

**State of New Hampshire
Public Utilities Commission**

**Application of
Abenaki Water Company
For Approval of a Rate Adjustment**

Direct Testimony of Deborah O. Carson

DW 15-199

Introduction

- 1 **Q. Ms. Carson, please state your full name and business address.**
- 2 A. My name is Deborah O. Carson, 37 Northwest Drive, Plainville, Connecticut 06062.
- 3 **Q. By whom are you employed and in what capacity?**
- 4 A. I am Treasurer and Office Manager for New England Service Company (“NE Service”)
5 as well as for two of four of its regulated water subsidiaries, namely; Valley Water
6 Systems (“VWS”) located in Plainville, CT and Abenaki Water Company, (“AWC”) with
7 an office located in Gilford, New Hampshire. In that capacity, I am responsible for
8 overseeing all aspects of the administrative, fiscal and accounting operations, including
9 billing, financial and regulatory reporting.
- 10 **Q. Please describe your educational background and professional experience.**
- 11 A. I have a Master’s Degree in Accounting, with a concentration in finance, from the
12 University of Connecticut. I began my career with Arthur Andersen, LLP in Hartford,
13 CT, and then transitioned to a position as a Teacher Assistant for the University of
14 Connecticut Master’s in Accounting online program for several years. I began working
15 at NE Service on a part-time basis in March of 2011, and then moved into a full-time
16 managerial position in July of 2011.
- 17 **Q. Have you previously testified before the New Hampshire Public Utilities
18 Commission or other regulatory bodies?**
- 19 A. Yes, I have provided testimony before the New Hampshire Public Utility Commission
20 and the Massachusetts Department of Public Utilities.

1 **Q. Please describe the purpose of your testimony.**

2 A. The purpose of my testimony is to: (1) describe customer service features and notable
3 administrative functions, (2) explain why it is appropriate to use a year-end rate base, (3)
4 explain the prudence of independent audit and outside accounting costs, (4) explain the
5 use of a 34% federal income tax rate, (5) describe the accounting treatment and proposal
6 for sewer treatment expense, (6) explain some of the benefits of rate unification, (7)
7 propose a method for recovery of the acquisition transaction cost, and (8) explain the
8 accounting exhibits.

9 **Q. What is your involvement in the current proceedings?**

10 A. As Office Manager and Treasurer of AWC, I am involved with all administrative
11 functions, as well as financial and regulatory reporting. Therefore, I have prepared or
12 assisted in the preparation of and reviewed the accounting exhibits, as well as Attachment
13 D.

14 **Q. In your role as Office Manager, please describe how the AWC customer experience
15 been enhanced since the acquisition.**

16 A. AWC's approximately 250 customers now have access to a live representative on a 24/7
17 basis. During the hours of 8:00 A.M. to 4:30 P.M. our office staff is available to answer
18 water or billing questions and to schedule appointments with our utility technicians.
19 During non-business hours, customers can reach an answering service call center, where
20 operators will contact on-call personnel in the event of an emergency. For non-
21 emergencies, operators take a message and e-mail it to our office staff to be addressed the
22 next business day. Under the former ownership, none of these conveniences were as
23 readily available.

1 **Q. What other customer service features has AWC implemented?**

2 A. In the spring of 2014, we implemented a website whereby customers have access to
3 current information, the annual Consumer Confidence Report, explanation of their bills,
4 conservation facts, current unaccounted for water, and online billing and payment
5 options. Online payment options include credit card and EFT, which is a customer
6 convenience that was not available before but is expected in today's business
7 environment. This, coupled with the ability to schedule payments or set up automatic
8 payments, has significantly improved the payment choices for customers.

9 The customer bill form itself also includes enhancements for customers, such as their
10 average daily consumption in gallons, a bill message describing any relevant news, and
11 soon to be added is a twelve month consumption history. All of these improvements help
12 to educate and involve the customer with their water system.

13 **Q. What operational enhancement has AWC implemented?**

14 A. Operationally, the customer experience has been enhanced by the installation of radio
15 read meters in over 90% of the households to date, enabling AWC to implement monthly
16 billing and ensuring more accurate reads. Monthly billing benefits the customers by
17 providing earlier leak detection and more manageable bills, as well as more frequent
18 evaluation of system integrity by providing the Company with more timely and precise
19 data for unaccounted for water calculation. Prior to the radio read meter installation
20 program, the 95 meters in Bow were manually read and then keyed into the software,
21 allowing the possibility of operator error. The 150 residential meters in Belmont required
22 meter cards to be sent and filled out by homeowners, which also involved the risk of
23 human error, along with having many cards that were not returned. This resulted in a

1 significant number of estimated bills, which as demonstrated in Attachment D, have been
2 dramatically reduced.

