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Direct Testimony of Stephen P. St. Cyr in DW 20-112

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. St. Cyr & Associates was established in 1993. 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, however, I'm not currently licensed in NH due to different licensing requirements. I have a master level Certificate in Taxation from New Hampshire College (now Southern New Hampshire University).

Q. Is St. Cyr & Associates presently providing services to Abenaki Water Company ("AWC" or "Company")?

A. Yes. St. Cyr & Associates prepared the various exhibits and supporting schedules as well as the written testimony and other rate case filing requirements. Also, St. Cyr & Associates prepare both recent financing applications (DW 20-044 and DW 20-088). In addition, St. Cyr & Associates prepares Abenaki's PUC Annual Reports.

Q. Are you familiar with the pending rate application of the various AWC water and sewer systems and with the various exhibits submitted as Schedules 1 through 4 inclusive, with related pages and attachments for each of the water systems, the sewer system and the combined water system?

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

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

A. AWC is utilizing the twelve months ended December 31, 2019 for the Lakeland ("LL") Water and White Rock ("WR") and the 12 months ended 4/30/20 for Tioga Gilford Village ("TGV") and Tioga Belmont ("TB"). AWC is using the 12 months ended 4/30/20 for TGV and TB because there were only 8 months of actual data in the 2019 test year. AWC is also is utilizing the twelve months ended December 31, 2019 for the Lakeland ("LL") Sewer.

Q. Before you explain the schedules, please provide a brief overview of AWC.

A. AWC, a wholly owned subsidiary of New England Service Company ("NESC"), is a public utility distributing water to approximately 725 customers in Carroll, Belmont, Bow and Gilford, NH. It also provides sewer to 158 customers in Belmont, NH. As a public utility operating in New Hampshire, the Company functions under the rules and regulations prescribed by the New Hampshire Public Utilities Commission ("NHPUC").

Q. Is the rate application applicable to all of AWC's systems?

A. No, the rate application excludes the Rosebrook water system.

Q. Are there specific things prompting the rate filing?

A. Yes. First of all, the WR, TGV and TB all experience net losses during the test year. As such, part of the rate application is simply to allow those systems to recover its costs and earn its PUC approved rates of return. Second, each of the water systems incurred normal replacement of plant and/or new plant during the test year. Both TGV and TB made significant investments in the purchased and installed meters. Both TGV and TB are also seeking recovery of its due diligence costs incurred during its purchase by the AWC and the approval by the NHPUC. Third, each of the water systems has also incurred normal replacement of plant and/or new plant in 2020. Both WR and TB have financing requests before the NHPUC in DW 20-044 and DW 20-088 to make significant improvements to the systems. Fourth, LL Water, WR & TB systems has incurred costs i.e., water boiling, tax rate effect change, water outages, tank inspection, etc. that have been deferred. Those systems are now seeking recovery of such costs over various periods of time. Lakeland and White Rock's last rate increase was approved in DW 15-199, based on a proformed 2014 test year. TGV and TB's last rate increase was approved in DW 10-217, based on a proformed test year for the 12 months ended 10/31/09. With the proposed increase in rates and revenues, AWC should be able to eliminate the net loss, recover its investments, earn a fair and reasonable rate of return on its investment and continue to provide service to its customers at fair and reasonable rates.

Q. Is there anything else prior to summarizing the schedules?

A. Yes. AWC seeks Commission approval of a year-end rate base. While the Company has always believed that a year-end rate base is appropriate, that is particularly true for WR, TGV and TB due to the investments made during the test year. All of these investments are "used and useful" and providing service to customers.

TGV and TB are also seeking recovery of its due diligence costs. These are the costs that were incurred in the process of purchasing the water system and gaining PUC approval (DW 18-108). The recovery of these costs consistent with the PUC's approval of similar due diligence costs incurred when Abenaki purchased Lakeland, White Rock and Rosebrook. AWC is proposing to amortize the due diligence costs over a 15 year period.

In addition, AWC is proposing consolidated rates for LL Water, WR, TGV & TB. Unfortunately, any investment of a significant amount causes a significant rate increase, which is particularly hard on water systems with a small number of customers. Given the relatively small number of customers in each of these systems, it's in the customers and the Company's best interest to be able to spread such investments over a larger number of customers. See Mr. LaChance's testimony for further justification.

Finally, AWC is using a 10.44% return on equity. AWC is utilizing the Commission Staff determined cost of common equity of 9.69% plus .50% for rate case expense savings adder plus .25% exemplary performance adder. AWC believes that it could justify a .50% exemplary performance adder but choose to seek only .25% knowing the amount of the rate increase(s). The justification for exemplary performance is provided as part of the Total Company Schedules.

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Q. Would you please summarize the schedules?

A. Yes. The schedules consist of AWC 2019, 2018 and 2017 balance sheets and income statements, the 2019 statement of income by system, the 2019, 2018 and 2017 capital structures, the 2019 actual and pro forma long term debt and the rate of return information (collectively referred to as the Total Company Schedules). The Total Company Schedules are followed by a set of rate schedules for the LL Sewer entity, the LL Water, WR, TGV and TB water systems, followed by the combined water systems schedules.

Q. Please describe the **Total Company Schedules**.

A. The Total Company Schedules consist of the 2019, 2018 and 2017 balance sheets and income statements, the 2019 statement of income by system, the 2019, 2018 and 2017 capital structures, the 2019 actual and pro forma long term debt and the rate of return information

Overall, Schedule 1a and 1b shows the Company's balance sheet has increased $487,621 since 2017, including an increase in utility plant of $599,472. The Company's cash position has been strained, resulting in a significant A/P to Associated Co., which was subsequently converted to additional paid in capital. Company has also experienced increases in preliminary survey and investigation charges of $102,041 and miscellaneous deferred debits of $157,681. In addition, the Company has an increase in additional paid in capital of $474,730 including the previously mentioned conversion of A/P to Associated Co. Its long-term debt decreased in 2018 and increased in 2019.

