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

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INTRODUCTION

Q. Please state your name and address.

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

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

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

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

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

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

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

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

A. The Company respectfully requests that the Commissioners approve the consolidation of rates to all of the Company's water systems including Dockham Shores and Wildwood Water. If the Commissioners approve the consolidation of rates, the Company respectfully requests that the Commissioners also approve an increase in revenues of $260,172 or 19.69% from the Company's 1,812 unmetered and metered customers.

If the Commissioners do not approve the consolidation of rates, the Company respectfully requests that the Commissioners approve an increase in revenues of $144,913 or 11.53%, $57,211 or 148.10% and $54,737 or 213.44% from the Company's LRWC (w/o DS & WW), DS & WW, respectively.

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

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

<u>RECENT DEVELOPMENTS</u>

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

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

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In 2018 the NHPUC approved the Company acquisition of the assets and utility franchise of the former Wildwood Water ("WW") Company serving approximately 49 customers in the Town of Albany, NH. The Company has now operated WW for more than a year. The Company has determined that the existing pump station is aging and in need of replacement. A new pump station will provide constant pressure, adequate iron removal, larger well storage and a backup generator. The proposed new pump station would include a new building, generator, storage tank and treatment equipment. The Company estimated that the new pump station will costs $260,000.

Also, in 2018, the PUC established DW 18-056, an Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions. In PUC Order No. 26,340, the PUC ordered the Company to record annual and cumulative regulatory to track tax savings realized from corporate tax rate decreases. The Commission also ordered LRWC to record a regulatory liability equivalent to its calculated excess deferred income tax reserve. The Commission's order was not meant to, nor did it in fact, make any decision with regard to the rates to be paid by LRWC's customers. The Company appealed the PUC order to the NH Supreme Court (case No. 2020-0302). I a Joint Motion for summary disposition of the appeal, the parties agreed that "the Commission will establish new rates for LRWC, as well as a necessary refund or credit, if any, including a reasonable amortization thereof, for any past over-recovery by LRWC only in the context of LRWC's next rate case." The Joint Motion for summary disposition was granted by the court.

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

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

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YEAR END RATE BASE

Q. Why have you used year end rate base in your analysis of LWRC rates?

A. I included all of the assets placed in service during the test year in rate base and a full year's depreciation because all of the assets were known and measurable and fully in use for the customers' benefit at December 31, 2019. Historically, the use of test year average rate base has been used for additons that result in new customer revenues in order to match revenues to rate base. However, in this case, all or nearly all of the investment in new plant was to replace aging infrastructure in order to continue to serve customers in compliance with DES and PUC water service rules.

If the Company is not allowed the 2019 and 2020 assets to be fully reflected, it loses the related revenue between now and its next rate case. Even in the next rate case, it will not recover the lost revenue between now and then. It will only earn a return on the reduced net asset value, not the full asset value. The result would deny the Company a reasonable return on its actual investment in plant required to serve customers.

Use of year end rate base is consistent with Order No. 25,391, in which the Commission considered circumstances similar to this case and explained that "though we traditionally employ a 13 month average for rate base additions, we will make a one-time exception and utilize the year end rate base for certain non-revenue producing plant in service, as Lakes Region requested." For these and other good reasons, I used year end rate base in order to determine a just and reasonable rate.

INTRODUCTION TO RATE CASE SCHEDULES

Q. Why has the Company proposed four sets of schedules?

A. The Company has prepared four sets of schedules based in part on the Settlement Agreement reached in the Dockham Shores rate case in DW 19-177. The first set of schedules reflects the Total Company with all of LRWC's customers served under a consolidated rate. LRWC requests that the Commission approve rate consolidation as shown in the Total Company schedules.

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The other 3 sets of schedules show LRWC's general rates without consolidation as well as the DS and WW systems on a stand-alone basis. These schedules illustrate how significant rate increase can occur as improvements are made to individual systems in the absence of rate consolidation. By consolidating rates for all systems, LRWC is able to spread the impact of system improvements and thereby avoid having to seek individual rate increases for each system. This greatly benefits customers and the Company by reducing the costs to serve customers.

In the event that the NHPUC does not approve incorporating DS & WW into the consolidated rates, then there are supporting schedules for LRWC (w/o DS & WW) and DS & WW. Please note that the description of certain schedules and adjustments are the same or similar throughout the four sets of schedules

<u>TOTAL COMPANY</u>

Q. Then, would you please summarize the Total Company schedules?

A. Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue deficiency for the Total Company for the test year amounts to $85,520. It is based upon an actual test year with a 13 month average rate base of $3,771,357 as summarized in Schedule 3, column o. Total Company's allowed rate of return, adjusted for changes in the capital structure and costs rates is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $3,771,357, results in an operating income requirement of $327,545. As shown on Schedule 1, column b, line 19, the actual net operating income for the Company for the test year was $242,025. The operating income required, less the net operating income, results in an operating income deficiency of $85,520.

The proforma revenue deficiency for the Total Company for the test year amounts to zero. It is based upon a proformed test year rate base of $4,132,015, as summarized in Schedule 3, column q. The Company is utilizing a proformed rate of return of 8.79% for the proformed test year. The proformed rate of return of 8.79% when multiplied by the rate base of $4,132,015, results in an operating net income requirement of $363,262. As shown on Schedule 1, column d, line 19 the proformed net operating income for the Company for the test year is $363,262. The operating income required, less the net operating income, results in a deficiency of zero.

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

A. Schedule 1 reflects the Company's Operating Income Statement. Column b shows the actual test year results for the Company (as reported to the PUC in its 2019 PUC Annual Report). Column c shows the proforma adjustments for known and measurable changes to test year revenues and expenses. The proforma adjustments are further supported by schedule 1A – 1E. Column d shows the proforma test year results. Column e and Column f are actual results for 2018 and 2017, respectively.

During the twelve months ended December 31, 2019, the actual Total Operating Revenues amounted to $1,563,690, a decrease of $38,458 over 2018. The decrease is due to lower Other Water Revenues and lower POASI revenues. The lower Other Water Revenues are due to lower rate case surcharge revenues and a PUC order reduction in revenues due tax savings refund in DW 18-056. The lower POASI revenues are due lower water consumption. The lower revenues are offset by higher Water Sales Revenues due to higher consumption and more customers.

Total Company's total operating expenses amounted to $1,321,665, a decrease of $20,682 over 2018. The decrease in total operating expenses was due to decreases in income taxes and depreciation expenses, offset by an increase operating and maintenance expenses, primarily transmission and distribution expenses. The 2019 Total Company Net Operating Income amounted to $242,025. Net Income for 2018 was $259,801.

The Company has made 5 proforma adjustments to operating revenues totaling $278,865. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

<u>Proforma Adjustment to Revenues</u>

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

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

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anticipates a decrease in revenues from the POASI agreement, such revenues will be offset by a like amount of increased revenues from other customers.

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $260,172.

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

Total Proforma Adjustment to Water Sales is $242,425.

3. Rate Case Surcharge – ($32,980).

The Company is reducing test revenue by the amount of revenue associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year expenses by the amount of regulatory expenses associated with the recovery of approved rate case expenditures.

4. DW 18-056 Tax Savings Refund - $42,707.

The Company is increasing test revenues for the elimination of the DW 18-056 tax savings refund. As indicated earlier, at no point in time did LRWC exceed its rate of return even with the lower federal corporate tax rate. As such, the lower federal taxes were offset by other higher expenses. Since the Company did not exceed its authorized rate of return, its revenues should not be reduce by the supposed tax savings.