3 AWC has also improved customer service by installing a stand-by generator in Bow to
4 ensure continuous service through power outages. The investment has already resulted in
5 praise from our customers through a social media website after a snowstorm in December
6 2014, when customers lost power but maintained water service.

7 **Q. Please explain why you believe that it is appropriate to use a year-end rate base**
8 **(rather than a 5 quarter average rate base).**

9 A. It is appropriate to use the year end rate base because at this point in time, all the
10 Company's invested capital is fully represented in "used and useful" projects and
11 providing service to customers. Using a rate base earlier in time would not allow the
12 Company a fair opportunity to earn a competitive return on its invested capital. Further,
13 using a rate-making methodology that does not include all invested capital not only leads
14 the Company to shorten the time between necessary rate increases (thereby increasing the
15 burden of rate filing expenses on the customers) but it perpetuates a cycle that ultimately
16 discourages capital investment. Use of year-end rate base is also appropriate because all
17 of the test year capital projects completed by AWC were for non-revenue generating
18 assets that did not result in additional customer revenues. See e.g. Order No. 25,391.

19 **Q. Please explain the prudence of an independent audit and outside accounting services**
20 **and the related costs.**

21 A. As a subsidiary of a publicly traded company, AWC must undergo an annual independent
22 audit. Outside accounting services are utilized when it is considered most efficient and
23 when it is a better economic alternative to hiring an additional employee. Each of the

1 preceding circumstances benefits not only the Commission and Company, but also
2 customers because it allocates capital in the name of efficiency, as well as establishing
3 accurate, proper, and credible financial documents for regulators, shareholders, lenders
4 and customers alike.

5 **Q. Please explain the use of a 34% federal income tax rate.**

6 A. As our independent auditors confirmed, AWC should be accruing federal income tax
7 expense on taxable income using a 34% rate. AWC does file a consolidated federal tax
8 return under the parent company (2014 has not yet been filed) and there is no reason to
9 believe it should accrue at a lesser rate. AWC does not benefit from a net operating loss
10 of another subsidiary, as it would then be necessary to create a payable to that company,
11 as each subsidiary must record income tax on an individual basis.

12 **Q. Please describe the accounting treatment and proposed recovery of sewer treatment
13 expense increases from the City of Laconia via separate sewer surcharge.**

14 A. In 2014, AWC received notice that the sewer treatment expense would be increasing
15 from a base charge of \$32.50 per unit and usage charge of \$3.69 per hcf (effective Sept.
16 1, 2013) to \$33.25 and \$4.19, respectively, effective Sept. 1, 2014. The next increase
17 will be Sept. 1, 2015, to a base charge of \$34 per unit and a usage charge of \$4.75 per
18 hcf. Thereafter, the Company cannot predict or determine the next round of increases.

19 The Company established a deferred debit account to track the difference in expense due
20 to the increase, which now has a balance of \$3,276 for consumption from Sept. 1, 2014
21 through May 31, 2015. The Company is seeking to recover the balance of this account at
22 the time of the PUC's order through a separate sewer surcharge to be recovered over a 12
23 month period, and to be allowed to "pass-through" future increases at cost, through sewer

1 rates. The Company is in a unique position where it is not able to control the treatment
2 cost or seek alternatives, therefore if it is not allowed to pass through increased charges as
3 the City of Laconia increases them, it will effectively not be allowed an opportunity to
4 realize its granted return. Therefore, there will be quicker erosion of earnings which will
5 shorten the interval between rate filings.

6 **Q. Please explain the benefits of consolidation and rate unification to the Company and**
7 **its customers.**

8 A. Currently the Company keeps separate accounts whenever possible to track revenue and
9 expenses per system. This requires extra time to perform functions such as billing,
10 accounts payable, preparation of monthly financials, the annual audit, and the PUC
11 Annual Return. Many expenses are allocated to each system based on either rate base or
12 number of customers, which is an extra step and an estimate at best. Regulatory filings
13 such as this rate application require multiple sets of schedules. Tracking costs separately
14 provides little or no benefit to customers. Consolidating the systems and unifying the
15 rates would reduce the accounting work and make these processes much more efficient,
16 thereby reducing administrative cost and mitigating future rate increases. It is in the best
17 interest of the customers and the Company to eliminate this unnecessary expense.