Overall, in 2019, Schedule 2a shows the Company's net income amounted to $29,063. The Company's operating revenues decreased in 2018 and increased in 2019, due to an increase in rates in its Rosebrook water system and 8 months of revenue from newly acquired TGV and TB water systems. The Company's operating expenses decreased in 2018 and increased in 2019. The increase in 2019 is in part due to O&M expenses associated with newly acquired TGV and TB water system.

A closer look at the Company's 2019 net income as shown on Schedule 2b reveals that Rosebrook and Lakeland contributed to the overall net income and WR, TGV and TB did not. WR, TGV & TB experienced net losses amounting to $19,532, $13,067 and $19,975, respectively.

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As such, part of the proposed increase in rates / revenues is to simply allow those systems to cover their expenses and earn their presently PUC approved rate of return.

Schedule 3 shows the 2019, 2018 & 2017 capital structures. As indicated earlier, the Company has an increase in additional paid in capital of $474,730 including the previously mentioned conversion of A/P to Associated Co. Its long-term debt decreased in 2018 and increased in 2019.

Schedule 4 shows the Company's long term debt and interest expense for both actual and pro forma 2019. The actual cost of debt is 4.08%. The pro forma long term debt includes $45,000 of NH DWGTF financing for TB tank and gate valves (subject to PUC approval in DW 20-044) and $125,000 of NH DWSRF financing for WR improvements (subject to PUC approval in DW 20-088). The interest rates on both pending loans are very attractive. The pro forma cost of debt is 3.96%.

Schedule 5 shows the rate of return information including overall rate of return of 7.81% and 7.95% for actual and pro forma, respectively. It also shows the capital structures and capital structures percentage for 2019, 2018 and 2017. The Company is utilizing the PUC Staff provided baseline ROE of 9.69%, plus rate case expense savings added of .50%, plus a capital structure adder of .00%, plus an exemplary performance adder of .25%. Please note that the Company is just outside an "acceptable" capital structure with equity of 56 to 60 percent due in part to the conversion of A/P to Associated Co. to additional paid in capital.

With respect to "exemplary performance," AWC utilizes a NHDES asset management program. The Company performs regularly scheduled leak detection across each of the Company systems. Once identified, the main/service is then scheduled for repair/replacement. The Company also banned non-essential outdoor water usage in the WR and TB. All purchases must be approved via a PO by an officer of the Company. Non-recurring charges in excess of $500 require multiple vendor prices. The Company's emergency excavator is under agreement, with specified pricing, that the Company has pre-negotiated to ensure competitive pricing. The Company is now evaluating the new arsenic MCL (5 ppm) at WR. Further work has yet to be done, but any improvements or techniques necessary will be determined. At TGV, the Company is addressing Radium 226 & 228 through a series of sample testing. The forecast is either replacing the present filtration media or blending of source water.

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The Company has recently just invested in a Job Order system that tracks customer visits to ensure the concern has been completed satisfactorily to management. These job Orders are archived into the customer profiles for historic use. Recently, the Company rolled out a state of the art emergency alert system that notifies customers via email, phone and text of emergencies or planned work in the systems. The Company accepts credit card and payment via its web site, it recently has added Apple payment methods as well. All of these measures have been taken in part because the Company believes that they better serve customers. While the Company believes that such measures merit .50 basis points being added to the return on equity, it recognized that given the size of the rate increases, it is willing to accept .25 basis points.

Q. Is there anything else that you would like to address related to the Total Company Schedules?

A. No.

Q. Please begin by describing the **LL Sewer Schedules**.

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for LL Sewer for the test year amounts to ($2,121). It is based upon an actual test year with a 5 quarter average rate base of $49,752 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $49,752, results in an operating income requirement of $3,886. As shown on Schedule 1, the actual net operating income (loss) for LL Sewer for the test year was $1,765. The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of ($2,121). LL Sewer did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus for LL Sewer of ($2,121).

The pro forma revenue deficiency for LL Sewer for the test year amounts to zero. It is based upon a pro formed test year rate base of $51,375, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $51,375, results in an operating net income requirement of $4,084.

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As shown on Schedule 1, the pro formed net operating income for LL Sewer for the test year is $4,085. 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 LL Sewer of zero.

Schedule 1 reflects LL Sewer's Statement of Income. Column b shows the actual 2019 year end balances. Column c shows pro forma adjustments for known and measurable changes to test year revenues and expenses.. Column d shows the pro forma 2019 year end balances. The 2018 and 2017 Statements of Income are not available since 2019 was the first year in which AWC separated the water and sewer. During the 2019 test year, LL Sewer net income (loss) was $1,175.

Schedule 1A shows the pro forma adjustments to revenue and expenses. The Company made 1 pro forma adjustment to operating revenues totaling $11,068 and a few pro forma adjustments to operating expenses totaling $8,764. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

Pro forma Adjustment to Operating Revenues

Operating Revenues – $11,066

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.

Pro forma Adjustments to Operating Expense

Operating Expenses:

Purchased Water Treatment - $5,035

In 2020 the City of Laconia increased its sewer rates from $0.0520 to $0.0538 and per unit charge from $12.41 to $12.86. The resulting increase amounts to $2,689.

