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IDAHO PUBLIC
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION
OF SUEZ WATER IDAHO INC. FOR
AUTHORITY TO INCREASE ITS RATES
AND CHARGES FOR WATER SERVICE
IN THE STATE OF IDAHO

Case No. SUZ-W-20-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF DAVID NJUGUNA

SEPTEMBER 2020

1 **Q. Please state your name and business address.**

2 A. My name is David Njuguna, and my business address is 461 From Rd, Suite
3 400, Paramus, New Jersey 07652.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by SUEZ Water Management & Services (“SWM&S”) as
6 Manager – Regulatory Business.

7 **Q. Please summarize your educational background and qualifications.**

8 A. I graduated from Kenyatta University, Nairobi, Kenya, with a Bachelor of
9 Commerce Degree in Accounting in 2000 and earned a Masters Degree in
10 Business Administration from Rutgers Business School in 2012.

11 **Q. What experience did you have prior to joining SWM&S?**

12 A. From August 2001 to July 2006, I was employed by the Union Fenosa
13 Group, an integrated energy company headquartered in Madrid, Spain,
14 where I gained a broad outlook of utility accounting. During my tenure at
15 Union Fenosa, I held various positions and my responsibilities varied
16 depending on the title I held. As a management accountant, my
17 responsibilities included preparing, reviewing and analyzing monthly
18 divisional and consolidated financial statements and reports. As a financial
19 accountant, my responsibilities included financial analysis and preparation
20 of consolidated company budgets and financial reports.

1 **Q. When did you join SWM&S and in what capacity?**

2 A. I joined SWM&S in May 2007 as a Rate Analyst. In August 2010, I was
3 promoted to the position of Senior Rate Analyst and later promoted to the
4 position of Manager Regulatory Business in January 2016.

5 **Q. What other roles have you held while employed by SWM&S?**

6 A. From December 2012 through December 2015, I worked in the Accounting
7 Department of SWM&S as an Accounting Manager focusing on Regulatory
8 Accounting and Fixed Assets Accounting. My duties included, but were not
9 limited to, ensuring the proper accounting of deferred regulatory assets and
10 fixed assets of the Company.

11 **Q. Before what regulatory agencies have you previously presented
12 testimony?**

13 A. I have previously filed testimony in rate case filings before the New York
14 State Public Service Commission, the New Jersey Board of Public Utilities,
15 the Pennsylvania Public Utility Commission, the Delaware Public Service
16 Commission and the Arkansas Public Service Commission.

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to describe and present the calculation of
19 the revenue deficiency and the resulting request for rate relief.

20 **Q. What Exhibits are you sponsoring?**

21 A. I am sponsoring the following Exhibits:

22 1. Exhibit No. 6

23 2. Exhibit No. 9

1 **Q. Have you prepared an exhibit that indicates the pro forma operating**
2 **income for the Company at existing and proposed rates?**

3 A. Yes. I have prepared Exhibit No. 9, titled "Statement of Operating Income
4 Per Books and Pro Forma under Present and Proposed Rates For The
5 Twelve Months Ending March 31, 2021".

6 Column 1 references the Exhibit Numbers (5, 6, 10 and 11) that detail the
7 adjustments to the Test Year results indicated on Exhibit No. 9. Column 2
8 indicates the elements of operating income: operations and maintenance
9 expense, depreciation and amortization expense, taxes other than income
10 and income taxes. The amounts therein are per books, as shown on Exhibit
11 No. 10. Column 3 of Exhibit No. 9 shows a summary of Test Year
12 adjustments made to revenues and expenses. The adjustment to operating
13 revenue shown on line 1 is detailed on Exhibit 5 and will be explained by
14 Company Witness Michaelson. The adjustments to operation and
15 maintenance expenses, summarized on line 2, are detailed on Exhibit No.
16 10, Schedule 1 and the adjustments to depreciation expense and
17 amortization of utility plant acquisition adjustments summarized on lines 3
18 and 4 are detailed in Exhibit No. 10, Schedule 2, further explained by
19 Company Witness Cary. The adjustments to operating taxes summarized
20 on lines 6 and 7 are detailed in Exhibit No. 10, Schedule 3, and will be
21 explained by Company Witness Cary. Column 4 of Exhibit No. 9 shows the
22 adjusted operating income at existing rates for the Test Period. Column 4
23 also indicates that based on the Test Year adjustments made, the Company