18 **Q. Does the Company seek to amortize the acquisition transaction cost?**

19 A. Yes. Abenaki Water Company's acquisition of Lakeland Management Company and
20 White Rock Water Company has been a seamless and beneficial transition for its
21 customers. As discussed previously in this testimony, there have been several
22 enhancements within the first year of ownership that demonstrate the Company's
23 commitment to prudent investments that not only improve the system's integrity but the

1 customer experience as well. The expertise and financial strength of the parent company,
2 NE Service, allow for exceptional long term management as well as competitive rates on
3 debt, both of which are in the public interest. The operational benefits to customers are a
4 direct result of AWC's acquisition of the Lakeland and White Rock systems and would
5 not have occurred in the absence of the acquisition. The Company proposes to amortize
6 the cost of the acquisition over a period of 12 years, which yields a reasonable balance of
7 the interests of the Company and its customers.

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

9 A. The Company is utilizing an annualized twelve months ended December 31, 2014. The
10 actual test results represent 10 ½ months. As such, the Company annualized the
11 operating results by dividing revenue and expenses by 10 ½ months and multiplying the
12 monthly amounts by 12 to arrive at an annualized revenue and expenses. The Company
13 also had to allocate certain costs between its Belmont and Bow divisions and within its
14 Belmont division between water and sewer. Costs were allocated 75% to Belmont and
15 25% to Bow. Within Belmont, between water and sewer, costs were allocated either 74% /
16 26% or 50% / 50% to water and sewer.

17 **Q. Please provide an overview of the schedules.**

18 A. The Company has prepared four sets of schedules as follows:

19 AWC Belmont water on a stand-alone basis

20 AWC Belmont sewer on a stand-alone basis

21 AWC Bow water on a stand-alone basis and

22 AWC Consolidated water (Bow and Belmont water combined).

1 Each set of schedules consists of the Computation of Revenue Deficiency and supporting
2 schedules 1 – 5A. I will generally describe the schedules and then focus my testimony
3 on the pro forma adjustments to each set of schedules.

4 **Q. Please describe the schedules.**

5 A. The Computation of Revenue Deficiency shows the actual and pro forma revenue surplus
6 or deficiency. Please note that Belmont Water has an actual revenue surplus while
7 Belmont Sewer and Bow Water have actual revenue deficiencies. On a pro forma basis,
8 there is no surplus or deficiency as a result of generating enough revenue to cover the
9 expenses and earn the proposed rate of return on the proposed rate base.

10 Schedule 1, Statement of Income, shows the actual 2014 results, the annualized
11 adjustment, the annualized 2014 year end results, the pro forma adjustments and the pro
12 forma 2014 year end balances. Schedule 1A shows the adjustments to test year revenue
13 and expenses. I will describe each adjustment later in my testimony.

14 Schedule 2, Balance Sheet, shows the asset, liabilities and equity for the Company at
15 December 31, 2014. It is provided on a total company basis and is only shown with the
16 AWC Consolidated Water schedules.

17 Schedule 3, Rate Base, shows the 5 quarter end balances beginning with December 31,
18 2013 and ending with December 31, 2014. The 5 quarter end balances are summed and
19 divided by 5 to arrive at the 5 quarter average year end balances. The 5 quarter year end
20 average is adjusted to derive the pro forma year end balances. Schedule 3A shows the
21 adjustments to rate base. I will describe each adjustment later in my testimony. Schedule
22 3B shows Plant / Accumulated Depreciation / Depreciation Expense for 2014 additions to
23 plant and proposed 2015 additions to plant including the reclassification of deferred

1 expenditures related to organizational costs incurred in connection with DW 13-236.
2 Schedule 3B also shows state utility and local property taxes as a result of the additions to
3 plant. Schedule 3C shows the working capital computation.

4 Schedule 4, Rate of Return Information, shows the actual and pro forma cost of capital.
5 The total company capital structures and rates are being used for all schedules. The
6 Company is utilizing the actual cost of debt for both actual and pro forma and a proposed
7 10.75% cost of equity for the pro forma rate of return.

