THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 23-65

HOUSATONIC WATER WORK COMPANY

Pre-Filed Testimony of Gary C. White

June 23, 2023

Q. Please state your name and business address.

A. Gary C. White, 11541 S.E. 178th Loop, Summerfield, Florida.

Q. Please state your educational background and professional experience.

A. I received a Bachelor of Science in Business Administration from Valparaiso University in 1972. I graduated with an Accounting major and Finance minor. I have also completed a course in utility rate regulation sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"), the Florida Public Service Commission and the University of Utah.

I was employed in the unregulated, private industry sector between 1972 and 1984 with responsibilities in various areas of business management, accounting and finance. Since 1984, my experience has been concentrated in the areas of management, valuation and rate setting for water and sewer utilities. During this period, I was responsible for the rate regulation department of General Development Utilities, Inc. which was the largest investor-owned water and sewer

utility in Florida. I was subsequently employed as General Manager of Country Knolls Water Works, an investor-owned utility in upstate New York. I managed all of the utility's regulatory, accounting and operations activities on a day-to-day basis.

I was employed by Guastella Associates, LLC a firm that provided utility consulting services primarily for municipal and investor-owned water and wastewater utilities from 1992 through April, 2023. I was Vice President and the Director of Accounting with the firm.

My experience in utility matters includes the preparation of cost of service and revenue requirement analyses for both private and municipal utilities. I have prepared cost allocation, connection charge, and rate design studies; revenue requirement forecasts; population growth and system capacity projections; market value analyses and various operations and management evaluations. I have provided rate, regulatory and system valuation services for clients in Alaska, Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Rhode Island, and South Carolina. I have served as an instructor at several seminars for developer-related water and sewer utilities, sponsored by Florida State University and the University of Florida, and at a utility rate seminar conducted by the New England Chapter of the National Association of Water Companies.

Q. How long have you practiced in the area of utility management and rate regulation?

A. I have been involved in the utility industry for over thirty-eight years.

Q. Before what regulatory agencies and municipal jurisdictions have you presented expert testimony?

A. I have testified as an expert witness in regulatory hearings in Connecticut, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania and South Carolina.

Q. Please describe the nature of your assignment in connection with this proceeding.

A. I was retained as consultant to Housatonic Water Works Company ("Company"). My assignment was to examine the financial information and operating data of the utility, and to prepare an analysis of the Company's revenue requirement for its water operation.

Throughout the process of preparing the rate study, which supports the Company's application for the rate increase, I have worked closely with the Company's management and accounting personnel to assure the application accurately depicts the Company's financial position and contains the information necessary to establish its cost of providing service.

Q. What test periods do you use?

A. Our analyses are based on the historical test year ended December 31, 2022 financial information and a pro forma rate year adjusted for known and measurable changes through the period ending December 31, 2023.

Q. Are all of HWWC's facilities "used and useful"?

B. With the proposed rate increase, the Company will be able to finance the cost of the proposed capital improvements, which would be used and useful as known and measurable changes for the year that the new rates become effective.

Q. Would you please briefly describe the rate setting principles and methodology as reflected in the schedules filed in support of the rate increase?

A. Yes. The overall rate setting principle that I have applied reflects an effort to establish the cost of providing service. Specifically, I have determined the revenues HWWC would need to cover its operating expenses, as adjusted to represent a normal level, and to generate a sufficient amount of utility operating income or return on net investment that will enable the Company to maintain financial viability and attract capital. The schedules within my study provide the typical methodology in utility rate setting to establish the revenue requirement.

The schedules include historical financial data, the calculation of rate base, and the pro forma income statement under both present and proposed rates

showing the revenue increase and revenue requirement, and the basis for the cost of capital or rate of return. In addition, I provide summary billing analyses that show the calculation of the specific rates needed to generate the pro forma revenue requirement.

Q. Do the schedules provide explanations of the calculations and adjustments?

A. Yes. In addition, I have attached Appendix A that provides detailed work papers related to the schedules.

Q. What is the resulting rate increase for HWWC's water operations as a result of your analysis?

A. The rate increase is 112.7%.

Q. What is the primary cause for the rate increase?

A. The causes for the rate increase include an increase in operating costs over those recovered by the existing rates, the costs related to the DEP mandated system upgrades to both facilities and operations, the interconnection with the Great Barrington Fire District, and the replacement of aging infrastructure. The net investment in those facilities, which will occur over the next few years, included in this filing is $4,429,167 of additional plant costs related to these system upgrades.