1 will earn a 4.09 % overall rate of return on its rate base investment as of
2 March 31, 2021 with known and measurable adjustments taken into
3 consideration. Column 5 of Exhibit No. 9 indicates the adjustments to
4 operating revenue, operation and maintenance expenses, and income
5 taxes under the increased rates proposed by the Company herein. The
6 adjustment to operating revenues of \$10,160,211 was computed using a
7 7.46% rate of return on rate base. Column 6 of Exhibit No. 9 illustrates the
8 adjusted operating income necessary to produce the requested rate of
9 return, 7.46%. The income taxes shown on lines 11 and 12 were computed
10 as indicated on Exhibit No. 10, Schedule 4, and will be explained later in my
11 testimony.

12 **Q. Please explain the adjustments to operating expenses as shown on**
13 **Exhibit No.9.**

14 A. Operation and maintenance expenses have been increased by \$4,509,817
15 (Exhibit 9, line 2). Depreciation and amortization expense have been
16 increased by \$1,132,351 (Exhibit 9, line 5). Property Taxes have been
17 increased \$320,606 (Exhibit 9, line 6). Payroll taxes have been increased
18 \$122,644 (Exhibit 9, line 7). Federal income taxes have been decreased by
19 \$2,164,935 and State income taxes have been decreased by \$370,518
20 (Exhibit No. 9, lines 11 & 12).

21 The detailed support for the operating expense adjustments are
22 shown on the four Schedules following the Exhibit 10 Summary. Schedule
23 1, pages 1 to 33, provides detail for adjustments made to operation and

1 maintenance expenses that are explained by Company Witness Cary.
2 Schedule 2, page 1, provides detail for adjustments to depreciation and
3 amortization expense and Schedule 3, pages 1 to 4, provides detail for
4 adjustments to property and payroll taxes both of which are further
5 discussed by Company Witness Cary. Exhibit 10 Schedule 4, page 1
6 provides detail for adjustment of State and Federal income tax expense.
7 Exhibit No. 10, Schedule 4 page 2 shows the method I employed to
8 compute the "Net to Gross Multiplier" utilized in this case to gross up the
9 Net Operating Income deficiency.

10 **Q. Please explain Exhibit No. 10, Schedule 4.**

11 A. Exhibit No. 10, Schedule 4, Page 1 of 2 shows the calculation of State and
12 Federal income taxes at both existing and proposed rates. The amounts
13 shown on line 1 of columns 1 and 2 are the same as the amounts shown on
14 line 10 of columns 4 and 6 on Exhibit No. 9. These figures represent
15 operating income before income taxes. From these figures, the applicable
16 statutory deductions were deducted when computing the State and Federal
17 income taxes.

18 The first deduction is interest expense and it is deductible in the
19 computation of both State and Federal taxable income. The calculation for
20 the interest deduction is shown in Note A on lines 11 through 15. The
21 deduction of interest expense is included in the total tax deductions amount
22 on Line 4.

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Case No. SUZ-W-20-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBITS 6, 9, 10 (Schedule 4) TO ACCOMPANY THE

DIRECT TESTIMONY OF DAVID NJUGUNA

SUEZ WATER IDAHO
Calculation of Weighted Average Cost of Capital
Case No. SUZ-W-20-02
Capital Structure and Cost of Debt of SUEZ Water Resources

| Line No. | Capital Structure Component | Amount | Percentage | Cost of Source | Weighted Avg. Cost of Capital |
|----------|-----------------------------|------------------|------------|----------------|-------------------------------|
| 1 | Debt | \$ 1,142,071,109 | 45.93% | 4.23% | 1.94% |
| 2 | Equity | \$ 1,344,500,288 | 54.07% | 10.20% | 5.52% |
| 3 | Total | \$ 2,486,571,397 | 100.00% | | 7.46% |