8 Schedule 5, Income Tax Computation, shows the calculation of both federal income and
9 state business taxes. Schedule 5A shows the effective tax factor. The Company is
10 utilizing 34% and 8.5% federal and state rates, respectively.

11 **Q. Please describe the pro forma adjustments related to each set of schedules.**

12 **A. AWC Belmont Water, Schedule 1A Pro forma Adjustments to Revenue and Expenses**

13 1. Operating Revenues – \$11,018

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

17 2. Water Testing - \$200

18 In 2015 the Company expects to incur \$1,200 for SOC testing. This is a test that is done
19 once every 6 years. As such, 1/6 of the expected expenses is being added to test year
20 expenses.

21 3. Auditing / Accounting Services – \$6,123

22 In 2014 the Company did not incur any auditing or outside accounting costs. In 2015, for
23 2014, the Company incurred both auditing and outside accounting expenses. In 2015 the

1 Company incurred \$13,000 in auditing expense. 75% of the auditing costs were allocated
2 to Belmont and 50% of that amount was allocated to water amounting to \$4,875. In 2015
3 the Company incurred \$3,328 of outside accounting costs associated with preparation of
4 the 2014 PUC Annual Report and 2015 NHDRA Form PA-20. 75% of the outside
5 accounting costs were allocated to Belmont and 50% of that amount was allocated to
6 water amounting to \$1,248. The sum of the auditing / accounting costs amounts to
7 \$6,123.

8 Total Pro forma Adjustments to O&M Expenses are \$6,323.

9 4. Depreciation Expense - \$1,448

10 The Company is proposing to include the additional half year depreciation of \$1,448
11 (\$2,895 / 2) on the 2014 additions to plant. The amount of the annualized depreciation
12 expense was \$17,681. Also, see Schedule 3B for the calculation of the additional half
13 year depreciation.

14 5. Depreciation Expense - \$525

15 The Company is also proposing to include the full year depreciation of \$525 on the 2015
16 additions to plant. Also, see Schedule 3B for the calculation of the full year depreciation.

17 Total Pro forma Adjustments to Depreciation Expenses are \$1,973.

18 6. Amortization of CIAC - \$0

19 There is no pro forma adjustment to the amortization of CIAC.

20 7. Amortization of Organization Costs - \$4,726

21 During DW 13-236 the Company incurred a total of \$102,233 of organization costs in
22 connection with its purchase of Lakeland Management Company and White Rock Water
23 Company and its approval of such purchases by the NHPUC. 75% of the costs were

1 allocated to Belmont, of which 74% was allocated to water, amounting to \$56,739
2 (\$102,233 x 75% x 74%). The Company is proposing to amortize such costs over 12
3 years, amounting to \$4,726 ($\$56,739 / 12$).

4 8. State Utility Property Taxes - \$789

5 The test year does not include state utility property taxes on the 2014 additions and the
6 2015 additions, including organization costs. The Company will incur these costs on a
7 going forward basis. As such, the Company is performing the anticipated increase in
8 state utility property taxes on such additions. The sum of the additions, less the related
9 accumulated depreciation, amounts to \$119,562. The total increase in plant per thousand,
10 times the state utility property tax rate of \$6.60, amounts to \$789 ($\$119,562 / 1,000 \times$
11 $\$6.60$). Also, please see Schedule 3B.

12 9. Town of Belmont Property Taxes - \$3,009

13 The test year town of Belmont property taxes do not include taxes on the 2014
14 additions and the 2015 additions including organization costs. As such, the Company is
15 performing the anticipated increase in Belmont property taxes on such additions. The
16 sum of the additions, less the related accumulated depreciation, amounts to \$119,562.
17 The total increase in plant per thousand times the Belmont property tax rate of \$25.17
18 amounts to \$3,009 ($\$119,562 / 1,000 \times \25.17). Also, please see Schedule 3B.

19 Total Pro forma Adjustments to Taxes other than Income are \$3,798.

20 10 & 11. Federal Income and State Business Taxes - \$4,202 & \$1,190

21 With the proposed increase in rate base, times the proposed equity component of the cost
22 of capital, the Company anticipates \$18,807 of operating net income (“NOI”) required.