In 2021 the City of Laconia anticipates increasing its sewer rates from $0.0538 to $0.0557 and per unit charge from $12.86 to $13.33. The resulting increase amounts to $2,346.

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Miscellaneous Pumping Expenses - $2,206

In 2019 LL Sewer removed and unbound sewer pump 1. Initially, it charged such expense to miscellaneous deferred debit. Upon further review, it was determined that the expense was maintenance in nature and should have been charged to expense. As such, the pro forma adjustment transferred the expense from miscellaneous deferred debits to miscellaneous pumping expenses.

Lease Agreements - $59

During the test year LL Sewer incurred $1,573 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to $1,632, resulting in an increase of $59.

PUC Audit - $500

In anticipation of a PUC audit, AWC estimated that it will incur $7,500. The estimated costs of $7,500 will be equally allocated among the 5 systems participating in this rate case, resulting $1,500 costs per system. No such audit expenses are reflected in the test year. LL Sewer is proposing to recover the proposed audit expense of $1,500 over 3 years, resulting in a test year adjustment of $500.

Amortization Expenses – Other - $594

2019 Tax Rate Effect Change

During 2018 & 2019 AWC incurred $8,490 of costs related to Dockets IR 18-001 and DW 18-047related to the PUC investigation to determine the rate effect of federal and state corporate tax reductions. The investigation involved AWC preparing a compliance plan along with attachments, the PUC Staff recommendation and the PUC order approving Staff's recommendation. AWC later allocated such costs to its 3 systems at the time including Lakeland. In 2019 Lakeland further allocated such costs between water and sewer. LL Sewer costs amounts to $1,536. LL Sewer is proposing to recover the costs over 5 years, at an annual cost of $307.

2019 Sewer Step Rate Increase

In DW 15-199 the PUC approved a step increase for an anticipated increase in sewer rates that the City of Laconia charges LL Sewer. LL Sewer pursued the step increase in 2019 and incurred various $1,536 costs to do so. LL Sewer is proposing to recover the costs over 5 years, at an annual cost of $287.

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Income Taxes - $352

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

The total pro forma adjustments to Operating Expenses amount to $8,746.

The net of the pro forma adjustments to operating revenue of $11,066 and the pro forma adjustments to operating expenses of $8,746 results in a net pro forma adjustment of $2,320. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $4,085. The pro forma test year net operating income of $4,085 allows LL Sewer to cover its expenses and earn its proposed 7.95% return on its investments.

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

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. See Total Company Balance Sheet.

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

A. Schedule 3 reflects LL Sewer Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance.

Schedule 3A shows the Rate Base – LL Sewer Pro forma Adjustments. Pro forma adjustments 2 & 5 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully "used and useful," providing service to customers and no increase in customers during the test year.

Adjustments #3 & #4 are the adjustments related to the Dockets IR 18-001 and DW 18-047 regarding the PUC investigation to determine the rate effect of federal and state corporate tax reductions and step increase costs totaling $2,971. LL Sewer is proposing to recover both costs over 5 years, at an annual cost of $594. The half year amortization of such costs is $297.

Adjustment #6 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3C.

The Total Pro Forma December 31, 2019 Rate Base balance amounts to $51,375.

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

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just LL Sewer.

Q. Please explain the Report of Proposed Rate Changes.

A. If LL Sewer's rate filing is approved as submitted, its total sewer Operating Revenues will amount to $126,987, an increase of $11,066.

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

A. No. LL Sewer is calculating the new rates in a manner consistent with its present rates.

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

A. The proposed effective date is 30 days from LL Sewer's rate filing.

Q. Is LL Sewer proposing temporary rates?

A. Yes. LL Sewer expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

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

A. LL Sewer respectfully requests that the Commissioners approve an increase in annual revenues of $11,065 for permanent rates.

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

A. No, there is nothing further to my testimony as it pertains to LL Sewer.

Q. Please begin by describing the **LL Water Schedules**.

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for LL Water for the test year amounts to $6,261. It is based upon an actual test year with a 5 quarter average rate base of $298,944 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $298,944, results in an operating income requirement of $23,347. As shown on Schedule 1, the actual net operating income (loss) for LL Water for the test year was $29,608. The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of $6,261. LL Water did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus for LL Water of $6,261.

The pro forma revenue deficiency for LL Water for the test year amounts to zero. It is based upon a pro formed test year rate base of $301,317, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $301,317, results in an operating net income requirement of $23,955.

As shown on Schedule 1, the pro formed net operating income for LL Water for the test year is $23,954. 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 LL Water of zero.

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Schedule 1 reflects LL Water's Statement of Income. Column b shows the actual 2019 year end balances. Column c shows pro forma adjustments for known and measurable changes to test year revenues and expenses. Column d shows the pro forma 2019 year end balances. The 2018 and 2017 Statements of Income are not available since 2019 was the first year in which AWC separated the water and sewer. During the 2019 test year, LL Water net income (loss) was $24,447.

Schedule 1A shows the pro forma adjustments to revenue and expenses. The Company made 1 pro forma adjustment to operating revenues totaling ($3,370) and a few pro forma adjustments to operating expenses totaling $2,284. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

<u>Pro forma Adjustment to Operating Revenues</u>

<u>Operating Revenues – ($3,370)</u>

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

<u>Pro forma Adjustments to Operating Expense</u>

<u>Operating Expenses:</u>

<u>Lease Agreements - $60</u>

During the test year LL Water incurred $1,592 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to $1,652, resulting in an increase of $60.

