STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DW 15-199

<u>In the Matter of:</u>
<u>Abenaki Water Company, Inc.</u>
<u>Petition for a Change in Rate Schedules</u>

Direct Testimony

of

Robyn J. Descoteau
Staff Utility Analyst, Gas and Water Division

March 24, 2016

New Hampshire Public Utilities Commission

Company Name

DW 15-199

Petition for Change in Rate Schedules

Direct Testimony of Robyn J. Descoteau

Q. Please state your full name.

A. My name is Robyn J. Descoteau.

Q. Please state your employer and business address.

A. I am employed by the New Hampshire Public Utilities Commission (NHPUC) and my business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. What is your position at the NHPUC?

A. I am a Utility Analyst in the Gas and Water Division.

Q. Please describe your position and responsibilities at the Commission.

A. I am responsible for the examination, evaluation, and analysis of rate and financing filings. In the context of rate cases, my duties include recommending changes in proposed revenue requirements, to conform to regulatory requirements and methodologies.

Q. Would you please describe your educational background?

A. I earned an Associate of Science Degree in Business Administration from Bay Path Junior College. While working full-time, I attended Daniel Webster College and earned a Bachelor of Science Degree in Business Management with a minor in Finance and a Master of Business Administration Degree in Applied Management. In 1996, I completed the New England Water Works Association's Water Utility Ratemaking course. In 2006, I attended the Institute of Public Utilities at Michigan State University's Advanced Regulatory Studies Program. In 2007, I attended the National Association of Water Companies' Regulatory Rate Setting and Valuation seminar conducted by Guastella Associates, Inc. In 2008, I attended the Governmental Audit and Accounting Update conducted by KPMG, LLP, a national audit, tax and advisory firm. In 2014, I attended National Association of Regulated Utility Commissioner's Utility Rate School.

Q. Please describe your work experience.

A. For 18 years, I worked in the accounting department of a large New Hampshire water company. Included in my duties were regulatory activities such as preparing rate case exhibits, responses to audit requests, and the PUC Annual Report; in 1994, I co-created the first excel formatted PUC Report. In 2006, I was hired as a Utilities Examiner in the Audit Division of the Commission. In that position, I analyzed financial information submitted by regulated utilities and performed rate of return and cost of service analyses. I also participated in field audits to review the books and records of regulated utilities. With the implementation of legislative initiatives focused on sustainable energy, I performed audits on Renewable Energy and Regional Greenhouse Gas Initiative (RGGI) grant awards and the related records submitted to the Commission by grantees including towns, schools, electric utilities, educational institutions, non-profits, and private companies. For all audits performed, audit reports were written to summarize the work performed and present recommendations for corrective action to remedy accounting errors and irregularities where necessary. In 2013, I was promoted to my current position as a Utility Analyst in the Commission's Gas and Water Division.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation and a summary of Staff's financial analysis with respect to Abenaki's requests for permanent rate increases to two water systems and one sewer system.

Q. Please provide a brief summary of Abenaki's rate increase proposals.

A. Abenaki proposes to consolidate the water rates of their Bow and Belmont water systems and to increase the consolidated revenue requirement by $45,393, or 23.41%. According to the company, without consolidation, the proposed revenue requirement for Belmont water is $11,018, or 8.63% greater than test year (2014) revenues, and the proposed revenue requirement for Bow water is an increase to test year revenues of $34,375, or 51.92%. The company's revenue requirement increases include recovery of the post-test-year costs of capital additions in 2015.

Abenaki proposes an increase in the revenue requirement for the Belmont sewer system of $39,246, or 50.11%. Unlike the company's proposed revenue requirements for the water systems, there are no 2015 capital additions included in the Belmont sewer revenue requirement.

Abenaki also proposes a separate sewer surcharge to recover deferred sewer treatment expenses totaling $3,276 incurred between September 1, 2014, and May 31, 2015. The deferred sewer costs represent the difference between the rate charged by the City of Laconia when the Belmont sewer rates were last set and the new rate charged by the City as of September 1, 2014. The company also proposes a mechanism which would allow it to pass through to customers any future increases in the City's sewer rates outside of a rate case.

Lastly, the company proposes recovery of $102,233, over a period of 12 years, which represent the costs associated with acquisition of the Bow and Belmont systems. Abenaki refers to these costs as "Organization Costs."

Q. Please summarize Staff's recommendations regarding those proposals.

A. Staff recommends that at this time, the Commission deny Abenaki's rate consolidation request and, instead, set permanent revenue requirements individually for each of the Abenaki systems. Staff also recommends that the Commission deny Abenaki's requests for recovery of deferred sewer costs and for the sewer surcharge mechanism. Mark A. Naylor, Director of the Gas and Water Division, addresses these recommendations in separate testimony.