1 In order to realize \$18,807 of NOI, it needs an additional \$12,335 of NOI to be able to
2 pay the related federal and state taxes.

3 For federal tax purposes, the Company anticipates federal income tax of \$9,688. During
4 the test year the Company accrued an annualized amount of \$5,486. The net of the two
5 represent the pro forma adjustment of \$4,202 (\$9,688 - \$5,486).

6 For state tax purposes, the Company anticipates state business tax of \$2,647. During the
7 test year, the Company accrued an annualized amount of \$1,457. The net of the two
8 represent the pro forma adjustment of \$1,190 (\$2,647 - \$1,457).

9 Total Pro forma Adjustments to Income Taxes are \$5,392.

10 Also, please see Schedules 5 and 5A for the income tax computation and the effective tax
11 factor.

12 AWC Belmont Water, Schedule 3A Pro forma Adjustments to Rate Base

13 Pro forma adjustments 1, 4, 7, 8 & 9 adjust the 5 quarter average to year end balances.
14 The Company strongly believes that year end balances are appropriate. Otherwise, it is
15 not being allowed to recover or earn on its total investment.

16 Plant in Service - \$21,000

17 Schedule 3B shows planned 2015 additions to plant including rebuilding the pump station
18 and replacing service lines / gate valves amounting to \$21,000.

19 Plant in Service – Organization Costs - \$56,739

20 Schedule 3B shows the reclassification of organization costs from miscellaneous deferred
21 debit to plant amounting to \$56,739.

22 5. Accumulated Depreciation – \$1,710

1 Schedule 3B shows the additional half year accumulated depreciation on both the 2014
2 additional of \$1,448 and the 2015 additions of \$263 totaling \$1,710.

3 6. Accumulated Depreciation – \$2,363

4 Schedule 3B shows the half year accumulated amortization on the 2015 additions of
5 organization costs of \$2,363.

6 10. Cash Working Capital - \$780

7 The Company adjusted cash working capital for the pro forma increase in operating and
8 maintenance expenses. Also, please see Schedule 3C.

9 **Q. Please continue your description of the pro forma adjustments related to each set of**
10 **schedules.**

11 A. AWC Belmont Sewer, Schedule 1A Pro forma Adjustments to Revenue and Expenses

12 1. Operating Revenues – \$39,246

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

16 2. Purchased Sewer Treatment - \$8,741

17 See my testimony as it pertains to the accounting treatment and proposed recovery of
18 sewer treatment expense. The Company substituted the new City of Laconia sewer rates
19 effective September 1, 2015 for the sewer rates that were in effect during the test year.

20 3. Sewer Annual Cleaning, Preventative and Ongoing Maintenance – \$1,625

21 In 2015 the Company anticipates overseeing the annual cleaning of its wet well estimated
22 to be \$800 plus increase in preventative maintenance and ongoing maintenance estimated
23 to be \$825.

1 4. Auditing / Accounting Services – \$6,123

2 In 2014 the Company did not incur any auditing or outside accounting costs. In 2015, for
3 2014, the Company incurred both auditing and outside accounting expenses. In 2015 the
4 Company incurred \$13,000 in auditing expense. 75% of the auditing costs were allocated
5 to Belmont and 50% of that amount was allocated to sewer amounting to \$4,875. In 2015
6 the Company incurred \$3,328 of outside accounting costs associated with preparation of
7 the 2014 PUC Annual Report and 2015 NHDRA Form PA-20. 75% of the outside
8 accounting costs were allocated to Belmont and 50% of that amount was allocated to
9 sewer amounting to \$1,248. The sum of the auditing / accounting costs amounts to
10 \$6,123.

11 Total Pro forma Adjustments to O&M Expenses are \$16,489.

12 5. Depreciation Expense - \$360

13 The Company is proposing to include the additional half year depreciation of \$360 (\$720 /
14 2) on the 2014 additions to plant. The amount of the annualized depreciation expense was
15 \$2,514. Also, see Schedule 3B for the calculation of the additional half year depreciation.

16 Amortization of Organization Costs - \$1,661

17 During DW 13-236 the Company incurred a total of \$102,233 of
18 organization costs in connection with its purchase of Lakeland Management Company and
19 White Rock Water Company and its approval of such purchases by the NHPUC. 75% of
20 the costs were allocated to Belmont, of which 26% was allocated to sewer, amounting to
21 \$19,935 ($\$102,233 \times 75\% \times 26\%$). The Company is proposing to amortize such costs over
22 12 years, amounting to \$1,661 ($\$19,935 / 12$).