5. Revenue from Contract Work - $26,713.

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

The Total Proforma Adjustments to Other Water Revnues amounts to $36,440. Total Proforma Adjustments to Operating Revenue amounts to $278,865.

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The Company has made 21 proforma adjustments to operating expenses totaling $157,628. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

<u>Proforma Adjustments to Expense</u>

1. Operating and Maintenance Expenses - Wages – $51,464.

During the test year, 3 employees left and 3 new employees joined the Company. LRWC removed wages associated with inactive employees and adjusted wages for new employees to reflect 52 weeks. The Company provided employees with a 3% cost of living increase on 7/1/20. The Company anticipates providing a 3% cost of living increase on 7/1/21. Also, in 2020, the Company began providing a $25.00 a day stipend for each day employees are on call.

2. Operating and Maintenance Expenses - Benefits – $16,566.

Benefits include health, dental, retirement and HRA. Total benefits incurred and reflected in test year amount to $53,854. With the change in employees, there are changes in benefit costs amounting to an increase of $16,566.

3 - 6. Operating and Maintenance Expense – Treatment Expenses ($8,035), T&D Expenses ($9,515), Customer Accounts Expenses ($9,155) and A&G Expenses $12,534.

When reviewing test year expenses, certain expenses were significantly different as compared to 2018. As such, the Company is proposing a 2 year average of such expenses. Treatment expenses can vary from year to year, particularly with respect to certain water tests that are scheduled at 2, 3 & 5 year intervals. T&D expenses can also vary from year to year, particularly as it pertains to mains and services breaks. Bad debt expenses can also vary. A&G expenses, particularly outside services, can vary as well. The Company is proposing a 2 year average to smooth out the variations and to end up at an amount likely to represent an appropriate amount going forward. See Sch 1C for the 2019, 2018 and 2 year average amounts.

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7. Operating and Maintenance – Regulatory Commission – ($26,339).

The Company is reducing test expenses by the amount of regulatory commission expenses associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year revenues by the amount of rate case expenditure surcharge revenue.

8. Operating and Maintenance – Regulatory Commission – $16,259.

In recent years, the Company has deferred various expenditures, mostly associated with certain regulatory proceedings, except for the West Point ("WP") dry well. See Sch 3B for account titles, descriptions and amounts. The total miscellaneous deferred debits amounts total $93,731. For those costs associated with specific proceedings (DW 15-209 Step 2 - $2,145, IR 19-005 ROE Petition - $50,835, DW 18-056 Tax Act - $18,526 and DW 16-619 Step Increase - $5,644) amounting to $77,150, the Company is proposing to amortize and recover such costs over a 5 year period. The annual amortization amounts to $15,430 ($77,150 / 5). Arguably, some of these costs can/should be recovered as part of rate case expenditures, but the Company decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. In 2014 NHDES found that "it appears that the water is not capable of meeting the peak water demands of the system due to very low yielding wells." As such, the Company was looking for a new source of supply for its WP customers. Unfortunately, the Company was not successful. As such, the Company is proposing to recover such expenditures over a 20 year period, resulting in an annual amortization of $829 ($16,581 / 20). Again, see Sch 3B.

9. PUC Audit Costs - $1,667.

The Company anticipates that the PUC audit staff will audit the Company's test year and its test year revenues, expenses, plant, debt, etc. The Company estimated that the Company will incur approximately $5,000 in expenses not reflected in the test year. The Company proposes to defer and charge such expenses to outside services.

Total Proforma Adjustments to O&M Expenses are $45,446.

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10. Depreciation Expense – 2019 Additions to Plant - $2,527.

In 2016 and 2017 the Company incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC "Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS …"

Similarly, in 2017 and 2018, the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to recover such DS and WW costs over 20 years, resulting in an annual amortization of $2,527. See Sch 3C.

11. Depreciation Expense – 2019 Additions to Plant - $12,510.

The Company is proposing to include the additional half year depreciation on the 2019 additions to plant. In 2019 the Company placed in service $161,340 of plant. None of the assets placed in service were revenue producing assets. During 2019 the Company recorded $9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to $22,308, resulting in an additional $12,510 needed. See Sch. 3D.

12. Depreciation Expense – 2019 Retirements to Plant – ($1,172).

In 2019 the Company retired from plant $114,627. Certain retired assets were not fully depreciated, resulting in $1,172 of depreciation during the test year. With the retirement of the assets, no such deprecation will take place. As such, the Company is proposing to eliminate $1,172 of depreciation expenses from test year expenses. See Sch. 3E.

13. Depreciation Expense – 2020 Additions to Plant - $12,010.

The Company is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, the Company has placed $191,548 into service. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 9/30/20 plant amount to $12,010. See Sch. 3F. At an appropriate time during the proceeding, the Company will update the 2020 addition to plant as of 12/31/20.

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14. Depreciation Expense – 2020 Retirements to Plant – ($668).

In 2020 the Company retired from plant $26,741. Certain retired assets were not fully depreciated, resulting in $668 of depreciation during the test year. With the retirement of the assets, no such deprecation will take place. As such, the Company is proposing to eliminate $668 of depreciation expenses from test year expenses. See Sch. 3G.

15. Depreciation Expense – 2021 Additions to Plant - $13,874.

In 2021 the Company anticipates placing into service $418,000 of plant associated with main replacement projects at Paradise Shores and pump station replacement at WW. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 2021 plant amount to $13,874. See Sch. 3H.

16. Depreciation Expense – 2021 Retirements to Plant – ($...).

In 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

Total Proforma Adjustments to Depreciation Expenses are $39,082.

17. Taxes other than Income – State Utility Property Taxes - $4,305.

In 2019 the Company incurred $27,276 in state utility property taxes. With the 2019, 2020 and 2021 additions to plant, the Company anticipates that the state utility property taxes will increase by $488, $1,150 and $2,667, respectively. As such, the Company has prepared a proforma adjustment for $4,305. See column (m) on Schedules 3D, 3F & 3H for the calculation.

18. Taxes other than Income – Municipal Property Taxes - $5,900.

In 2019 the Company incurred $49,036 in municipal property taxes. With the 2019, 2020 and 2021 additions to plant, the Company anticipates that the municipal utility property taxes will increase by $580, $1,913 and $3,406, respectively. As such, the Company has prepared a proforma adjustment for $5,900. See column (p) on Schedules 3D, 3F & 3H for the calculation.

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19. Taxes other than Income - Payroll Taxes - $6,052.

In 2019 the Company incurred $28,149 of payroll taxes. With the change in personnel and the proposed increases in wages (in expense proforma adjustments 1), there is also a related increase in the payroll taxes. With the proposed increase in net wages, the Company anticipates that its payroll taxes will amount to $34,201. As such, the Company increased payroll taxes by the difference of $6,052.

20/21. Federal Income and State Business Taxes - $56,843.

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

The total proforma adjustments to Operating Expenses amounts to $157,628.

The net of the proforma adjustments to operating revenue $278,865 and the proforma adjustments to operating expenses $157,628 results in net proforma adjustment of $122,840. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $363,262. The proforma test year net operating income of $363,262 allows the Company to cover its expenses and earn a 8.79% return on its investments.

