BEFORE THE

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IN THE MATTER OF SUEZ WATER IDAHO INC.'S APPLICATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN IDAHO	CASE NO. SUZ-W-20-02

DIRECT TESTIMONY OF DONN ENGLISH IN SUPPORT OF THE STIPULATION AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

MARCH 17, 2021

Q. Please state your name and business address?

A. My name is Donn English. My business address is 11331 W. Chinden Blvd., BLDG 8, STE 201-A, Boise, Idaho 83714.

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

A. I am employed by the Idaho Public Utilities Commission as a Program Manager overseeing the Accounting and Audit Department in the Utilities Division. I am also the Program Manager overseeing the Technical Analysis Department, also within the Utilities Division.

Q. Please describe your educational background and professional experience.

A. My educational background and professional experiences are shown in Exhibit No. 101.

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

A. The purpose of my testimony is to describe the Application of SUEZ Water Idaho, Inc. ("SUEZ Water" or "Company") to increase its rates and charges for water service in Idaho, describe the proposed comprehensive Stipulation and Settlement ("Settlement") reached by the parties in this case, and explain Staff's support for the proposed Settlement.

Q. How is your testimony organized?

A. My testimony is subdivided under the following headings:

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Background

Q. Please describe SUEZ Water's original filing.

A. SUEZ Water made its original filing with the Idaho Public Utilities Commission on September 30, 2020, requesting authority to increase its revenues by $10.16 million, or 22.3%, effective on or after October 31, 2020. The requested increase was based on a test year ending June 30, 2020, with proforma adjustments through March 31, 2021. Rate base was included through March 31, 2021, using the 13-month average method. The Company proposed using its current capital structure of 54.07% equity and 45.93% debt, and a return on common equity ("ROE") of 10.2%. The Company proposed a uniform increase to all customer classes.

Q. How was the case processed after the Company's filing was received?

A. The Commission issued a combined Notice of Application and Notice of Intervention Deadline ("Notice") on October 21, 2020. The Notice suspended the proposed effective date for thirty days and five months and established an Intervention Deadline of November 11, 2020. Intervenor status was subsequently granted to Ada County, Boise City, SUEZ Water Customer Group ("SWCG"), Community Action Partnership Association of Idaho ("CAPAI"), Micron Technology, Inc. ("Micron"), Intermountain Fair Housing Council, Inc. ("IFHC"), and four individual residents of the Boise Bench collectively referred to as the Individual Intervenors. The parties participated in four settlement conferences, and on March 12, 2021, all parties either agreed to the proposed settlement term sheet or stated their intent to withdraw as a party from the case. On March 16, 2021, the Individual Intervenors filed a Motion to Withdraw from the proceeding, and on March 17, 2021, IFHC expressed their intent to also file to withdraw. A Joint Motion to Approve the Settlement was filed with the Commission on March 17, 2021. The Settlement was signed by all remaining parties.

Staff Investigation

Q. What type of investigation did Staff conduct to evaluate the Company's rate increase request?

A. Staff's approach in any general rate case is to extensively review the Company's Application and associated testimony and workpapers, identify adjustments to its revenue requirement, and prepare to file testimony for a fully-litigated proceeding. There were 14 Staff members analyzing this case consisting of auditors, engineers, utility analysts, and consumer investigators, along with supervisors. Staff auditors reviewed the Company's test year results of operations, capital budgets, capital spending trends, operations and maintenance ("O&M") expenses and trends, and verified all of the Company's calculations and assumptions with regard to the overall revenue requirement. Because of the public health emergency due to the COVID-19 virus, Staff members were not able to conduct onsite audits or reviews of the Company's books and records and they did not have extensive interviews with Company personnel. However, the auditors reviewed thousands of transactions, selected samples, and performed transaction testing in accordance with standard audit practices. Staff reviewed the Company's labor expense, incentive plans, and employee benefits to ensure the appropriate level of expenditures are included in rates.

Staff reviewed both completed and proposed Company investments to determine the prudence of capital additions. Expenditures including pension expense, salaries, and O&M expenses were also examined. Additionally, Staff investigated the Company's cost of capital, capital structure, cost of service, and revenue normalization. In total, Staff submitted over 155 production requests and held several virtual meetings with Company personnel as a part of its comprehensive investigation.

Entering into the settlement negotiations, Staff had a list of potential revenue requirement adjustments to present to the parties. Return on Equity ("ROE") is always a major issue in general rate cases. Calculations of ROE ranged from 8.75% to the Company proposed 10.2% but the parties did not reach a specific agreement on the appropriate ROE or capital structure. Based on the success of its investigation, Staff and the parties were able to negotiate a rate increase totaling 8.75% over two years as opposed to the one-time 22.3% requested by the Company.