SUEZ WATER IDAHO
STATEMENT OF OPERATING INCOME PER BOOKS AND PROFORMA UNDER
PRESENT AND PROPOSED RATES FOR THE TWELVE MONTHS ENDING MARCH 31, 2021

| Line No. | Description | Column (1) Adjustment Reference | Column (2) Per Books 06/30/20 | Column (3) Test Year Adjustment | Column (4) Adjusted Test Year | Column (5) Adjustments | Column (6) Proforma |
|---------------------------------|--------------------------------------|------------------------------------|----------------------------------|------------------------------------|----------------------------------|---------------------------|------------------------|
| 1 | Operating Revenues | Exh No.5, Sch 1 | \$46,297,112 | (\$638,678) | \$45,658,434 | \$10,160,211 | \$55,818,645 |
| | | | | | | 22.3% | |
| Operating Expenses | | | | | | | |
| 2 | Operation & Maintenance | Exh No.10, Sch 1 | 17,059,078 | 4,509,817 | 21,568,895 | 156,939 | 21,725,834 |
| 3 | Depreciation | Exh No.10, Sch 2 | 9,661,810 | 1,132,351 | 10,794,161 | - | 10,794,161 |
| 4 | Amortization Of UPAA | Exh No.10, Sch 2 | 20,712 | - | 20,712 | - | 20,712 |
| 5 | Total Depreciation and Amortization | | 9,682,522 | 1,132,351 | 10,814,873 | - | 10,814,873 |
| Taxes Other Than Income | | | | | | | |
| 6 | Ad Valorem | Exh No.10, Sch 3 | 1,814,918 | 320,606 | 2,135,524 | - | 2,135,524 |
| 7 | Payroll Taxes | Exh No.10, Sch 3 | 593,393 | 122,644 | 716,038 | - | 716,038 |
| 8 | Total Taxes Other Than Income | | 2,408,312 | 443,250 | 2,851,562 | - | 2,851,562 |
| Total Operating Expenses | | | | | | | |
| 9 | Excluding Income Taxes | | 29,149,911 | 6,085,418 | 35,235,330 | 156,939 | 35,392,269 |
| 10 | Operating Income Before Income Taxes | | 17,147,200 | (6,724,096) | 10,423,104 | 10,003,272 | 20,426,377 |
| Income Taxes | | | | | | | |
| 11 | State Income Taxes | Exh No.10, Sch 4 | 678,992 | (370,518) | 308,474 | 692,727 | 1,001,200 |
| 12 | Federal Income Taxes | Exh No.10, Sch 4 | 3,349,933 | (2,164,935) | 1,184,998 | 1,955,215 | 3,140,213 |
| 13 | Total Income Taxes | | 4,028,925 | (2,535,453) | 1,493,472 | 2,647,941 | 4,141,413 |
| 14 | Utility Operating Income | | \$13,118,276 | (\$4,188,643) | \$8,929,632 | \$7,355,331 | \$16,284,963 |
| 15 | Adjusted Rate Base | Exh No.11, Sch 1 | | | \$218,358,831 | | \$218,358,831 |
| 16 | Rate of Return on Rate Base | | | | 4.09% | | 7.46% |
| 17 | Required Rate of Return | Exh No.6, Page 1 | | | 7.46% | | |
| 18 | Required Net Operating Income | | | | \$16,284,963 | | |
| 19 | Operating Income Deficiency | | | | \$7,355,331 | | |
| 20 | Gross Revenue Conversion Factor | Exh No.10, Sch 4 | | | 1.3813 | | |
| 21 | Revenue Deficiency | | | | \$10,160,211 | | |