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

A. Yes.

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Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C identifies certain operating expenses that were significantly different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year average amounts. The Company is proposing a 2 year average of such expenses. A review of other operating expenses seemed to indicate that such other expense are normal and reoccurring and appropriate for future years.

Schedule 1D shows the income tax computation. The proforma total rate base amounts to $4,132,015. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted average cost rate for equity capital of 6.86% is applied to the proforma total rate base, the proforma net operating income required amounts to $283,584. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $105,329, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $29,946 and the federal income tax at 21% amounts to $75,383.

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

Q. Please describe Schedule 2, the Balance Sheet.

A. The Company has $5,121,822 total assets at the end of 2019. $4,592,112 of the $5,121,822 total assets is net utility plant, most of which is completed and providing service to customers. In 2019 the Company added $161,340 of plant in service, offset by $114,627 of plant retired. Most significantly, it added $97,880 of general plant, which benefits all systems.

The Company has $2,971,220 of total equity capital. The Company had net income of $220,050 in 2019, slightly less than net income in 2018. The Company has $915,541 of long term debt. In 2019 the Company financed the purchase of a truck. The long term debt balance decreased by $131,785 as compared to 2018. Accumulated deferred income taxes increased significantly by $205,000 in 2019 as compared to 2018.

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

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

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

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $3,771,357 and $4,132,015, respectively.

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

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, the Company believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, the Company believes that other rate base items should be fully reflected in rates. As such, the Company has adjusted the Actual 13 Month Average Balances to Year End Balances. The rate base items affected by the reflection of year end balances are (1) plant in service, (7) accumulated depreciation, (14) accumulated amortization of utility plant in service, (15) material and supplies, (16) miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21) accumulated deferred income taxes.

In addition to the proforma adjustments to rate base for the year end balances, the Company made a number of other proforma adjustments as follows:

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2. Plant in Service – Acquisition Costs - $50,540.

In 2016 and 2017 the Company incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC "Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS …"

Similarly, in 2017 and 2018, the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to transfer the amounts out of account 186, miscellaneous deferred debits and into 301, organization costs. The Company is also proposing to recover such DS and WW costs over 20 years, resulting in an annual amortization of $2,527. See Sch 3C.

3. Plant in Service – 9/30/20 Additions to Plant - $191,548.

As of 9/30/20, the Company has placed $191,548 into service. None of the assets placed in service were revenue producing assets. See Sch. 3F. The Company is proposing to add the 2020 addition to rate base. At an appropriate time during the proceeding, the Company will update the 2020 additions to plant as of 12/31/20.

4. Plant in Service – 9/30/20 Retirements to Plant – ($26,741).

In 2020 the Company retired from plant $26,741. See Sch. 3G. The Company is proposing to reduce the 9/30/20 addition from rate base. At an appropriate time during the proceeding, the Company will update the 2020 retirements to plant as of 12/31/20.

5. Plant in Service – 2021 Additions to Plant - $418,000.

In 2021 the Company anticipates placing into service $418,000 of plant associated with main replacement projects at Paradise Shores and pump station replacement at WW. None of the assets placed in service were revenue producing assets. See Sch. 3H. The Company is proposing to add the 2021 additions to rate base.

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6. Plant in Service – 2021 Retirements to Plant – ($...).

In 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

8. Accumulated Depreciation – Half year depreciation of organization costs – ($1,264).

In 2016 and 2017 the Company incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. Similarly, in 2017 and 2018, the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to ½ accumulated amortization of the organization costs. See Sch 3C.

9. Accumulated Depreciation – Additional half year depreciation on 2019 additions – ($12,510).

The Company is proposing to include the additional half year depreciation on the 2019 additions to plant. During 2019 the Company recorded $9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to $22,308, resulting in an additional $12,510 needed. See Sch. 3D.

10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions – ($12,010).

The Company is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on the 9/30/20 plant amount to $12,010. See Sch. 3F. At an appropriate time during the proceeding, the Company will update the 2020 addition to plant as of 12/31/20.

11. Accumulated Depreciation – 2020 Retirements to Plant – $26,741.

In 2020 the Company retired from plant $26,741. As such, the Company is proposing to reduce A/D by $26,741. See Sch. 3G.

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12. Accumulated Depreciation – 2021 Additions to Plant - $13,874.

In 2021 the Company anticipates placing into service $418,000 of plant associated with main replacement projects at Paradise Shores and pump station replacement at WW. The annual depreciation expenses on the 2021 plant amount to $13,874. See Sch. 3H.

13. Accumulated Depreciation – 2021 Retirements to Plant – ($...).

In 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

22. Cash Working Capital - $8,318.

The Company adjusted cash working capital for the proforma increase in operating and maintenance expenses. See Sch 3J. Schedule 3J shows the computation of cash working capital for 2019 proforma amount and 2019, 2018 and 2017 actual amounts. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Please explain Schedule 3B.

A. Schedule 3B shows account title, description and amounts. In recent years, the Company has deferred various expenditures, mostly associated with certain regulatory proceedings, except for the West Point ("WP") dry well. The total miscellaneous deferred debits amounts total $93,731. For those costs associated with specific proceedings (DW 15-209 Step 2 - $2,145, IR 19-005 ROE Petition - $50,835, DW 18-056 Tax Act - $18,526 and DW 16-619 Step Increase - $5,644) amounting to $77,150, the Company is proposing to add such amount to rate base and amortize and recover such costs over a 5 year period. Arguably, some of these costs can/should be recovered as part of rate case expenditures, but the Company decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. In 2012 the Company was looking for a new source of supply for WP customers. Unfortunately, the Company was not successful. As such, the Company is proposing to add such amounts to rate base and recover such expenditures over a 20 year period.

Q. Please explain Schedule 3C.

A. Schedule 3C shows account number, description and amounts. In 2016 and 2017 the Company incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. Similarly, in 2017 and 2018, the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to transfer the expenditures from PUC account 186 to PUC account 301.

Q. Please explain Schedules 3D & 3E.

A. Schedule 3D shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows 2019 additions to plant amounting to $161,340 and the related depreciation and property taxes.

Schedule 3E shows PUC account numbers and descriptions, plant costs and related depreciation. In total, it shows 2019 retirements to plant amounting to $114,627 and the related depreciation.

Q. Please explain Schedules 3F & 3G.

A. Schedule 3F shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows 2020 additions to plant as of 9/30/20 amounting to $191,548 and the related depreciation and property taxes.

Schedule 3G shows PUC account numbers and descriptions, plant costs and related depreciation. In total, it shows 2020 retirements to plant as of 9/30/20 amounting to $26,741 and the related depreciation.

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Q. Please explain Schedules 3H & 3I.

A. Schedule 3H shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows projected 2021 additions to plant amounting to $418,000 and the related depreciation and property taxes. As indicated earlier, in 2021 the Company anticipates that certain plant will be retired. The Company has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, the Company will update the 2021 retirements to plant and any related depreciation.

Q. Please explain Schedules 3J.

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

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

A. Schedule 4 reflects the overall rate of return for both the actual test year and the proforma test year. The weighted average rate of return for the actual test year is 8.69%. It was developed by taking the actual component ratios times the actual component cost rates to determine the actual weighted average cost rate. The sum of the actual cost rates for equity and debt equals actual weighted average rate of return. The weighted average rate of return for the proforma test year is 8.79%. It was developed by taking the proforma component ratios times the proforma component cost rates to determine the proforma weighted average cost rate. The sum of the proforma cost rates for equity and debt equals the proforma weighted average rate of return.