23 State Utility Property Taxes - \$171

1 The test year state utility property taxes do not include taxes on the 2014 additions and
2 the 2015 organization costs. As such, the Company is performing the anticipated
3 increase in state utility property taxes on such additions. The sum of the additions less
4 the related accumulated depreciation amounts to \$25,949. The total increase in plant per
5 thousand times the state utility property tax rate of \$6.60 amounts to \$171 ($\$25,949 /$
6 $1,000 \times \$6.60$). Also, please see Schedule 3B.

7 Town of Belmont Property Taxes - \$653

8 The test year town of Belmont property taxes do not include taxes on the 2014
9 additions and the 2015 organization costs. As such, the Company is performing the
10 anticipated increase in Belmont property taxes on such additions. The sum of the
11 additions less the related accumulated depreciation amounts to \$25,949. The total
12 increase in plant per thousand times the Belmont property tax rate of \$25.17 amounts to
13 \$653 ($\$25,949 / 1,000 \times \25.17). Also, please see Schedule 3B.

14 Total Proforma Adjustments to Taxes other than Income are \$824.

15 9 & 10. Federal Income and State Business Taxes - \$3,010 & \$822

16 With the proposed increase in rate base, times the proposed equity component of the cost
17 of capital, the Company anticipates \$5,843 of operating net income (“NOI”) required. In
18 order to realize \$5,843 of NOI, it needs an additional \$3,832 of NOI to be able to pay the
19 related federal and state taxes.

20 For federal tax purposes, the Company anticipates federal income tax of \$3,010. During
21 the test year the Company accrued an annualized amount of \$0. The net of the two
22 represent the pro forma adjustment of \$3,010.

1 For state tax purposes, the Company anticipates state business tax of \$822. During the
2 test year the Company accrued an annualized amount of \$0. The net of the two represent
3 the pro forma adjustment of \$822.

4 Total Pro forma Adjustments to Income Taxes are \$3,832.

5 Also, please see Schedules 5 and 5A for the income tax computation and the effective tax
6 factor.

7 AWC Belmont Sewer, Schedule 3A Pro forma Adjustments to Rate Base

8 Pro forma adjustments 1 & 3 adjust the 5 quarter average to year end balances. The
9 Company strongly believes that year end balances are appropriate. Otherwise, it is not
10 being allowed to recover or earn on its total investment.

11 2. Plant in Service – Organization Costs - \$19,935

12 Schedule 3B shows the reclassification of organization costs from miscellaneous
13 deferred debit to plant amounting to \$19,935.

14 4. Accumulated Depreciation – \$360

15 Schedule 3B shows the additional half year accumulated depreciation on the 2014
16 additions of \$360.

17 5. Accumulated Depreciation – \$830

18 Schedule 3B shows the half year accumulated amortization on the 2015 additions of
19 organization costs of \$830.

20 6. Cash Working Capital - \$2,033

21 The Company adjusted cash working capital for the pro forma increase in operating and
22 maintenance expenses. Also, please see Schedule 3C.

23 **Q. Does that complete your descriptions of the Belmont sewer pro forma adjustments?**

1 A. Yes.

2 **Q. Please continue by describing the schedules for AWC Bow Water.**

3 A. AWC Bow Water, Schedule 1A Pro forma Adjustments to Revenue and Expenses

4 1. Operating Revenues – \$34,375

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

8 2. Electric - \$2,425

9 In December 2014 Unitil increased its electric rates. The Company substituted the new
10 electric rates for the electric rates that were in effect during the test year.

11 3. Water Testing - \$100

12 In 2016 the Company expects to incur \$600 for SOC testing. This is a test that is done
13 once every 6 years. As such, 1/6 of the expected expenses are being added to test year
14 expenses.

15 4. Auditing / Accounting Services – \$4,082

16 In 2014 the Company did not incur any auditing or outside accounting costs. In 2015, for
17 2014, the Company incurred both auditing and outside accounting expenses. In 2015 the
18 Company incurred \$13,000 in auditing expense. 25% of the auditing costs were allocated
19 to Bow amounting to \$3,250. In 2015 the Company incurred \$3,328 of outside
20 accounting costs associated with preparation of the 2014 PUC Annual Report and 2015
21 NHDRA Form PA-20. 25% of the outside accounting costs were allocated to Bow
22 amounting to \$832. The sum of the auditing / accounting costs amounts to \$4,082.