Staff recommends that the Commission allow Abenaki to recover $91,522 of its Organization Costs. Based on the company's allocation factors[1], 75% of the total, or $68,642, is allocated to Belmont, with water allocated 74%, or $50,795, and sewer allocated 26%, or $17,847, and 25% of the total Organization Costs, or $22,880, is allocated to Bow.

For Belmont water's revenue requirement, Staff recommends a decrease, based on a 2014 test-year of ($5,733), or (4.49%), which, when combined with a step increase of $6,700 or 5.25% for 2015 plant additions, results in a total increase of $967, or 0.76%. For Belmont sewer, Staff recommends an increase, based on a 2014 test-year, of $31,682, or 40.46%. For Bow water, Staff recommends an increase, based on a 2014 test-year, of $19,704, or 29.76% with a step increase of $4,147, or 6.26% for 2015 plant additions, for

[1] Staff Request 1-2 details cost allocations between divisions. Allocations in 2014 were rounded by the company to 25% for Bow and 75% for Belmont, based on total Rate Base at the time of acquisition; Bow: $106,476 (24%) and Belmont $332,016 (76%). Allocations within Belmont were further split 74% water and 26% sewer, based on a 5-qtr average Rate Base.

a total increase of $23,851 or 36.02%. Each of Staff's revenue requirements includes the allocation of Organization Costs.

Q. Before turning to Staff's calculation of the revenue requirements, please explain Staff's recommendation concerning the Organizational Costs.

A. While the Organizational Costs appear to be very high to acquire two relatively small utilities, the Commission has permitted the recovery of acquisition costs (also referred to as Franchise Costs) in the past. Staff, however, recommends that the company's proposed $102,233 be reduced to $91,522. Staff reduced the company's proposal by a total of $1,570, for David R. Daggett, CPA invoices which relate to services provided for the "potential acquisition of NH customers" not strictly the two acquired, and by $9,141 for Audit Adjustment #7 which identifies costs that should have been charged directly to plant account: Land and Land Rights. Based on the allocation factors[2], 25% of $91,522, or $22,880, is allocated to Bow, and 75% or $68,642 is allocated to Belmont. The allocation to Belmont is further allocated between water and sewer: 74% or $50,795 to water, and 26% or $17,847 to sewer.

Q. What is Staff's recommendation concerning how the Organizational Costs are recovered?

A. Staff recommends that the $91,522 of recoverable Organizational Costs be amortized over the current composite life of the utility plant acquired. As of the end of the 2014 test year, the company had $1,112,213 in gross utility plant and $28,435 in depreciation expense charged to its income statement. The resulting composite depreciation life is

[2] Staff Request 1-2 details cost allocations between divisions. Allocations in 2014 were rounded by the company to 25% for Bow and 75% for Belmont, based on total Rate Base at the time of acquisition; Bow: $106,476 (24%) and Belmont $332,016 (76%). Allocations within Belmont were further split 74% water and 26% sewer, based on a 5-qtr average Rate Base.

2.56%, translating to a composite life of 39 years. Staff therefore recommends the recoverable Organizational Costs be amortized over 39 years, in the amount of $2,343 annually. Based on the allocation factors, Staff recommends allocating 25%, or $22,880, to Bow and 75%, or $68,642, to Belmont. Of the allocation to Belmont, 74%, or $50,795, should be allocated to water and 26% or $17,847, should be allocated to sewer. As a result, the Belmont water system will amortize $1,300 annually, the Belmont sewer system will amortize $457 annually, and the Bow water system will amortize $586 annually.

Q. Please describe how Staff arrived at a decrease in rates for Belmont water of ($5,733) or (4.49%) based on the 2014 test-year.

A. Three items comprise the difference between the company's proposal for Belmont water and Staff's proposal. First, Staff reduced rate base (Att A; Sch 2) by adjusting plant in service, accumulated depreciation, and amortization, cash-working capital, and prepaid expenses (Att A, Sch 2a). Second, Staff reduced the rate of return (Att A; Sch 1a) to 7.33% by using the last known (litigated) return on equity amount of 9.6%.[3] Third, Staff updated net operating income (Att A; Sch 3) by adjusting expenses associated with pumping, water treatment, administrative services, depreciation and amortization expenses, as well as property and income taxes (Att A; Sch 3a).

Q. Please provide further detail about the adjustments to Belmont water's rate base (Att A; Sch 2a).

A. Schedule 2a details the Staff's adjustments to rate base, which total ($42,215). Two major items contributed to the total: adjustments totaling ($90,408) to bring the pro-

[3] Order No. 25,539, dated June 28, 2013, Aquarion Water Company of NH, Inc. See also the testimony of Mr. Naylor in this docket.

forma balances back to 5-qtr averages; and the recording of Belmont water's portion of Organizational Costs totaling $50,795 (((102,233-9,141-1,570)*75%)*74%) less one year amortization expense ($1,300).