Schedule 4 also reflects both the capital structure and the capital ratios. The Company has provided the capital structure for the actual test year and the proforma test year. It has also provided the actual capital structure for 2018 and 2017. The Company is utilizing the Commission determined cost of common equity of 9.69% plus .50% for rate case expense savings adder and .25% exemplary performance adder, resulting in a cost of equity of 10.44%. These adjustments to the cost of equity are based on the Commision's recent proposed rules governing the cost of equity for small water systems in Docket No. IR 19-005. See Mr. Mason testimony for an explanation of exemplary performance.

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Schedule 4A reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the actual test year. At 12/31/19 the Company has $915,541 of outstanding long term debt with related interest of $50,392 and a cost of debt of 5.72%.

Schedule 4B reflects the long term debt, interest expense, financing costs, total debt costs and debt costs rates for the proforma test year. The proforma outstanding balance is $1,548,541 of outstanding long term debt. The increase in the outstanding balance is due to the addition of the proposed financing with CoBank for $633,000. The proforma interest expense related to the debt is $87,155. The increase in the interest expense is primarily additional interest associated with the CoBank loans. The 2019 proforma cost of debt is 5.63%.

Q. Please explain the Report of Proposed Rate Changes for Total Company.

A. If the Company filing is approved as submitted, its total water Operating Revenues will amount to $1,844,158. The Total Sales of Water amounts to $1,793,910 of which $1,583,142 comes from the Company's 1,812 unmetered and metered customers.

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

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

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

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

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

A. No.

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LRWC (w/o DS & WW)

Q Then, would you please summarize the LRWC schedules?

A Yes. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue deficiency for LRWC for the test year amounts to $27,965. It is based upon an actual test year with a 13 month average rate base of $3,405,499 as summarized in Schedule 3, column o. LRWC's actual rate of return is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $3,405,499, results in an operating income requirement of $295,771. As shown on Schedule 1, column b, line 21, the actual net operating income for LRWC for the test year was $267,806. The operating income required, less the net operating income, results in an operating income deficiency before taxes of $27,965. LRWC did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for LRWC of $27,965.

The proforma revenue deficiency for the LRWC for the test year amounts to zero. It is based upon a proformed test year rate base of $3,469,323, as summarized in Schedule 3, column q. LRWC is utilizing a proformed rate of return of 8.79% for the proformed test year. The proformed rate of return of 8.79% when multiplied by the rate base of $3,469,323, results in an operating net income requirement of $305,002. As shown on Schedule 1, column d, line 21 the proformed net operating income for LRWC for the test year is $305,002. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for LRWC of zero.

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

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

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During the twelve months ended December 31, 2019, the actual Total Operating Revenues amounted to $1,498,843, a decrease of $103,305 over 2018. The decrease is due to lower Other Water Revenues and lower POASI revenues. The lower Other Water Revenues are due to lower rate case surcharge revenues and a PUC ordered reduction in revenues due tax savings refund in DW 18-056. The lower POASI revenues are due to lower water consumption. The lower revenues are offset by higher Water Sales Revenues due to higher consumption and more customers.

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

The Company has made 5 proforma adjustments to operating revenues totaling $162,003. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

<u>Proforma Adjustment to Revenues</u>

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

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

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $144,913.

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

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Total Proforma Adjustment to Water Sales is $127,166.

3. Rate Case Surcharge – ($32,980).

The Company is reducing test revenue by the amount of revenue associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year expenses by the amount of regulatory expenses associated with the recovery of approved rate case expenditures.

4. DW 18-056 Tax Savings Refund - $42,707.

The Company is increasing test revenues for the elimination of the DW 18-056 tax savings refund. As indicated earlier, at no point in time did LRWC exceed its rate of return even with the lower federal corporate tax rate. As such, the lower federal taxes were offset by other higher expenses. Since the Company did not exceed its authorized rate of return, its revenues should not be reduced by the supposed tax savings.

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

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

The Total Proforma Adjustments to Other Water Revenues amounts to $34,837. Total Proforma Adjustments to Operating Revenue amounts to $162,003.

The Company has made 21 proforma adjustments to operating expenses totaling $124,807. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

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Proforma Adjustments to Expense

1. Operating and Maintenance Expenses - Wages – $51,464.

During the test year, 3 employees left and 3 new employees joined the Company. LRWC removed wages associated with inactive employees and adjusted wages for new employees to reflect 52 weeks. The Company provided employees with a 3% cost of living increase on 7/1/20. The Company anticipates providing a 3% cost of living increase on 7/1/21. Also, in 2020, the Company began providing a $25.00 a day stipend for each day employees are on call.

2. Operating and Maintenance Expenses - Benefits – $16,566.

Benefits include health, dental, retirement and HRA. Total benefits incurred and reflected in test year amount to $53,854. With the change in employees, there are changes in benefit costs amounting to an increase of $16,566.

3 - 6. Operating and Maintenance Expense – Treatment Expenses ($4,901), T&D Expenses ($9,089), Customer Accounts Expenses ($9,082) and A&G Expenses $11,741.

When reviewing test year expenses, certain expenses were significantly different as compared to 2018. As such, LRWC is proposing a 2 year average of such expenses. Treatment expenses can vary from year to year, particularly with respect to certain water test that are schedule at 2, 3 & 5 year intervals. T&D expenses can also vary from year to years, particularly as it pertains to mains and services breaks. Bad debt expense can also vary. A&G expenses, particularly outside services, can vary as well. LRWC is proposing a 2 year average to smooth out the variations and to end up at an amount likely to represent an appropriate amount going forward. See Sch 1C for the 2019, 2018 and 2 year average amounts.

7. Operating and Maintenance – Regulatory Commission – ($26,339).

LRWC is reducing test expenses by the amount of regulatory commission expenses associated with the recovery of approved rate case expenditures. Please note that there is also a reduction in test year revenues by the amount of rate case expenditure surcharge revenue.

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8. Operating and Maintenance – Regulatory Commission – $15,130.

In recent years, LRWC has deferred varies expenditures, mostly associated with certain regulatory proceedings, except for the West Point ("WP") dry well. See Sch 3B for account titles, descriptions and amounts. The total miscellaneous deferred debits amounts total $88,087. For those costs associated with specific proceedings (DW 15-209 Step 2 - $2,145, IR 19-005 ROE Petition - $50,835 and DW 18-056 Tax Act - $18,526 amounting to $71,506, LRWC is proposing to amortize and recover such costs over a 5 year period. The annual amortization amounts to $14,301 ($71,506 / 5). Arguably, some of these costs can/should be recovered as part of rate case expenditures, but LRWC decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. In 2014 NHDES found that "it appears that the water is not capable of meeting the peak water demands of the system due to very low yielding wells." As such, the Company was looking for a new source of supply for its WP customers. Unfortunately, LRWC was not successful. As such, LRWC is proposing to recover such expenditures over a 20 year period, resulting in an annual amortization of $829 ($16,581 / 20). Again, see Sch 3B.

9. PUC Audit Costs - $1,667.

LRWC anticipates that the PUC audit staff will audit the LRWC's test year and its test year revenues, expenses, plant, debt, etc. LRWC estimated that LRWC will incur approximately $5,000 in expenses not reflected in the test year. LRWC proposes to defer and charge such expenses to outside services.

