proposed to be constructed in the twelve months following Year 2. Year 3 projects shall be provided for advisory purposes and discussion. Year 2 projects shall be provided for review and approval by the Commission. Year 1 projects shall be provided for final review and informational purposes. Staff or any party may request a hearing prior to the Commission's granting approval for a project to become eligible for cost recovery through the WICA. The determination as to whether to hold a hearing on the eligibility of any project for WICA cost recovery shall be at the discretion of the Commission.
3. The Company agrees to file the final project costs, supporting documentation and proposed WICA adjustment for completed projects previously determined to be WICA eligible. Such filing shall be at least sixty days prior to the proposed effective date of any proposed rate change. The WICA rate shall become effective on the later of January 1 following the Company's filing with the Commission seeking implementation of a WICA rate change or sixty days after the date of such filing; provided, however, that if the Commission determines that further investigation or consideration of any proposed WICA is needed, it may order that the proposed WICA rate become effective on a temporary basis, in which case the rate shall be subject to reconciliation pending final determination by the Commission. (In such case, reconciliation shall be only

for final determination of the costs to be included in the WICA, not for any positive or negative variances in actual revenues collected versus projected revenues.) 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.

4. In the first year in which a WICA is implemented for any given project or projects, the property taxes included for recovery shall be prorated to reflect the portion of the year that the Company will actually be assessed for such increased taxes. The amount of such taxes, if not known based on a tax bill issued by the relevant taxing authority, shall be estimated using the most recently effective tax rate applicable to the property in question. In the second year in which the WICA is in effect for such project(s), the WICA shall be adjusted to reflect a full twelve months of property taxes, based on the most recent actual tax bill for the relevant property. There shall be no reconciliation for the difference between such tax bill and the estimated tax used for the prior year. After the second year that a WICA for a particular project has been in place, there shall be no further adjustment to the charge.

5. Both the annual budget showing proposed WICA eligible projects and the proposed annual WICA rate adjustment filings shall be filed with the Commission, with a copy of such filing to the OCA. Notice of such filings shall be given to the towns in which the Company provides service and as otherwise determined by the Commission.

6. Any WICA rate adjustment shall be applied equiproportionally to all classes of customers.