<u>PUC Audit - $500</u>

In anticipation of a PUC audit, AWC estimated that it will incur $7,500. The estimated costs of $7,500 will be equally allocated among the 5 systems participating in this rate case, resulting $1,500 costs per system. No such audit expenses are reflected in the test year. LL Water is proposing to recover the proposed audit expense of $1,500 over 3 years, resulting in a test year adjustment of $500.

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Depreciation Expense - $1,025

In 2019 LL Water added $5,162 to plant in service. It recorded $280 for related depreciation. The $280 of depreciation represents ½ year. The pro forma adjustment for $280 represents the additional ½ year depreciation in order to reflect the full year's depreciation of $560. Also, see Schedule 3B.

In 2020 LL Water anticipates adding $5,648 to plant in service. The pro forma adjustment for $745 represents the full year's depreciation on the anticipated 2020 plant in service. Also, see Schedule 3B.

Amortization Expense - $990

In 2017 LL Water incurred $6,996 related to a water boiling order. LL Water deferred such costs. It is now proposing to seek recovery over a ten year period. The annual costs amounts to $700. Also, see Schedule 3C.

During 2018 & 2019 AWC incurred $8,490 of costs related to Dockets IR 18-001 and DW 18-047 related to the PUC investigation to determine the rate effect of federal and state corporate tax reductions. The investigation involved AWC preparing a compliance plan along with attachments, the PUC Staff recommendation and the PUC order approving Staff's recommendation. AWC later allocated such costs to its 3 systems at the time including Lakeland. In 2019 Lakeland further allocated such costs between water and sewer. LL Water costs amounts to $1,453. LL Water is proposing to recover the costs over 5 years, at an annual cost of $290. Also, see Schedule 3C.

Taxes other than Income - 157

In 2020 LL Water anticipates adding $5,648 to plant in service. The addition of $5,648 to plant in service increases the property tax valuation for both state and local property taxes. The calculation of the increase amounts to $35 and $122 for state and local property taxes, respectively. Also, see Schedule 3B.

Income Taxes – ($448)

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

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The total pro forma adjustments to Operating Expenses amount to $2,284.

The net of the pro forma adjustments to operating revenue of ($3,370) and the pro forma adjustments to operating expenses of $2,284 results in a net pro forma adjustment of ($5,654). When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $23,294. The pro forma test year net operating income of $23,294 allows LL Water to cover its expenses and earn its proposed 7.95% return on its investments.

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

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. See Total Company Balance Sheet.

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

A. Schedule 3 reflects LL Water Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance.

Schedule 3A shows the Rate Base – LL Water Pro forma Adjustments. Pro forma adjustments 1, 3 8, 9 & 10 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully "used and useful," providing service to customers with no increase in customers during the test year.

Adjustment #2 is the addition to plant in service for the anticipated additions to plant in 2020 amounting to $5,648. Also, see Schedule 3B.

Adjustment #s 4 and 5 are the additions to accumulated depreciation for the additional ½ year depreciation of $280 on 2019 additions and the ½ year depreciation of $372 on anticipated 2020 additions to plant. Also, see Schedule 3B.

Adjustments #6 & #7 are the adjustments related to the 2017 water boiling amounting to $6,996 and the Dockets IR 18-001 and DW 18-047 regarding the PUC investigation to determine the rate effect of federal and state corporate tax reductions amounting to $1,453. The total addition to rate base is $8,449. Also, see Schedule 3C. LL Water is proposing that the 2017 water boiling costs and the PUC investigation costs be recovered over 10 years and 5 years, respectively. The total ½ year amortization amounts to $495. Also, see Schedule 3C

Adjustment #11 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3D.

The Total Pro Forma December 31, 2019 Rate Base balance amounts to $2,373.

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

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just LL Water.

Q. Please explain the Report of Proposed Rate Changes.

A. If LL Water's rate filing is approved as submitted, its total water Operating Revenues will amount to $126,077, an increase of $102.

R. Is LL Water proposing any changes to the methodology used in calculating the rates?

A. No. LL Water is calculating the new rates in a manner consistent with its present rates.

R. When is LL Water proposing that the new rates be effective?

A. The proposed effective date is 30 days from LL Water's rate filing.

Q. Is LL Water proposing temporary rates?

A. Yes. LL Water expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

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

A. LL Water respectfully requests that the Commissioners approve an increase in annual revenues of $102 for permanent rates.

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

A. No, there is nothing further to my testimony as it pertains to LL Water.

Q. Please begin by describing the **WR Water Schedules**.

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for WR for the test year amounts to ($36,243). It is based upon an actual test year with a 5 quarter average rate base of $243,250 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $243,250, results in an operating income requirement of $18,998. As shown on Schedule 1, the actual net operating income (loss) for WR for the test year was ($17,425). The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of ($36,423). WR did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus for WR of ($36,423).

The pro forma revenue deficiency for WR for the test year amounts to zero. It is based upon a pro formed test year rate base of $507,033, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $507,033, results in an operating net income requirement of $40,309.

As shown on Schedule 1, the pro formed net operating income for WR for the test year is $40,309. 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 WR of zero.

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Schedule 1 reflects WR's Statements of Income. Column b shows the actual 2019 year end balances. Column c shows pro forma adjustments for known and measurable changes to test year revenues and expenses. Column d shows the pro forma 2019 year end balances. The 2018 and 2017 Statements of Income are shown in columns e and f, respectively. During the 2019 test year, WR net income (loss) was ($19,532).

Schedule 1A shows the pro forma adjustments to revenue and expenses. The Company made 1 pro forma adjustment to operating revenues totaling $99,778 and a few pro forma adjustments to operating expenses totaling $42,044. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

<u>Pro forma Adjustment to Operating Revenues</u>

<u>Operating Revenues – $99,778</u>

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.