Q. Would you briefly describe the results of your rate study?

A. Yes. The study produced a total revenue requirement of $1,526,468 which covers the pro forma cost of providing service based on the projected December 31, 2023 operations. The revenue requirement reflects an $808,808 increase over existing water rates or a 112.7% increase in water revenues. The revenue would cover pro forma operating expenses of $1,060,195 and provide net operating income of $466,273 or a 7.83% rate of return on the Company's $5,955,194 rate base investment.

Q. Have you prepared schedules that summarize your rate analysis?

A. Yes, I will briefly describe all of the schedules submitted in support of the rate increase.

Q. Please explain Schedule A-1

A. Schedule A-1 shows the Company's comparative balance sheets for as of December 31, 2018 through 2022. This schedule reflects the assets, liabilities and equity balances as recorded to show the Company's financial position.

Q. Please describe the contents of Schedule A-2.

A. This schedule contains comparative annual income statements for the calendar years 2018 through 2022. The amounts shown on Schedule A-2 reflect the actual level of income generated by the operations of the Company.

Q. Please describe Schedule B-1(w)?

A. I will provide a generic description of each lettered schedule of the rate study prepared for this filing. This schedule shows the rate base components for the test year ended December 31, 2022, adjustments and pro forma year-end December 31, 2023 rate year balances that are used to develop the Company's revenue requirement.

Q. Would you please describe Schedule B-2(w), B-3(w), B-4(w) and B-5(w)?

A. Schedule B-2 summarizes and describes the pro forma adjustments made to the rate base calculation shown on Schedule B-1.

Schedule B-3 shows the detail of Plant in Service by primary plant account. It begins with the original cost of plant in service as of test-year ended 2022 and brings the accounts forward through pro forma December 31, 2023 balances. The additional plant investments are dependent on funding availability. The plant additions are expected to be financed and completed within one year of the rate approval.

Schedule B-4 contains Accumulated Depreciation by primary plant account, along with the adjustments necessary to formulate the pro forma rate-

year ending 2023 balances. The development of annual depreciation accruals for the pro forma period are supported and detailed on Schedule C-3(w). Schedule B-5 shows the balances for Contributions-in-Aid-of-Construction (CIAC) and the accumulated amortization of CIAC as of December 31, 2022 rolled-forward to December 31, 2023.

The balances from Schedule B-3, B-4, and B-5 are brought forward to the rate base, Schedule B-1.

Q. Please describe the working capital allowance and average unamortized balance on Schedule B-1.

A. The working capital allowance is based on a modified lead/lag study applicable to the Company's monthly billing, in arrears. The level of allowance reflects an average of 45 days (1/8th of a year) of lag time representing the mid-point of the 30 day period (or 15 days) over which service is provided prior to billing and an average of 30 days to receive payment from the customers after the end of the period. This lag represents a capital requirement placed on the Company and is a positive rate base adjustment.

The average unamortized balance represents the Company's average balance of unrecovered rate case expense. Because the expense is an "up-front" or prepaid cost, the amortization creates a delay in the recovery of the full amount. The unrecovered portion of the expense becomes a capital requirement

of the utility, and a positive rate base adjustment in order to recognize the associated carrying cost.

Q. Would you please describe Schedule C-1(w)?

A. Yes, this schedule contains the pro forma operating or income statement. Schedule C-1 shows the Company's operating results for the historical twelve months ended December 31, 2022, and also shows the pro forma adjustments and operating results for the projected rate period ending December 31, 2023, under present and proposed rates. This schedule summarizes the Company's cost of operations, resultant net operating income and rate of return on the Company's rate base investment.

The numbered adjustments on Schedule C-1 reference the explanations of those adjustments provided on Schedule C-2.

Q. Would you briefly describe the adjustments on Schedule C-2?

A. Yes. Adjustments 1(a) through 1(d) reflect the adjustments made to the booked operating revenue which were consistent with the test-year billing analysis, by customer class, under present rates. The revenue adjustments are supported by the billing analyses contained on Schedule E-1.

Adjustments 2 through 12 reflect the pro forma changes made to operation and maintenance expenses. An explanation is provided for each adjustment.

Adjustment 13 reflects the annual depreciation expense, determined by applying depreciation rates to the pro forma levels of plant in service.

Adjustment 14 reflects the annual amortization expense of the current rate case costs, plus the unamortized or unrecovered cost from the prior rate filing.