23 Total Pro forma Adjustments to O&M Expenses are \$6,607.

1 5. Depreciation Expense - \$741

2 The Company is proposing to include the additional half year depreciation of \$741
3 (\$1,482 / 2) on the 2014 additions to plant. The amount of the annualized depreciation
4 expense was \$12,302. Also, see Schedule 3B for the calculation of the additional half
5 year depreciation.

6 6. Depreciation Expense - \$1,675

7 The Company is also proposing to include the full year depreciation of \$1,675 on the
8 2015 additions to plant. Also, see Schedule 3B for the calculation of the full year
9 depreciation.

10 Total Pro forma Adjustments to Depreciation Expenses are \$2,416.

11 7. Amortization of CIAC - \$651

12 The annual amortization of CIAC is \$5,139.

13 8. Amortization of Organization Costs - \$2,129

14 During DW 13-236 the Company incurred a total of \$102,233 of organization costs in
15 connection with its purchase of Lakeland Management Company and White Rock Water
16 Company and its approval of such purchases by the NHPUC. 25% of the costs were
17 allocated to Bow amounting to \$25,558 ($\$102,233 \times 25\%$). The Company is proposing to
18 amortize such costs over 12 years, amounting to \$2,129 ($\$25,558 / 12$).

19 9. State Utility Property Taxes - \$544

20 The test year state utility property taxes do not include taxes on the 2014 additions and
21 the 2015 additions including organization costs. As such, the Company is performing the
22 anticipated increase in state utility property taxes on such additions. The sum of the
23 additions, less the related accumulated depreciation, amounts to \$82,438. The total

1 increase in plant per thousand times the state utility property tax rate of \$6.60 amounts to
2 \$544 ($\$82,438 / 1,000 \times \6.60). Also, please see Schedule 3B.

3 10. Town of Bow Property Taxes - \$2,233

4 The test year town of Bow property taxes do not include taxes on the 2014 additions and
5 the 2015 additions, including organization costs. As such, the Company is proforming
6 the anticipated increase in Bow property taxes on such additions. The sum of the
7 additions, less the related accumulated depreciation, amounts to \$82,438. The total
8 increase in plant per thousand times the Belmont property tax rate of \$27.09, amounts to
9 \$2,233 ($\$82,438 / 1,000 \times \27.09). Also, please see Schedule 3B.

10 Total Pro forma Adjustments to Taxes other than Income are \$2,777.

11 11 & 12. Federal Income and State Business Taxes - \$4,025 & \$1,113

12 With the proposed increase in rate base, times the proposed equity component of the cost
13 of capital, the Company anticipates \$11,363 of operating net income (“NOI”) required.
14 In order to realize \$11,363 of NOI, it needs an additional \$7,453 of NOI to be able to pay
15 the related federal and state taxes.

16 For federal tax purposes, the Company anticipates federal income tax of \$5,854. During
17 the test year, the Company accrued an annualized amount of \$1,829. The net of the two
18 represent the pro forma adjustment of \$4,025 ($\$5,854 - \$1,829$).

19 For state tax purposes, the Company anticipates state business tax of \$1,599. During the
20 test year the Company accrued an annualized amount of \$486. The net of the two
21 represent the pro forma adjustment of \$1,113 ($\$1,599 - \486).

22 Total Pro forma Adjustments to Income Taxes are \$5,138.

1 Also, please see Schedules 5 and 5A for the income tax computation and the effective tax
2 factor.

3 AWC Bow Water, Schedule 3A Pro forma Adjustments to Rate Base

4 Pro forma adjustments 1, 4, 7, 8 & 9 adjust the 5 quarter average to year end balances.
5 The Company strongly believes that year end balances are appropriate. Otherwise, it is
6 not being allowed to recover or earn on its total investment.

7 2. Plant in Service - \$37,000

8 Schedule 3B shows planned 2015 additions to plant including
9 replacing gate valves, service lines, meters, etc. amounting to \$37,000

10 3. Plant in Service – Organization Costs - \$25,558

11 Schedule 3B shows reclassification of organization costs from miscellaneous deferred
12 debit to plant amounting to \$25,558.