<u>Pro forma Adjustments to Operating Expense</u>

<u>Operating Expenses:</u>

<u>Lease Agreements - $81</u>

During the test year WR incurred $1,881 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to $1,962, resulting in an increase of $60.

<u>PUC Audit - $500</u>

In anticipation of a PUC audit, AWC estimated that it will incur $7,500. The estimated costs of $7,500 will be equally allocated among the 5 systems participating in this rate case, resulting $1,500 costs per system. No such audit expenses are reflected in the test year. WR is proposing to recover the proposed audit expense of $1,500 over 3 years, resulting in a test year adjustment of $500.

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Depreciation Expense - $5,911

In 2019 WR added $22,107 to plant in service. It recorded $835 for related depreciation. The $835 of depreciation represents ½ year. The pro forma adjustment for $835 represents the additional ½ year depreciation in order to reflect the full year's depreciation of $1,657. Also, see Schedule 3B.

In 2020 WR anticipates adding $169,097 to plant in service. The pro forma adjustment for $5,076 represents the full year's depreciation on the anticipated 2020 plant in service. Also, see Schedule 3B.

Amortization of CIAC - $1,600

In 2019/2020, WR had its tanks inspected, costing a total $26,512. WR received a grant of $8,000 from .... WR deferred the costs and the related grant. WR is now seeking recovery of the amount and the related grant over 5 year. The annual amortization of CIAC over 5 years amounts to $1,600. Also, see Schedule 3C.

Amortization Expense associated with Miscellaneous Deferred Debits - $14,380

In 2018 & 2019 WR incurred significant expenditures amounting to $87,625 related to water outages. WR deferred such costs. It is now proposing to seek recovery over a ten year period. The annual costs amounts to $8,763. Also, see Schedule 3C.

During 2018 & 2019 AWC incurred $8,490 of costs related to Dockets IR 18-001 and DW 18-047 related to the PUC investigation to determine the rate effect of federal and state corporate tax reductions. The investigation involved AWC preparing a compliance plan along with attachments, the PUC Staff recommendation and the PUC order approving Staff's recommendation. AWC later allocated such costs to its 3 systems at the time including WR. WR costs amounts to $1,577. WR is proposing to recover the costs over 5 years, at an annual cost of $315. Also, see Schedule 3C.

In 2019/2020, WR had its tanks inspected, costing a total $26,512. WR received a grant of $8,000 from .... WR deferred the costs and the related grant. WR is now seeking recovery of the amount and the related grant over 5 year. The annual costs over 5 years amount to $5,302. Also, see Schedule 3C.

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Taxes other than Income – 4,281

In 2020 WR anticipates adding $169,097 to plant in service. The addition of $169,097 to plant in service increases the property tax valuation for both state and local property taxes. The calculation of the increase amounts to $861 and $3,420 for state and local property taxes, respectively. Also, see Schedule 3B.

Income Taxes – $18,490

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

The total pro forma adjustments to Operating Expenses amount to $42,044.

The net of the pro forma adjustments to operating revenue of $99,778 and the pro forma adjustments to operating expenses of $42,044 results in a net pro forma adjustment of $57,734. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $40,309. The pro forma test year net operating income of $40,309 allows WR to cover its expenses and earn its proposed 7.95% return on its investments.

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

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. See Total Company Balance Sheet.

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

A. Schedule 3 reflects WR Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance.

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Schedule 3A shows the Rate Base – WR Pro forma Adjustments. Pro forma adjustments 1, 3, 8, 10 & 12 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully "used and useful," providing service to customers with no increase in customers during the test year.

Adjustment #2 is the addition to plant in service for the anticipated additions to plant in 2020 amounting to $169,097. Also, see Schedule 3B.

Adjustment #s 4 and 5 are the additions to accumulated depreciation for the additional ½ year depreciation of $835 on 2019 additions and the ½ year depreciation of $2,538 on anticipated 2020 additions to plant. Also, see Schedule 3B.

Adjustments #6 & #7 are the adjustments related to the 2018 & 2019 water outages amounting to $87,625, the Dockets IR 18-001 and DW 18-047 regarding the PUC investigation to determine the rate effect of federal and state corporate tax reductions amounting to $1,577 and the 2019/2020 tank inspections amounting to $26,512. The total addition to rate base is $115,714. Also, see Schedule 3C. WR is proposing that the 2018 & 2019 water outages over 10 years and the PUC investigation and tank inspection 5 years. The total ½ year amortization amounts to $7,190. Also, see Schedule 3C.

Adjustment #s 9 and 11 are related to the $8,000 grant for the tank inspections reflected as CIAC and the ½ year amortization of CIAC amounting to $800. Also, see Schedule 3C.

Adjustment #13 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3D.

The Total Pro Forma December 31, 2019 Rate Base balance amounts to $263,783.

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

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just WR.

Q. Please explain the Report of Proposed Rate Changes.

A. If WR's rate filing is approved as submitted, its total water Operating Revenues will amount to $184,611, an increase of $102,475.

S. Is WR proposing any changes to the methodology used in calculating the rates?

A. No. WR is calculating the new rates in a manner consistent with its present rates.

S. When is WR proposing that the new rates be effective?

A. The proposed effective date is 30 days from WR's rate filing.

Q. Is WR proposing temporary rates?

A. Yes. WR expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

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

A. WR respectfully requests that the Commissioners approve an increase in annual revenues of $102,475 for permanent rates.