Total Proforma Adjustments to O&M Expenses are $47,158.

10. Depreciation Expense – 2019 Additions to Plant - $0.

11. Depreciation Expense – 2019 Additions to Plant - $12,510.

LRWC is proposing to include the additional half year depreciation on the 2019 additions to plant. In 2019 LRWC placed in service $161,340 of plant. None of the assets placed in service were revenue producing assets. During 2019 LRWC recorded $9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to $22,308, resulting in an additional $12,510 needed. See Sch. 3D.

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12. Depreciation Expense – 2019 Retirements to Plant – ($1,172).

In 2019 LRWC retired from plant $114,627. Certain retired assets were not fully depreciated, resulting in $1,172 of depreciation during the test year. With the retirement of the assets, no such deprecation will take place. As such, LRWC is proposing to eliminate $1,172 of depreciation expenses from test year expenses. See Sch. 3E.

13. Depreciation Expense – 2020 Additions to Plant - $11,794.

LRWC is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, LRWC has placed $189,387 into service. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 9/30/20 plant amount to $11,794. See Sch. 3F. At an appropriate time during the proceeding, LRWC will update the 2020 addition to plant as of 12/31/20.

14. Depreciation Expense – 2020 Retirements to Plant – ($668).

In 2020 LRWC retired from plant $26,741. Certain retired assets were not fully depreciated, resulting in $668 of depreciation during the test year. With the retirement of the assets, no such deprecation will take place. As such, LRWC is proposing to eliminate $668 of depreciation expenses from test year expenses. See Sch. 3G.

15. Depreciation Expense – 2021 Additions to Plant - $3,235.

In 2021 LRWC anticipates placing into service $158,000 of plant associated with main replacement projects at Paradise Shores. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 2021 plant amount to $13,874. See Sch. 3H.

16. Depreciation Expense – 2021 Retirements to Plant – ($...).

In 2021 LRWC anticipates that certain plant will be retired. LRWC has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, LRWC will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

Total Proforma Adjustments to Depreciation Expenses are $25,699.

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17. Taxes other than Income – State Utility Property Taxes - $2,646.

In 2019 LRWC incurred $27,276 in state utility property taxes. With the 2019, 2020 and 2021 additions to plant, LRWC anticipates that the state utility property taxes will increase by $488, $1,137 and $1,021, respectively. As such, LRWC has prepared a proforma adjustment for $2,646. See column (m) on Schedules 3D, 3F & 3H for the calculation.

18. Taxes other than Income – Municipal Property Taxes - $3,301.

In 2019 LRWC incurred $49,036 in municipal property taxes. With the 2019, 2020 and 2021 additions to plant, LRWC anticipates that the state utility property taxes will increase by $580, $1,893 and $828, respectively. As such, LRWC has prepared a proforma adjustment for $5,900. See column (p) on Schedules 3D, 3F & 3H for the calculation.

19. Taxes other than Income - Payroll Taxes - $6,052.

In 2019 LRWC incurred $28,149 of payroll taxes. With the change in personnel and the proposed increases in wages (in expense proforma adjustments 1), there is also a related increase in the payroll taxes. With the proposed increase in net wages, LRWC anticipates that its payroll taxes will amount to $34,201. As such, LRWC increased payroll taxes by the difference of $6,052.

20/21. Federal Income and State Business Taxes - $39,951.

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

The total proforma adjustments to Operating Expenses amounts to $124,807.

The net of the proforma adjustments to operating revenue $162,003 and the proforma adjustments to operating expenses $124,807 results in net proforma adjustment of $37,196. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $305,002. The proforma test year net operating income of $305,002 allows LRWC to cover its expenses and earn a 8.79% return on its investments.

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

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C identifies certain operating expenses that were significantly different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year average amounts. LRWC is proposing a 2 year average of such expenses. A review of other operating expenses seemed to indicate that such other expenses are normal and reoccurring and appropriate for future years.

Schedule 1D shows the income tax computation. The proforma total rate base amounts to $3,469,323. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted average cost rate for equity capital of 6.86% is applied to the proforma total rate base, the proforma net operating income required amounts to $238,103. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $88,437, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $25,144 and the federal income tax at 21% amounts to $63,293.

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

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

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

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

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $3,405,499 and $3,469,323, respectively.

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

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, LRWC believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, LRWC believes that other rate base items should be fully reflected in rates. As such, LRWC has adjusted the Actual 13 Month Average Balances to Year End Balances. The rate base items affected by the reflection of year end balances are (1) plant in service, (7) accumulated depreciation, (14) accumulated amortization of utility plant in service, (15) material and supplies, (16) miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21) accumulated deferred income taxes.

In addition to the proforma adjustments to rate base for the year end balances, LRWC made a number of other proforma adjustments as follows:

2. Plant in Service – Acquisition Costs - $0.

3. Plant in Service – 9/30/20 Additions to Plant - $189,387.

As of 9/30/20, LRWC has placed $189,387 into service. None of the assets placed in service were revenue producing assets. See Sch. 3F. LRWC is proposing to add the 2020 addition to rate base. At an appropriate time during the proceeding, LRWC will update the 2020 additions to plant as of 12/31/20.

4. Plant in Service – 9/30/20 Retirements to Plant – ($26,741).

In 2020 LRWC retired from plant $26,741. See Sch. 3G. LRWC is proposing to reduce the 9/30/20 addition from rate base. At an appropriate time during the proceeding, LRWC will update the 2020 retirements to plant.

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5. Plant in Service – 2021 Additions to Plant - $158,000.

In 2021 LRWC anticipates placing into service $158,000 of plant associated with main replacement projects at Paradise Shores. None of the assets placed in service were revenue producing assets. See Sch. 3H. LRWC is proposing to add the 2021 additions to rate base.

6. Plant in Service – 2021 Retirements to Plant – ($...).

In 2021 LRWC anticipates that certain plant will be retired. LRWC has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, LRWC will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

8. Accumulated Depreciation – Half year depreciation of organization costs – ($0).

9. Accumulated Depreciation – Additional half year depreciation on 2019 additions – ($12,510).

LRWC is proposing to include the additional half year depreciation on the 2019 additions to plant. During 2019 LRWC recorded $9,798 of depreciation expenses. The annual depreciation expenses on the 2019 plant amount to $22,308, resulting in an additional $12,510 needed. See Sch. 3D.

10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions – ($11,794).

LRWC is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on the 9/30/20 plant amount to $11,794. See Sch. 3F. At an appropriate time during the proceeding, LRWC will update the 2020 addition to plant as of 12/31/20.

11. Accumulated Depreciation – 2020 Retirements to Plant – $26,741.

In 2020 LRWC retired from plant $26,741. As such, LRWC is proposing to reduce A/D by $26,741. See Sch. 3G.

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12. Accumulated Depreciation – 2021 Additions to Plant - $3,235.

In 2021 LRWC anticipates placing into service $158,000 of plant associated with main replacement projects at Paradise Shores. The annual depreciation expenses on the 2021 plant amount to $3,235. See Sch. 3H.

13. Accumulated Depreciation – 2021 Retirements to Plant – ($...).

In 2021 LRWC anticipates that certain plant will be retired. LRWC has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, LRWC will update the 2021 retirements to plant and any related depreciation. See Sch. 3I.