Q. What is Staff's position on using Test Year balances versus 5-quarter Averages?

A. Staff strongly supports using 5-quarter averages (or 13-month averages). This methodology is practiced not only in this Commission but taught by the National Association of Regulated Utilities Rate Case School. Applying a 5-quarter average synchronizes the rate base with the cycle billed revenues for the same period.

Q. Please provide further detail regarding the adjustments to Belmont water's Net Operating Income (Att A; Sch 3a).

A. Schedule 3a details the ($8,310) in adjustments to Net Operating Income. Administrative and general expense was adjusted by a total of ($1,434) related to insurance expense, management fee and training cost adjustments. Depreciation Expense was adjusted by ($631) due to meter retirement not recorded during the test year and 2015 expense recorded in the test year. Amortization Expense was adjusted by ($3,426) as a result of Staff's change in recovery years. Taxes Other than Income was adjusted by ($2,390) due to 2015 expense and Organizational Costs that were included in the company's pro-forma calculation. As a result of the changes to Net Operating Income, the pro-forma adjustment to income tax expense (Att A; Sch 3c) was increased by $3,292.

Q. Please describe how Staff arrived at the increase in rates for Belmont sewer of $31,682, or 40.46%, based on the 2014 test-year.

A. Three items comprise the difference between the company's and Staff's proposals for Belmont sewer. First, rate base (Att B; Sch 2) was reduced as a result of adjustments to plant in service, accumulated depreciation and amortization, and cash-working capital (Att B; Sch 2a). Second, the allowed rate of return (Att B; Sch 1a) was lowered to 7.33% as a result of using the last known (litigated) return on equity amount of 9.6%.[4] Third, net operating income (Att B; Sch 3) was updated as a result of adjustments to expenses associated with pumping, administrative services, amortization expenses, and property and income taxes (Att B; Sch 3a, 3b & 3c).

Q. Please provide further detail about the adjustments to Belmont sewer's rate base (Att B; Sch 2a).

A. Schedule 2a details Staff's adjustments to Belmont sewer's rate base which total ($2,051). Two major items contributed to the total: adjustments totaling ($20,536) to bring the pro-forma balances back to 5-qtr averages; and the recording of Belmont water's portion of Organizational Costs totaling $17,847 (((102,233-9,141-1,570)*75%)*26%) less one year amortization expense ($457).

Q. Please provide further detail regarding the adjustments to Belmont sewer's Net Operating Income (Att B; Sch 3a).

A. Schedule 3a details the ($6,284) in adjustments to Belmont sewer's Net Operating Income. Adjustments relate to sewer treatment expense ($2,718), administrative expense ($1,972) and amortization expense resulting from Staff's change in recovery years ($1,204). Taxes Other than Income was adjusted by ($390) due to 2015 expense and Organizational Costs that were included in the company's pro-forma calculation. As a result of the changes to Net Operating Income, the pro-forma adjustment to income tax expense (Att B; Sch 3c) was increased by $2,489.

[4] Order No. 25,539, dated June 28, 2013, Aquarion Water Company of NH, Inc. See also the testimony of Mr. Naylor in this docket.

Q. Please describe how Staff arrived at the increase in rates for Bow water of $19,704, or 29.76%, based on the 2014 test-year.

A. Three items comprise the difference between the Company's proposal for Bow water and Staff's proposal. First, rate base (Att C; Sch 2) was reduced as a result of adjustments to plant in service, accumulated depreciation and amortization, cash-working capital and prepaid expenses (Att C; Sch 2a). Second, the allowed rate of return (Att C; Sch 1a) was lowered to 7.33% as a result of using the last known (litigated) return on equity amount of 9.6%.[5] Third, net operating income (Att C; Sch 3) was updated as a result of adjustments to expenses related to pumping, administrative services, amortization expenses, and property and income taxes (Att C; Sch 3a, 3b & 3c).

Q. Please provide further detail about the adjustments to Bow water's rate base (Att C; Sch 2a).

A. Schedule 2a details the adjustments to rate base which total ($50,528). Two major items contributed to the total: adjustments totaling ($72,757) to bring the pro-forma balances back to 5-qtr averages; and the recording Bow water's portion of Organizational Costs totaling $22,881 ((102,233-9,141-1,570)*25%) less one year amortization expense ($586).

Q. Please provide further detail regarding the adjustments to Bow water's Net Operating Income (Att C; Sch 3a).

A. Schedule 3a details the ($6,534) in adjustments to Net Operating Income. Administrative and general expense was adjusted by a total of ($1,137) for a management fee expense adjustment and a pro-forma for water testing expected in 2016. Depreciation Expense

[5] Order No. 25,539, dated June 28, 2013, Aquarion Water Company of NH, Inc. See also the testimony of Mr. Naylor in this docket.

was adjusted by ($1,811) due to meter retirement not recorded during the test year and 2015 expense recorded in the test year. Amortization Expense was adjusted by ($1,543) as a result of Staff's change in recovery years. Taxes Other than Income was adjusted by ($2,043) due to 2015 expense and Organizational Costs that were included in the company's pro-forma calculation. As a result of the changes to Net Operating Income, the pro-forma adjustment to income tax expense (Att A; Sch 3c) was increased by $2,588.