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

A. No, there is nothing further to my testimony as it pertains to WR.

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Q. Please begin by describing the **TGV Water Schedules.**

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for TGV for the test year amounts to ($33,209). It is based upon an actual test year with a 5 quarter average rate base of $119,913 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $119,913, results in an operating income requirement of $9,365. As shown on Schedule 1, the actual net operating income (loss) for TGV for the test year was ($23,844). The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of ($33,209). TGV did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus for TGV of ($33,209).

The pro forma revenue deficiency for TGV for the test year amounts to zero. It is based upon a pro formed test year rate base of $145,202, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $145,202, results in an operating net income requirement of $11,544.

As shown on Schedule 1, the pro formed net operating income for TGV for the test year is $11,544. 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 TGV of zero.

Schedule 1 reflects TGV's Statements of Income for the 12 months ended 4/30/20. As previously stated, TGV is using the 12 months ended 4/30/20 because there were only 8 months of actual data in the 2019 test year. Column b shows the actual 12 months ended 4/30/20. Column c shows pro forma adjustments for known and measurable changes to test year revenues and expenses. Column d shows the pro forma 12 months ended 4/30/20. The 12 months ended 4/30/19 and 4/30/18 was prior to AWC's ownership. During the 12 months ended 4/30/20, TGV net income (loss) was ($24,600).

Schedule 1A shows the pro forma adjustments to revenue and expenses. The Company made 1 pro forma adjustment to operating revenues totaling $47,942 and a few pro forma adjustments to operating expenses totaling $12,554. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

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Pro forma Adjustment to Operating Revenues

Operating Revenues – $47,942

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.

Pro forma Adjustments to Operating Expense

Operating Expenses:

Lease Agreements - $343

During the test year TGV incurred $463 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to $806, resulting in an increase of $343.

PUC Audit - $500

In anticipation of a PUC audit, AWC estimated that it will incur $7,500. The estimated costs of $7,500 will be equally allocated among the 5 systems participating in this rate case, resulting $1,500 costs per system. No such audit expenses are reflected in the test year. TGV is proposing to recover the proposed audit expense of $1,500 over 3 years, resulting in a test year adjustment of $500.

Depreciation Expense - $886

In 2019 TGV added $31,715 to plant in service. It recorded $783 for related depreciation. The $783 of depreciation represents ½ year. The pro forma adjustment for $786 represents the additional ½ year depreciation in order to reflect the full year's depreciation of $1,566. Also, see Schedule 3B.

In 2020 TGV anticipates adding $1,471 to plant in service. The pro forma adjustment for $100 represents the full year's depreciation on the anticipated 2020 plant in service. Also, see Schedule 3B.

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Amortization of Organizational Costs - $2,232

AWC incurred due diligence costs in the process of purchasing the TGV water system and gaining PUC approval (DW xx-xxx). The recovery of these costs is consistent with the PUC's approval of similar due diligence costs incurred when AWC purchased LL, WR and Rosebrook. TGV is proposing to amortize the due diligence costs over 15 years. The annual amortization expense is $2,232. Also, see Schedule 3B.

Taxes other than Income – $1,031

Total annual property taxes for the Town of Gilford are $1,523. The amount of property taxes reflected in the test year was $492, resulting in a pro forma adjustment of $1,031.

In 2020 TGV anticipates adding $34,932 to plant in service. The addition of $34,932 to plant in service increases the property tax valuation for both state and local property taxes. The calculation of the increase amounts to $175 and $370 for state and local property taxes, respectively. Also, see Schedule 3B.

Income Taxes – $7,562

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

The total pro forma adjustments to Operating Expenses amount to $12,554.

The net of the pro forma adjustments to operating revenue of $47,942 and the pro forma adjustments to operating expenses of $12,554 results in a net pro forma adjustment of $35,388. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $11,544. The pro forma test year net operating income of $11,544 allows TGV to cover its expenses and earn its proposed 7.95% return on its investments.

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

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. See Total Company Balance Sheet.

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

A. Schedule 3 reflects TGV Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance. Please note that the December 2018 and March 2019 balances are before AWC purchase of TGV. As such, the December 2018 and the March 2019 balances are assumed to be the same as June 2019.

Schedule 3A shows the Rate Base – TGV Pro forma Adjustments. Pro forma adjustments 1, 4, 8, 9, 10, 11 & 12 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully "used and useful," providing service to customers with no increase in customers during the test year.

Adjustment #2 is the addition to plant in service for the anticipated additions to plant in 2020 amounting to $1,471. Also, see Schedule 3B.

Adjustment #3 is the addition to plant in service for the due diligence costs of $33,461 in the process of purchasing the TGV water system and gaining PUC approval (DW xx-xxx). Also, see Schedule 3B.

Adjustment #s 5 and 6 are the additions to accumulated depreciation for the additional ½ year depreciation of $783 on 2019 additions and the ½ year depreciation of $50 on anticipated 2020 additions to plant. Also, see Schedule 3B.

Adjustments #7 is the adjustments related to the due diligence costs of $33,461 in the process of purchasing the TGV water system and gaining PUC approval (DW 18-108). Also, see Schedule 3B.

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Adjustment #13 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3C.

The Total Pro Forma December 31, 2019 Rate Base balance amounts to $25,289.

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

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just TGV.

Q. Please explain the Report of Proposed Rate Changes.

A. If TGV's rate filing is approved as submitted, its total water Operating Revenues will amount to $76,102, an increase of $47,269.

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

A. No. TGV is calculating the new rates in a manner consistent with its present rates.

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

A. The proposed effective date is 30 days from TGV's rate filing.

Q. Is TGV proposing temporary rates?

A. Yes. TGV expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

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

A. TGV respectfully requests that the Commissioners approve an increase in annual revenues of $47,269 for permanent rates.