22. Cash Working Capital - $8,632.

LRWC adjusted cash working capital for the proforma increase in operating and maintenance expenses. See Sch 3J. Schedule 3J shows the computation of cash working capital for 2019 proforma amount and 2019, 2018 and 2017 actual amounts. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Please explain Schedule 3B.

A. Schedule 3B shows account title, description and amounts. In recent years, LRWC has deferred varies expenditures, mostly associated with certain regulatory proceedings, except for the West Point (“WP”) dry well. The total miscellaneous deferred debits amounts total $88,097. For those costs associated with specific proceedings (DW 15-209 Step 2 - $2,145, IR 19-005 ROE Petition - $50,835 and DW 18-056 Tax Act - $18,526 amounting to $71,506, LRWC is proposing to add such amount to rate base and amortize and recover such costs over a 5 year period. Arguably, some of these costs can/should be recovered as part of rate case expenditures, but LRWC decided to exclude such costs from this proceeding’s rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. In 2012 LRWC was looking for a new source of supply for its WP customers. Unfortunately, LRWC was not successful. As such, LRWC is proposing to add such amounts to rate base and recover such expenditures over a 20 year period.

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Q. Please explain Schedules 3D & 3E.

A. Schedule 3D shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows 2019 additions to plant amounting to $161,340 and the related depreciation and property taxes.

Schedule 3E shows PUC account numbers and descriptions, plant costs and related depreciation. In total, it shows 2019 retirements to plant amounting to $114,627 and the related depreciation.

Q. Please explain Schedules 3F & 3G.

A. Schedule 3F shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows 2020 additions to plant as of 9/30/20 amounting to $189,387 and the related depreciation and property taxes.

Schedule 3G shows PUC account numbers and descriptions, plant costs and related depreciation. In total, it shows 2020 retirements to plant as of 9/30/20 amounting to $26,741 and the related depreciation.

Q. Please explain Schedules 3H & 3I.

A. Schedule 3H shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). In total, it shows projected 2021 additions to plant amounting to $158,000 and the related depreciation and property taxes.

As indicated earlier, in 2021 LRWC anticipates that certain plant will be retired. LRWC has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, LRWC will update the 2021 retirements to plant and any related depreciation.

Q. Please explain Schedules 3J.

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

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

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

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

A. If LRWC's filing is approved as submitted, its total water Operating Revenues will amount to $1,660,846. The Total Sales of Water amounts to $1,612,772 of which $1,402,004 comes from LRWC's 1,702 unmetered and metered customers.

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

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

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

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

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

A. No.

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Dockham Shores ("DS")

Q. What do the DS schedules show?

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue deficiency for DS for the test year amounts to $46,063. It is based upon an actual test year with a 13 month average rate base of $333,982 as summarized in Schedule 3, column o. DS's actual rate of return is 8.69% for the actual test year. The rate of return of 8.69%, when multiplied by the rate base of $333,982, results in an operating income requirement of $29,007. As shown on Schedule 1, column b, line 19, the actual net operating income for DS for the test year was ($17,056). The operating income required, less the net operating income, results in an operating income deficiency before taxes of $46,063. DS did not calculate the tax effect of the revenue deficiency, resulting in a revenue deficiency for DS of $46,063.

The proforma revenue deficiency for the DS for the test year amounts to zero. It is based upon a proformed test year rate base of $366,636, as summarized in Schedule 3, column q. DS is utilizing a proformed rate of return of 8.79% for the proformed test year. The proformed rate of return of 8.79% when multiplied by the rate base of $366,636, results in an operating net income requirement of $32,232. As shown on Schedule 1, column d, line 19 the proformed net operating income for DS for the test year is $32,232. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for DS of zero.

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

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

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

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

The Company has made 2 proforma adjustments to operating revenues totaling $58,013. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

Proforma Adjustment to Revenues

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

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $57,211.

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

Total Proforma Adjustment to Water Sales is $57,211.

3. Rate Case Surcharge – ($0).

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

5. Revenue from Contract Work - $802.

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

The Total Proforma Adjustments to Other Water Revenues amounts to $802. Total Proforma Adjustments to Operating Revenue amounts to $58,013.

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The Company has made 8 proforma adjustments to operating expenses totaling $8,724. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

Proforma Adjustments to Expense

1. Operating and Maintenance Expenses - Wages – $0.

2. Operating and Maintenance Expenses - Benefits – $0.

3 - 6. Operating and Maintenance Expense – Treatment Expenses ($2,346), T&D Expenses ($185), Customer Accounts Expenses ($73) and A&G Expenses $793.

When reviewing test year expenses, certain expenses were significantly different as compared to 2018. As such, DS is proposing a 2 year average of such expenses. Treatment expenses can vary from year to year, particularly with respect to certain water tests that are scheduled at 2, 3 & 5 year intervals. T&D expenses can also vary from year to year, particularly as it pertains to mains and services breaks. Bad debt expenses can also vary. A&G expenses, particularly outside services, can vary as well. DS is proposing a 2 year average to smooth out the variations and to end up at an amount likely to represent an appropriate amount going forward. See Sch 1C for the 2019, 2018 and 2 year average amounts.

7. Operating and Maintenance – Regulatory Commission – ($0).

8. Operating and Maintenance – Regulatory Commission – $1,129.

In recent years, DS has deferred expenditures associated with DW 16-619. See Sch 3B for account titles, descriptions and amounts. The total miscellaneous deferred debits amounts total $5,644. DS is proposing to amortize and recover such costs over a 5 year period. The annual amortization amounts to $1,129 ($5,644 / 5). Arguably, these costs can/should be recovered as part of rate case expenditures, but DS decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers.

9. PUC Audit Costs - $0.

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Total Proforma Adjustments to O&M Expenses are ($682).

10. Depreciation Expense – 2019 Additions to Plant associated with Organization Costs - $1,794.

In 2016 and 2017 DS incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC "Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS …" DS is proposing to recover such DS costs over 20 years, resulting in an annual amortization of $1,794. See Sch 3C.

11. Depreciation Expense – 2019 Additions to Plant - $0.

12. Depreciation Expense – 2019 Retirements to Plant – ($0).

13. Depreciation Expense – 2020 Additions to Plant - $0.

14. Depreciation Expense – 2020 Retirements to Plant – ($0).

15. Depreciation Expense – 2021 Additions to Plant - $0.

16. Depreciation Expense – 2021 Retirements to Plant – ($0).

Total Proforma Adjustments to Depreciation Expenses are $1,794.

17. Taxes other than Income – State Utility Property Taxes - $0.

18. Taxes other than Income – Municipal Property Taxes - $0.

19. Taxes other than Income - Payroll Taxes - $0.

20/21. Federal Income and State Business Taxes - $7,612.

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

The total proforma adjustments to Operating Expenses amounts to $8,724.

The net of the proforma adjustments to operating revenue $58,013 and the proforma adjustments to operating expenses $8,724 results in net proforma adjustment of $49,289. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $32,233. The proforma test year net operating income of $32,233 allows DS to cover its expenses and earn a 8.79% return on its investments.

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

A. Yes.

Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C identifies certain operating expenses that were different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year average amounts. DS is proposing a 2 year average of such expenses. A review of other operating expenses seemed to indicate that such other expenses are normal and reoccurring and appropriate for future years.