SUEZ WATER IDAHO
Case SUZ-W-20-02
Computation of State and Federal Income Taxes
At Present and Proposed Rates

| Line No. | PRESENT RATES (1) | PROPOSED RATES (2) |
|--|---|-----------------------------|
| | <u> </u> | <u> </u> |
| 1. | OPERATING INCOME BEFORE INCOME TAXES | \$ 20,426,377 |
| 2. | Interest Expense (A) | 4,242,068 |
| 3. | Excess Tax Over Book Depreciation (C) | 1,726,540 |
| 4. | TOTAL TAX DEDUCTIONS | 5,968,608 |
| 5. | Taxable Income-State | 14,457,768 |
| 6. | State Income Tax at 6.925% | \$ 1,001,200 |
| 7. | Federal Taxable Income (L.1-L.2-L.6) | <u>\$ 5,872,562</u> |
| 8. | Federal Income Tax at 21% | \$ 3,188,453 |
| 9. | Less: Amortization of ITC | \$ (48,240) |
| 10. | NET FEDERAL INCOME TAX EXPENSE | <u>\$ 3,140,213</u> |
| | | |
| (A) CALCULATION OF INTEREST EXPENSE DEDUCTION: | | |
| 11. | Pro Forma Rate Base | \$ 218,358,831 |
| 12. | Debt Percentage of Capitalization | <u>45.930%</u> |
| 13. | Debt Portion of Rate Base | <u>100,291,233</u> |
| 14. | Debt Rate | <u>4.23%</u> |
| 15. | INTEREST EXPENSE | <u>\$ 4,242,068</u> |
| | | |
| (B) CALCULATION OF ADJUSTMENT TO INTEREST EXPENSE: | | |
| 16. | Interest Expense for the 12 months ended June 30, 2020 | \$ 4,050,612 |
| 17. | Allocation of Amortization of additional debt costs | <u>115,052</u> |
| 18. | Interest expense net of the amortization of additional debt costs | 3,935,560 |
| 19. | Direct Amortization of additional debt costs | <u>124,258</u> |
| 20. | Adjusted per books interest expense | 4,059,818 |
| 21. | Pro-forma interest expense based upon rate base and capital structure | <u>\$ 4,242,068</u> |
| 22. | Adjustment to Interest Expense | <u>\$ 182,250</u> |
| | | |
| (C) EXCESS TAX OVER BOOK DEPRECIATION: | | |
| 24. | Pro Forma Tax Depreciation | \$ 10,284,899 |
| 25. | Pro Forma Book Depreciation | <u>\$ 8,558,360</u> |
| 26. | EXCESS TAX OVER BOOK DEPRECIATION (C) | <u>\$ 1,726,540</u> |

SUEZ WATER IDAHO
Case No. SUZ-W-20-02
Calculation of Revenue Requirement & Net to Gross Multiplier

| | | |
|--|----|-------------------|
| Rate Base | \$ | 218,358,831 |
| Required Rate of Return | | 7.46% |
| Required Net Operating Income | | <u>16,284,963</u> |
| Adjusted Net Operating Income Realized | | 8,929,632 |
| Net Operating Income Deficiency | | <u>7,355,331</u> |
| Net To Gross Multiplier | | 1.3813 |
| Gross Revenue Increase | \$ | <u>10,160,211</u> |

| | | | |
|---|---------------|-----------|-------------------|
| Net Operating Income Requirement | 1.000000 | \$ | 10,160,211 |
| Less: IPUC Assessment Rate | 0.0025930 | | |
| Less: Uncollectible Accounts Expense | 0.0128535 | | |
| Rate Applicable to O&M Expense & IPUC Assessment | 0.0154465 | \$ | 156,939 |
| State Tax Rate | 0.0692500 | | |
| Effective Net State Tax Rate | 0.0681803 | \$ | 692,727 |
| Federal Income Tax Residual | 0.0836268 | | |
| Incremental Federal Income Tax Rate | 0.2100000 | | |
| Effective Federal Tax Rate | 0.1924384 | \$ | 1,955,215 |
| Composite: IPUC Fees, Uncollectibles & Income Taxes | 0.276065 | \$ | 2,804,880 |
| Composite Residual | 0.723935 | \$ | 7,355,331 |
| Net to Gross Multiplier | <u>1.3813</u> | <u>\$</u> | <u>10,160,211</u> |