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

A. No, there is nothing further to my testimony as it pertains to TGV.

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Q. Please begin by describing the **TB Water Schedules**.

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for TB for the test year amounts to ($37,089). It is based upon an actual test year with a 5 quarter average rate base of $72,615 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $72,615, results in an operating income requirement of $5,671. As shown on Schedule 1, the actual net operating income (loss) for TB for the test year was ($31,418). The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of ($37,089). TB did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus for TB of ($37,089).

The pro forma revenue deficiency for TB for the test year amounts to zero. It is based upon a pro formed test year rate base of $199,606, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $199,606, results in an operating net income requirement of $15,569.

As shown on Schedule 1, the pro formed net operating income for TB for the test year is $15,869. 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 TB of zero.

Schedule 1 reflects TB's Statements of Income for the 12 months ended 4/30/20. As previously stated, TB is using the 12 months ended 4/30/20 because there were only 8 months of actual data in the 2019 test year. Column b shows the actual 12 months ended 4/30/20. Column c shows pro forma adjustments for known and measurable changes to test year revenues and expenses. Column d shows the pro forma 12 months ended 4/30/20. The 12 months ended 4/30/19 and 4/30/18 was prior to AWC's ownership. During the 12 months ended 4/30/20, TGV net income (loss) was ($32,136).

Schedule 1A shows the pro forma adjustments to revenue and expenses. The Company made 1 pro forma adjustment to operating revenues totaling $78,403 and a few pro forma adjustments to operating expenses totaling $31,116. The specific pro forma adjustments are identified on the Statement of Income – Pro forma Adjustments (Schedule 1A). A brief explanation is as follows:

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Pro forma Adjustment to Operating Revenues

Operating Revenues – $78,403

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.

Pro forma Adjustments to Operating Expense

Operating Expenses:

Lease Agreements - $179

During the test year TB incurred $275 for rent of lease space, both at Laconia, NH and Plainville, CT. In 2020 NESC increased its rent to $454, resulting in an increase of $179.

PUC Audit - $500

In anticipation of a PUC audit, AWC estimated that it will incur $7,500. The estimated costs of $7,500 will be equally allocated among the 5 systems participating in this rate case, resulting $1,500 costs per system. No such audit expenses are reflected in the test year. TB is proposing to recover the proposed audit expense of $1,500 over 3 years, resulting in a test year adjustment of $500.

Depreciation Expense - $1,752

In 2019 TB added $8,512 to plant in service. It recorded $211 for related depreciation. The $211 of depreciation represents ½ year. The pro forma adjustment for $211 represents the additional ½ year depreciation in order to reflect the full year's depreciation of $422. Also, see Schedule 3B.

In 2020 TB anticipates adding $53,502 to plant in service. The pro forma adjustment for $1,541 represents the full year's depreciation on the anticipated 2020 plant in service. Also, see Schedule 3B.

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Amortization of CIAC - $60

In 2020, NHDES approved a grant of $5,000 as part of its approval of a $45,000 loan / $5,000 grant special project from the NH DWGTF for a larger storage tank and system isolation valves. TB allocated the grant to the tank and valves with lives of 40 and 50 years, respectively. The annual amortization of CIAC amounts to $60. Also, see Schedule 3B.

Amortization Expenses – Other - $5,335

AWC incurred due diligence costs in the process of purchasing the TB water system and gaining PUC approval (DW xx-xxx). The recovery of these costs is consistent with the PUC's approval of similar due diligence costs incurred when AWC purchased LL, WR and Rosebrook. TB is proposing to amortize the due diligence costs over 15 years. The annual amortization expense is $2,146. Also, see Schedule 3B.

In 2019 TB incurred significant expenditures associated with a main break and the purchase of water to provide to customers during the outage. The expenditures amounted to $31,890. TB deferred such costs. It is now proposing to seek recovery over a ten year period. The annual costs amounts to $3,189. Also, see Schedule 3C.

Taxes other than Income – $11,430

Total annual property taxes for the Town of Belmont are $11,730. The amount of property taxes reflected in the test year was $300, resulting in a pro forma adjustment of $11,430.

In 2020 TB anticipates adding $85,677 to plant in service. The addition of $85,677 to plant in service increases the property tax valuation for both state and local property taxes. The calculation of the increase amounts to $433 and $1,952 for state and local property taxes, respectively. Also, see Schedule 3B.

Income Taxes – $11,860

The Company has provided the calculation of the federal income taxes and the state business taxes (Schedule 1B). The Company has also provided the effective tax factor (Schedule 1C).

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The total pro forma adjustments to Operating Expenses amount to $31,116.

The net of the pro forma adjustments to operating revenue of $78,403 and the pro forma adjustments to operating expenses of $31,116 results in a net pro forma adjustment of $47,287. When the net operating income associated with the pro forma adjustments is added to net operating income from the test year, the pro forma test year net operating income totals $15,869. The pro forma test year net operating income of $15,869 allows TB to cover its expenses and earn its proposed 7.95% return on its investments.

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

A. Yes.

Q. Please describe Schedule 2, the Balance Sheet.

A. See Total Company Balance Sheet.

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

A. Schedule 3 reflects TB Rate Base for both the 5 quarter average and the pro forma year-end balance. Column b – f shows the actual balance at the end of each quarter. Column g shows the average of the 5 quarter balances. Column h shows the pro forma adjustments. Column i shows the pro forma year-end balance. Please note that the December 2018 and March 2019 balances are before AWC purchase of TB. As such, the December 2018 and the March 2019 balances are assumed to be the same as June 2019.