Schedule 1D shows the income tax computation. The proforma total rate base amounts to $366,636. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted average cost rate for equity capital of 6.86% is applied to the proforma total rate base, the proforma net operating income required amounts to $25,163. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $9,346, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to

$2,657 and the federal income tax at 21% amounts to $6,689.

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

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

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

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

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $333,982 and $366,636, respectively.

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

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, DS believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, DS believes that other rate base items should be fully reflected in rates. As such, DS has adjusted the Actual 13 Month Average Balances to Year End Balances. The rate base items affected by the reflection of year end balances are (1) plant in service, (7) accumulated depreciation, (14) accumulated amortization of utility plant in service, (15) material and supplies, (16) miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21) accumulated deferred income taxes.

In addition to the proforma adjustments to rate base for the year end balances, DS made a few other proforma adjustments as follows:

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2. Plant in Service – Acquisition Costs - $35,876.

In 2016 and 2017 DS incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. As part of the Settlement Agreement in NHPUC DW 19-177, the Settling Parties agreed that the NHPUC "Staff will examine and evaluate, in the context of the impending rate case, the costs incurred relative to the original acquisition and financing of DS …" DS is proposing to add the organization costs of $35,876 to rate base and recover such DS costs over 20 years, resulting in an annual amortization of $1,794. See Sch 3C.

8. Accumulated Depreciation – Half year depreciation of organization costs – ($897).

DS is proposing to add the organization costs of $35,876 to rate base and recover such DS costs over 20 years, resulting in an annual amortization of $1,794 and ½ year amortization to accumulated depreciation. See Sch 3C.

22. Cash Working Capital – ($140).

DS adjusted cash working capital for the proforma increase in operating and maintenance expenses. See Sch 3C. Schedule 3C shows the computation of cash working capital for 2019 proforma amount and 2019 and 2018. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

Q. Please explain Schedule 3B.

A. Schedule 3B shows account title, description and amounts. In recent years, DS has deferred certain expenditures. The total miscellaneous deferred debits amounts total $5,644. DS is proposing to add such amount to rate base and amortize and recover such costs over a 5 year period. Arguably, the costs can/should be recovered as part of rate case expenditures, but DS decided to exclude such costs from this proceeding's rate case costs and to recover such costs over a longer period of time to lessen the impact on customers. As such, DS is proposing to add such amounts to rate base and recover such expenditures over a 5 year period.

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Q. Please explain Schedule 3C.

A. Schedule 3C shows account number, description and amounts. In 2016 and 2017 the Company incurred $35,876 of acquisition costs associated with the purchase of DS in NHPUC DW 16-619. The Company is proposing to transfer the expenditures from PUC account 186 to PUC account 301.

Q. Please explain Schedules 3D.

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

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

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

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

A. If DS's filing is approved as submitted, its total water Operating Revenues will amount to $96,821. The Total Sales of Water amounts to $95,842 and would come from DS's 61 metered customers.

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

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

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

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

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

A. No.

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<u>Wildwood Water ("WW")</u>

Q Then, would you please summarize the WW schedules?

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

The proforma revenue deficiency for the WW for the test year amounts to zero. It is based upon a proformed test year rate base of $297,394, as summarized in Schedule 3, column q. WW is utilizing a proformed rate of return of 8.79% for the proformed test year. The proformed rate of return of 8.79% when multiplied by the rate base of $297,394, results in an operating net income requirement of $26,145. As shown on Schedule 1, column d, line 19 the proformed net operating income for WW for the test year is $26,145. The operating income required, less the net operating income, results in a deficiency of zero. The tax effect of the deficiency is zero, resulting in a revenue deficiency for WW of zero.

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

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

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

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

The Company has made 2 proforma adjustments to operating revenues totaling $55,538. The specific proforma adjustments are identified on the operating revenues schedule (Schedule 1A). A brief explanation is as follows:

Proforma Adjustment to Revenues

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

2. Sales of Water – Amount Necessary to Earn Return and Cover Operating Costs - $54,737.

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

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

3. Rate Case Surcharge – ($0).

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

5. Revenue from Contract Work - $801.

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

The Total Proforma Adjustments to Other Water Revenues amounts to $801. Total Proforma Adjustments to Operating Revenue amounts to $55,538.

The Company has made a number of proforma adjustments to operating expenses totaling $20,667. The specific proforma adjustments are identified on the operating expenses schedule (Schedule 1B). A brief explanation is as follows:

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Proforma Adjustments to Expense

1. Operating and Maintenance Expenses - Wages – $0.

2. Operating and Maintenance Expenses - Benefits – $0.

3 - 6. Operating and Maintenance Expense – Treatment Expenses ($788), T&D Expenses ($239), Customer Accounts Expenses ($0) and A&G Expenses $0.

When reviewing test year expenses, certain expenses were significantly different as compared to 2018. As such, WW is proposing a 2 year average of such expenses. Treatment expenses can vary from year to year, particularly with respect to certain water tests that are scheduled at 2, 3 & 5 year intervals. T&D expenses can also vary from year to year, particularly as it pertains to mains and services breaks. See Sch 1C for the 2019, 2018 and 2 year average amounts.

7. Operating and Maintenance – Regulatory Commission – $0.

8. Operating and Maintenance – Regulatory Commission – $0.

9. PUC Audit Costs - $0.

Total Proforma Adjustments to O&M Expenses are ($1,026).

10. Depreciation Expense – 2019 Additions to Plant associated with Organization Costs - $1,794.

In 2017 and 2018, the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. The Company is proposing to recover such WW costs over 20 years, resulting in an annual amortization of $733. See Sch 3B.

11. Depreciation Expense – 2019 Additions to Plant - $0.

12. Depreciation Expense – 2019 Retirements to Plant – ($0).

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13. Depreciation Expense – 2020 Additions to Plant - $216.

The WW is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. As of 9/30/20, WW has placed $2,161 into service. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 9/30/20 plant amount to $216. See Sch. 3C. At an appropriate time during the proceeding, WW will update the 2020 addition to plant as of 12/31/20.

14. Depreciation Expense – 2020 Retirements to Plant – ($0).

15. Depreciation Expense – 2021 Additions to Plant - $10,639.

In 2021 WW anticipates placing into service $260,000 of plant associated with pump station replacemen. None of the assets placed in service were revenue producing assets. The annual depreciation expenses on the 2021 plant amount to $10,639. See Sch. 3E.

16. Depreciation Expense – 2021 Retirements to Plant – ($0).

In 2021 WW anticipates that certain plant will be retired. WW has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, WW will update the 2021 retirements to plant and any related depreciation. See Sch. 3F.

Total Proforma Adjustments to Depreciation Expenses are $11,589.

17. Taxes other than Income – State Utility Property Taxes - $1,659.

In 2019 WW incurred $341 in state utility property taxes. With the 2020 and 2021 additions to plant, the Company anticipates that the state utility property taxes will increase by $13 and $1,646, respectively. As such, the Company has prepared a proforma adjustment for $1,659. See column (m) on Schedules 3C & 3E for the calculation.

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18. Taxes other than Income – Municipal Property Taxes - $2,599.

In 2019 the Company incurred $903 in municipal property taxes. With the 2020 and 2021 additions to plant, the Company anticipates that the municipal utility property taxes will increase by $20 and $2,578, respectively. As such, the Company has prepared a proforma adjustment for $2,599. See column (p) on Schedules 3C, & 3E for the calculation.