13 5. Accumulated Depreciation – \$1,578

14 Schedule 3B shows the additional half year accumulated depreciation on both the 2014
15 additional of \$741 and the 2015 additions of \$837 totaling \$1,578.

16 6. Accumulated Depreciation – \$1,065

17 Schedule 3B shows the half year accumulated amortization on the 2015 additions of
18 organization costs of \$1,065.

19 10. Cash Working Capital - \$815

20 The Company adjusted cash working capital for the pro forma increase in operating and
21 maintenance expenses. Also, please see Schedule 3C.

22 **Q. Does that complete your descriptions of the Bow water pro forma adjustments?**

23 **A. Yes.**

1 **Q. Now that you have completed your explanation of the pro forma adjustments**
2 **related to Belmont water, Belmont sewer and Bow water, please describe the**
3 **schedules consolidating the Belmont and Bow water.**

4 A. Simply stated, we have combined the pro forma components of the Belmont water and
5 Bow water. The combined pro forma computation of revenue deficiency utilizes a
6 consolidated rate base of \$480,232. The sum of the pro forma year end balances for rate
7 base is shown on Schedule 3. When the consolidated pro forma rate of return of 8% is
8 applied to the consolidated rate base, it produces a consolidated operating income
9 required of \$34,412. The consolidated rate of return information is supported by
10 Schedule 4.

11 The consolidated operating income is supported by Schedule 1. An explanation of the
12 benefits of consolidating the water service is stated in Mr. Vaughan's testimony and
13 further supported by my testimony.

14 **Q. Please explain the Consolidated Water Report of Proposed Rate Changes.**

15 A. If the Company filing is approved as submitted, its total water Operating Revenues will
16 amount to \$239,266. The Company has combined residential, single family homes in
17 Belmont and Bow into one rate class. The Belmont multi- family and commercial A and
18 B remain in their existing rate classes.

19 **Q. Is the Company proposing any changes to the methodology used in allocating the**
20 **proposed revenue to the various rate classes?**

21 A. No. The Company is generally using the same methodology. It is applying the proposed
22 change in revenue proportionally to the various rate classes.

23 **Q. What are the proposed new consolidated water rates?**

1 A. The Company proposes a residential customer base charge per month of \$30 and a
2 proposed consumption charge of \$8.73 per hundred cubic feet of water used.

3 **Q. Please explain the Belmont Sewer Report of Proposed Rate Changes.**

4 A. If the Company filing is approved as submitted, its total water Operating Revenues will
5 amount to \$117,559.

6 **Q. Is the Company proposing any changes to the methodology used in allocating the
7 proposed revenue to the various rate classes?**

8 No. The Company is generally using the same methodology. It is applying the proposed
9 change in revenue proportionally to the various rate classes.

10 **Q. What are the proposed new Belmont sewer rates?**

11 A. The Company proposes a customer base charge per month of \$30 and a proposed
12 consumption charge of \$5.18 per hundred cubic feet of water used.

13 **Q. When is the Company proposing that the new rates be effective?**

14 A. The Company plans to make a temporary rate filing within 7 – 14 days proposing
15 temporary rates and as such, the permanent rates will be effective on the date the PUC
16 approves temporary rates. The temporary rate filing will be essentially the same as the
17 permanent rate filing except for the elimination of certain pro forma adjustments. The
18 temporary rate filing will contain what is necessary for the PUC Staff to conduct a
19 limited review and hopefully join with the Company in presenting a settlement agreement
20 on temporary rates to the PUC for approval.

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

22 A. Yes. The Company is utilizing the legal services of Mr. Richardson of Upton & Hatfield
23 and the accounting / rate services of Mr. St. Cyr of Stephen P. St. Cyr & Associates.

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

2 A. The Company respectfully requests that the Commissioners (1) approve the consolidation
3 of water rates for Belmont and Bow customers, (2) approve the consolidated increase in
4 water revenues of \$45,393, (3) approve the increase in Belmont sewer revenues of
5 \$39,246 and (4) approve the recovery of the deferred sewer treatment costs via a
6 surcharge over a 12 period and the ability to adjust future sewer rates for future City of
7 Laconia increases.

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

9 A. No, there is nothing further.

10 **Q. Does this conclude your testimony?**

11 A. Yes.