Schedule 3A shows the Rate Base – TB Pro forma Adjustments. Pro forma adjustments 1, 4, 8, 11, 13 & 15 adjust the 5 quarter average balances to the December 31, 2019 balances. It is appropriate to use the December 31, 2019 balance since all of the invested capital is fully "used and useful," providing service to customers with no increase in customers during the test year.

Adjustment #2 is the addition to plant in service for the anticipated additions to plant in 2020 amounting to $53,502. Also, see Schedule 3B.

Adjustment #3 is the addition to plant in service for the due diligence costs of $32,175 in the process of purchasing the TB water system and gaining PUC approval (DW 18-108). Also, see Schedule 3B.

Adjustment #s 5 and 6 are the additions to accumulated depreciation for the additional ½ year depreciation of $211 on 2019 additions and the ½ year depreciation of $711 on anticipated 2020 additions to plant. Also, see Schedule 3B.

Adjustments #7 is the adjustments related to the due diligence costs of $32,851 in the process of purchasing the TB water system and gaining PUC approval (DW xx-xxx). Also, see Schedule 3B.

Adjustments #9 & #10 are the 2019 main break and purchase of water amounting to $31,890 and the related ½ year amortization of such amount over 10 years amounting to $1,595. Also, see Schedule 3C.

Adjustment #s 12 and 14 are related to the $5,000 grant for the tank/valves reflected as CIAC and the ½ year amortization of CIAC amounting to $60. Also, see Schedule 3B.

Adjustment #15 pertains to cash working capital and shows the additional cash working capital due to the proposed increase in O&M expenses. The cash working capital balances are further supported by Schedules 3C.

The Total Pro Forma December 31, 2019 Rate Base balance amounts to $126,991.

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

A. See Total Company Capital Structure and Rate of Return Information. Please note that the Capital Structure and Rate of Return Information is for AWC (Total Company) and not just TB.

Q. Please explain the Report of Proposed Rate Changes.

A. If TB's rate filing is approved as submitted, its total water Operating Revenues will amount to $96,509, an increase of $78,163.

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

A. No. TB is calculating the new rates in a manner consistent with its present rates.

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

A. The proposed effective date is 30 days from TB's rate filing.

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Q. Is TB proposing temporary rates?

A. Yes. TB expects to file a separate temporary rate filing, approximately 1 – 2 weeks after the permanent rate filing.

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

A. TB respectfully requests that the Commissioners approve an increase in annual revenues of $78,163 for permanent rates.

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

A. No, there is nothing further to my testimony as it pertains to TB.

Q. Please begin by describing the **AWC Combined Water Schedules**.

A. The schedule entitled "Computation of Revenue Deficiency for the Test Year ended December 31, 2019," summarizes the supporting schedules. The actual revenue (deficiency) surplus for AWC Combined for the test year amounts to ($100,461). It is based upon an actual test year with a 5 quarter average rate base of $734,721 as summarized in Schedule 3. AWC's actual rate of return is 7.81% for the actual test year. The rate of return of 7.81%, when multiplied by the rate base of $734,721, results in an operating income requirement of $57,382. As shown on Schedule 1, the actual net operating income (loss) for AWC Combined for the test year was ($43,079). The operating income required, less the net operating income (loss), results in an operating income (deficiency) surplus before taxes of ($100,461). AWC Combined did not calculate the tax effect of the revenue deficiency, resulting in a revenue (deficiency) surplus of ($100,461).

The pro forma revenue deficiency for AWC Combined for the test year amounts to zero. It is based upon a pro formed test year rate base of $1,153,159, as summarized in Schedule 3. AWC is utilizing a pro formed rate of return of 7.95% for the pro formed test year. The pro formed rate of return of 7.95% when multiplied by the rate base of $1,153,159, results in an operating net income requirement of $91,676.

As shown on Schedule 1, the pro formed net operating income for AWC Combined for the test year is $91,676. 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 AWC Combined of zero.

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Schedule 1 reflects test year Statements of Income for LL Water, WR, TGV & TB, the combined Statements of Income, the Pro Forma Adjustments and the Combined Pro Forma Balances.

Schedule 3 reflects the 5 quarter averages for LL Water, WR, TGV & TB, the combined 5 quarter averages, the Pro Forma Adjustments and the Combined Pro Forma Balances.

Q. Please explain the Report of Proposed Rate Changes for the AWC Combined.

A. If AWC Combined rate filing is approved as submitted, its total water Operating Revenues will amount to $483,229, an increase of $228,009.

Q. Is there anything else that you would like to say about the Report of Proposed Rate Changes for the AWC Combined?

A. Yes, please note that LL Water, WR, TGV & TB bill monthly. LL Water has multiple classes of customers. WR, TGV & TB have just one class. TGV has 3 customers that consist of multi-family units. TGV also has a few customers that may be considered commercial? This is all to say that if the water entities' proposal to consolidate rates is put into place, a complete review of each customer base should be made and adjusted as appropriate.

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

A. Yes. AWC has engaged the services of Stephen P. St. Cyr & Associates to prepare the rate filing and pursue the rate increase throughout the rate case proceeding. St. Cyr & Associates and AWC have agreed on a per hour fee of $140.00 for each hour of work performed. AWC and I believe that the fees are fair and reasonable. At this point, AWC does not anticipate utilizing outside legal counsel.

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

A. Yes. The water entities will pursue temporary rates as part of this rate case filing. The temporary rate filing will be filed under a separate cover letter within 1 -2 weeks.

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Q. Does this conclude your testimony?

A. Yes.

SPSt. Cyr
09/11/20