19. Taxes other than Income - Payroll Taxes - $0.

20/21. Federal Income and State Business Taxes - $5,847.

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

The total proforma adjustments to Operating Expenses amounts to $20,667.

The net of the proforma adjustments to operating revenue $55,538 and the proforma adjustments to operating expenses $20,667 results in net proforma adjustment of $34,871. When the net operating income associated with the proforma adjustments is added to net operating income from the test year, the proforma test year net operating income totals $26,145. The proforma test year net operating income of $26,145 allows WW to cover its expenses and earn a 8.79% return on its investments.

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

A. Yes.

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Q. Are there additional schedules that support Schedule 1.

A. Yes. Schedule 1C identifies certain operating expenses that were different as compared to 2018. Schedule 1C further identifies the 2019, 2018 and 2 year average amounts. WW is proposing a 2 year average of such expenses. A review of other operating expenses seemed to indicate that such other expenses are normal and reoccurring and appropriate for future years.

Schedule 1D shows the income tax computation. The proforma total rate base amounts to $297,394. See Schedule 3. The proforma weighted average cost rate for equity capital is 6.86% (See Schedule 4). When the proforma weighted average cost rate for equity capital of 6.86% is applied to the proforma total rate base, the proforma net operating income required amounts to $20,410. When the tax multiplier of 37.14% is applied to the proforma net operating income required, it produces the total tax of $7,581, which represents the amount of tax needed on the proforma net operating income required. The sum of the proforma net operating income required plus the total tax amount results in taxable income required before income taxes. The business profits tax at 7.70% amounts to $2,155 and the federal income tax at 21% amounts to $5,426.

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

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

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

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

The Total 13 Month Average Rate Base and the 2019 Proforma Rate Base amounts to $33,253 and $297,394, respectively.

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

A. Schedule 3A shows the various adjustments to rate base. As stated earlier in my testimony, WW believes that all assets placed in service during the test year should be fully reflected in rate base and a full year's depreciation on such assets should be fully reflected in depreciation expense and accumulated depreciation. Likewise, WW believes that other rate base items should be fully reflected in rates. As such, WW has adjusted the Actual 13 Month Average Balances to Year End Balances. The rate base items affected by the reflection of year end balances are (1) plant in service, (7) accumulated depreciation, (14) accumulated amortization of utility plant in service, (15) material and supplies, (16) miscellaneous deferred debits, (17) CIAC, (18) AA of CIAC, (18 - 21) accumulated deferred income taxes.

In addition to the proforma adjustments to rate base for the year end balances, WW made a few other proforma adjustments as follows:

2. Plant in Service – Acquisition Costs - $14,664.

In 2017 and 2018, WW incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. WW is proposing to transfer the amounts out of account 186, miscellaneous deferred debits and into 301, organization costs. WW is also proposing to recover such WW costs over 20 years, resulting in an annual amortization of $2,527. See Sch 3B.

3. Plant in Service – 2020 Additions to Plant - $2,161.

As of 9/30/20, WW has placed $2,161 into service. None of the assets placed in service were revenue producing assets. See Sch. 3C. WW is proposing to add the 2020 addition to rate base. At an appropriate time during the proceeding, WW will update the 2020 additions to plant as of 12/31/20.

5. Plant in Service – 2021 Additions to Plant - $260,000.

In 2021 WW anticipates placing into service $260,000 of plant associated pump station replacement. None of the assets placed in service were revenue producing assets. See Sch. 3E. WW is proposing to add the 2021 additions to rate base.

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6. Plant in Service – 2021 Retirements to Plant – ($...).

In 2021 WW anticipates that certain plant will be retired. WW has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, WW will update the 2021 retirements to plant and any related depreciation. See Sch. 3F.

8. Accumulated Depreciation – Half year depreciation of organization costs – ($367).

WW is proposing to add the organization costs of $14,664 to rate base and recover such WW costs over 20 years, resulting in an annual amortization of $733 and ½ year amortization to accumulated depreciation. See Sch 3B.

10. Accumulated Depreciation – Annual Depreciation on 9/30/20 additions – ($216).

WW is proposing to include the annual depreciation expense associated with the 1/1 – 9/30/20 additions to plant. The annual depreciation expenses on the 9/30/20 plant amount to ($216). See Sch. 3C. At an appropriate time during the proceeding, WW will update the 2020 addition to plant as of 12/31/20.

12. Accumulated Depreciation – 2021 Additions to Plant – ($10,639).

In 2021 WW anticipates placing into service $260,000 of plant associated with pump station replacement. The annual depreciation expenses on the 2021 plant amount to $10,639. See Sch. 3E.

22. Cash Working Capital – (211).

WW adjusted cash working capital for the proforma increase in operating and maintenance expenses. See Sch 3G. Schedule 3G shows the computation of cash working capital for 2019 proforma amount and 2019 and 2018. The proforma cash working capital is based on the proforma test year operation and maintenance expenses.

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Q. Please explain Schedule 3B.

A. Schedule 3C shows account number, description and amounts. In 2017 and 2018 the Company incurred $14,664 of acquisition costs associated with the purchase of WW in NHPUC DW 17-176. WW is proposing to transfer the expenditures from PUC account 186 to PUC account 301.

Q. Please explain Schedules 3C & 3D.

A. Schedule 3C shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). For WW, it shows 2020 additions to plant as of 9/30/20 amounting to $2,161 and the related depreciation and property taxes.

Schedule 3D shows PUC account numbers and descriptions, plant costs and related depreciation. For WW, it shows 2020 retirements to plant as of 9/30/20 amounting to $0 and the related depreciation.

Q. Please explain Schedules 3E & 3F.

A. Schedule 3E shows LRWC division numbers, names, PUC account numbers, plant amounts (columns d-f), depreciation amounts (columns h-k) and property tax amounts (m & p). For WW, it shows projected 2021 additions to plant amounting to $260,000 and the related depreciation and property taxes.

As indicated earlier, in 2021 WW anticipates that certain plant will be retired. WW has yet to determine what plant and the related original costs. At an appropriate time during the proceeding, WW will update the 2021 retirements to plant and any related depreciation.

Q. Please explain Schedules 3G.

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

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

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

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

A. If WW's filing is approved as submitted, its total water Operating Revenues will amount to $81,577. The Total Sales of Water amounts to $80,382 and would come from WW's 49 unmetered customers.

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

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

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

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

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

A. No.

OTHER MATTERS

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

A. The Company is interested in exploring with the PUC Staff and any other parties the possibility of billing monthly instead of billing quarterly. The Company is also interested in exploring with the PUC Staff and any other parties the possibility of meter program whereby water system that are not metered get metered over time with a separate meter program recovery mechanism.

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CONCLUSION

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

A. The Company respectfully requests that the Commissioners approve the consolidation of rates to all of the Company's water systems including Dockham Shores and Wildwood Water. If the Commissioners approve the consolidation of rates, the Company respectfully requests that the Commissioners also approve an increase in revenues of $260,172 or 19.69% from the Company's 1,812 unmetered and metered customers.

If the Commissioners do not approve the consolidation of rates, the Company respectfully requests that the Commissioners approve an increase in revenues of $144,913 or 11.53%, $57,211 or 148.10% and $54,737 or 213.44% from the Company's LRWC (w/o DS & WW), DS & WW, respectively.

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

A. No, there is nothing further.

Q. Does this conclude your testimony?

A. Yes.