Q. In the filing, Abenaki has requested recovery of its 2015 Plant Additions for its Belmont water and Bow water systems. What is Staff's position?

A. The test-year is defined as a utility's actual financial data for a 12-month period. The 2015 plant additions fall outside the 12-month test-year ending December 31, 2014. Consequently, Staff proposes step adjustments for the 2015 plant additions. The Commission uses step adjustments to permit utilities to recover through rates the costs of significant plant investment that immediately follows the test year, to avoid having a utility experience a revenue deficiency immediately after the completion of a rate case. The intent is to prevent the immediate need for filing a subsequent case so soon after one has been already completed. Consistent with this practice, Staff removed costs related to all of the 2015 plant additions from its calculation of the pro-formed test year revenue requirements for Belmont water and Bow water. Staff identified the significant plant investments that continued projects discussed during the acquisition of the Bow and Belmont water systems and created step adjustments to allow Abenaki's recovery of that investment.

Q. Has Staff prepared schedules which show the effect of its recommendations relative to the Step Adjustments?

A. Yes, the Step Adjustment schedules for Belmont water are found in Staff Attachment B; Schedules 4, 4a, 4b, and 4c. The step increase related to Belmont water's 2015 plant additions is $6,700, or 5.25%, for a total increase of $967, or 0.76%. The Step Adjustment schedules for Bow water are found in Staff Attachment D; Schedules 4, 4a, 4b, and 4c. The step increase related to Bow water's 2015 plant additions is $4,147, or 6.26%.

Q. Please provide a brief narrative which explains Staff's computations for the Step Adjustments.

A. Schedule 4 computes the Step Increase in Revenue Requirement. Schedule 4a details the 2015 Plant Additions and Retirements and computes the annual depreciation, accumulated depreciation and net plant in service as of December 31, 2015, for each plant addition. Schedule 4b computes the change in Property Tax expense related to the 2015 Plant Additions. Schedule 4c computes the change in Income Taxes related to the changes in expenses.

Q. Has Staff reviewed the actual costs associated with the Step Adjustments?

A. Yes, Abenaki submitted spreadsheets detailing the actual costs associated with the Belmont Step Adjustment and the Bow Step Adjustment. To further examine the costs, Staff reviewed copies of invoices for the Belmont pump station costs, totaling $24,252; Bow purchased meters, totaling $18,374; and Bow install meters, totaling $8,044.

Q. What is your recommendation for the implementation of the step adjustments for the Belmont and Bow water systems?

A. Abenaki should be permitted to begin recovery of the step adjustment revenues in its rates effective for service rendered as of the date of the Commission's final order in this proceeding.

Q. Does Staff recommend any changes to the allocation of revenue amounts among the customer classes?

A. No. The Calculation of Rates schedule (Att A, B & C; Sch 5a) details the computation of rates per customer class. Applying the recommended percentage of increase to the current monthly base charge for each rate class, then computing the new consumption charge for each rate class, allocates the revenue increase fairly and proportionally to each rate class. The Report of Proposed Rate Changes (Att A, B & C; Sch 5) summarizes the change in each rate class, showing the percentage of change from current rates to proposed rates. Additionally, the Report of Proposed Rate Changes details typical customer bills per class, based on an average usage of 3,000 gallons, or 4.01 ccf per month. Abenaki used 3,000 gallons as the monthly average customer usage in the letter to customers.

Q. Does Abenaki currently have temporary rates in effect?

A. Yes, on January 11, 2016, the Commission granted Abenaki a 16.22% temporary increase over the its last authorized annual revenue for Bow customers, a 19.36% temporary increase for Belmont sewer customers, and temporary rates at current levels for Belmont water customers. Order 25,858. The temporary rates apply to all service rendered on or after September 8, 2015.

Q. Please describe how the temporary rates currently in effect will be reconciled to permanent rates once they have been set.

A. Pursuant to RSA 378:29, any difference between the temporary rates set by the Commission and the permanent rates ultimately approved in this docket are subject to reconciliation, back to September 8, 2015. Step adjustment revenues shall not be part of the temporary rate reconciliation. Following the Commission’s order on permanent rates, the company will file its calculation of the temporary-permanent rate recoupment amount and a proposed surcharge for Staff’s review. Upon completion of its review, Staff will make a recommendation to the Commission concerning the Company’s proposed recoupment and surcharge amount.

Q. Does this conclude your direct testimony?

A. Yes.