Adjustment 15 reflects the payroll taxes applicable to the Company's pro forma payroll.

Adjustment 16 reflects the change to property tax due to additional capital improvements.

Adjustment 17 shows the impacts of the increased revenue under proposed rates.

Adjustment 18 calculates the state and federal income tax on pro forma taxable income under the proposed rates.

Q. Are there any particular O&M expenses that require further discussion.

A. Yes. The major reason for the increase in O&M expenses stems from the installation of the Manganese Removal facility requiring the addition of two certified operators. To fulfill this requirement the Company estimates the additional cost of $145,911 which are found within adjustments 4 and 5 on Schedule C-2(w).

Q. Please describe Schedule C-3(w).

A. Schedule C-3 reflects the annual depreciation expense by individual plant accounts. This schedule shows the pro forma rate year depreciation expense by applying the annual depreciation rate to the average balance of depreciable plant in the pro forma rate year.

Q. Please describe Schedule C-4(w).

A. Schedule C-4 shows the O&M expense levels for 2020-2022 and the three-year average of the individual expenses. The average expense is used to establish the normal level of expense for some of the O&M adjustments on Schedule C-2(w).

Q. Please describe Schedule D-1(w).

A. This schedule shows the Capital Structure, including debt and equity cost rates and the overall rate of return. The capital ratios reflect additional debt financing that will be needed for the anticipated plant improvements and additions. The additional debt is added to existing debt and the balance is treated as equity in order to synchronize the Company's capital requirements to its rate base investment.

Q. How did you determine the requested rate of return, as shown on Schedules D-1(w)?

A. The Company's capital structure, synchronized or set equal to rate base, consists of approximately $4,756,400 of debt and $1,198,780 of equity. I used an equity

rate of 10.5% which is judged to represent a reasonable return for a small water utility and is the same return agreed to in the 2015 Phase I and 2018 Phase II Settlement Agreements. We then used a composite debt rate of 5.34% applicable to the existing CoBank, Ford Motor Company, and SBA notes and a debt rate of 7.50% applied to the future loan for capital improvements. The proposed capital structure consists of roughly 80% debt and 20% equity. The result is an overall weighted cost of capital of 7.83%.

Q. Do you believe that the overall requested rate of return of 7.83% is reasonable for this Company?

A. Yes. It is certainly within a range of reasonableness and reflects a lower rate than granted in the past 2015 and 2018 Settlements.

As mentioned, I maintained the equity rate at the current approved rate. I would also point out that ample equity returns are crucial to small, regulated utilities. Housatonic Water Company serves as a prime example of how vulnerable small utilities are to earnings erosion. Due to cash shortfalls over the years, the Company's Officers have accrued almost $2M in past wages. Unexpected occurrences and unanticipated expenses needed in the provision of safe, adequate service have received priority over salaries for the Officers of the Water Company. This unpaid expense has been tracked and recorded as a liability on the Company's balance sheet.

Q. Please explain the billing analyses presented on Schedules E-1(w) and E-2(w).

A. Schedule E-1 sets forth the billing analyses for the historical twelve-month period ended December 31, 2022. Schedule E-2 applies the proposed rates to the pro forma billing units as are shown on Schedule E-1, thus producing revenue equal to the pro forma revenue requirement.

The proposed rate structure reflects an across-the-board increase for all customer classes except private fire service contract customers. These rates are proposed to remain at the current levels in an effort to encourage economic development and commercial growth in the area. It should be noted that some future community growth is expected. The development of a twenty-unit housing subdivision on North Plain Road and the conversion of the former Housatonic School into ten market rate apartments are currently in the planning stage and will occur outside of the pro forma rate-year.

The billing analyses provide detailed billing data for the revenues presented on Schedule C-1.

Q. **Briefly explain each of the Schedules F-1(w), F-2(w) and F-3(w)**.

A. Schedule F.1 reflects the Company's revenue requirement calculations. It shows the revenue requirement components for the pro forma rate year analysis.

Schedule F.2 contains the rate design schedules. The proposed rates are designed to result in an across-the-board increase for all flat-rate, unmetered

1 customer categories. For the metered customers, the proposed monthly base
2 charge and usage rates reflect the same rate structure as the existing tariff rates.
3 Schedule F-3 provides the comparison of existing and proposed rates and
4 reflects the results of the rate increase.
5
6 **Q. Does this conclude your testimony?**
7 A. Yes.