Settlement Evaluation

Q. How did Staff determine that the overall Settlement was reasonable?

A. In every settlement evaluation, Staff and other parties must examine the risks of losing positions at hearing and determine if the agreement is a better overall outcome. Staff must evaluate each individual adjustment and determine the likelihood of the Commission accepting or rejecting Staff's rationale for the adjustment. Ultimately, Staff's intent in every settlement conference is to negotiate the best possible outcome for customers.

Q. Does Staff support the Settlement as reasonable?

A. Yes. After a comprehensive review of the Company's Application, thorough audit of the Company's books and records, and extensive negotiations with the parties to the case, Staff supports the proposed Settlement. The Settlement offers a reasonable balance between the Company's opportunity to earn a reasonable return on its investment and affordable rates for customers. The Settlement addresses several of Staff's primary goals in this proceeding, including a revenue requirement increase that is more palatable to customers, adjusting amortization periods to better reflect time periods between rate cases, and the commitment by SUEZ Water to perform a load study to assist in allocating costs to different customer classes. Staff believes the Settlement, supported by all remaining parties to the case, is in the public interest; fair, just, and reasonable; and should be approved by the Commission.

Settlement Overview

Q. Would you please describe the terms of the Settlement?

A. The proposed Settlement adopts a phase in of the negotiated revenue increase. Instead of the Company's proposed 22.3% increase, customers will see an increase of 3.55% on May 1, 2021, representing a revenue increase of $1.62 million for the Company. On May 1, 2022, rates will increase by another $2.38 million, or 5.2%. The overall increase for the Company, phased in over two years, is $3.996 million, or 8.75%.

The Settlement does not detail all of the different components of the revenue requirement calculation. However, the Settlement specifically provides a framework for the treatment of amortization expenses, depreciation expense, pension expense, and the return of the remaining benefits from the Tax Cuts and Jobs Act ("TCJA") to customers. Additionally, the Settlement outlines how the parties believe intervenor funding, if granted by the Commission, should be recovered by the Company.

Q. Please explain how the Settlement treats amortization expenses.

A. In its Application, the Company requested to amortize the balance of its deferred pension costs, deferred power costs, rate case expenses, and deferred convenience fees over a three-year period. To mitigate the impact of the rate increase to customers, the parties agreed to a four-year amortization period. The Settlement also specifies that any remaining balances associated with deferred pension costs and power costs, either positive or negative, will be incorporated into the amortization expense in the Company's next general rate case. This treatment ensures that customers will pay, and the Company will recover, no more and no less than the actual pension contributions and power costs incurred by the Company. Consistent with Order Nos. 29838 and 32443, the Company will be authorized to accrue a carrying charge on the balances at the Commission-authorized customer deposit rate.

Regulatory assets associated with deferred tank painting costs will be amortized over twenty years as previously approved by the Commission and as requested in the Company's Application. Additionally, the amortization of the Allowance for Funds Used During Construction ("AFUDC") equity will continue with the 35-year amortization period approved in Order No. 33436 in the Company's last general rate case.

Q. Please describe the tax benefits associated with the TCJA.

A. On January 11, 2018, the Commission opened Case No. GNR-U-18-01 to investigate the impact of the TCJA on utility costs and ratemaking. The Commission reduced the rates SUEZ Water charges customers in Idaho to reflect the reduced income tax expense at the new 21% corporate tax rate. However, the TCJA required companies to revalue their deferred tax amounts at the new corporate tax rates (21%) which resulted in excess deferred federal income tax reserve balances. Balances associated with regulated utility operations resulted in a balance sheet reclassification from deferred tax to a deferred regulatory asset or liability. This revaluation effected both plant (protected or permanent tax benefit) and non-plant (unprotected or temporary tax benefit) balances.

For plant-related excess Accumulated Deferred Federal Income Taxes ("ADFIT"), the Company must amortize the balance under the Internal Revenue Service ("IRS") Average Rate Assumption Method ("ARAM"). To comply with the IRS normalization rules, the Company must return the plant-related ADFIT to customers over the remaining life of the associated assets. The ARAM serves as a proxy for the composite remaining life of the assets. The associated amortization of the plant-related ADFIT provides customers approximately $227,000 per year.

The temporary (one-time) tax benefits associated with non-plant ADFIT balances can be returned to customers in any manner approved by the Commission. The parties in this case agree to return the entirety of the approximately $16 million unprotected ADFIT to customers over one year, beginning on May 1, 2021. After the one-year period, all benefits associated with non-plant ADFIT will have been returned to customers and rates will increase on May 1, 2022.

The last component of the TCJA is the regulatory liability associated with the reduced tax rates from January 1, 2018 through May 31, 2018, prior to the rate relief offered by the Commission on June 1, 2018 to account for the reduction in the corporate tax rate. The parties in this case agree that $772,504 represents the correct calculation of the regulatory liability and customers will receive this benefit over one year, similar to the treatment of the non-plant ADFIT.

On May 1, 2022, customer rates will increase by $2.38 million, or 5.20% to reflect the depletion of these tax benefits.

Q. Why does Staff support returning the benefits of the non-plant ADFIT and regulatory liability associated with the reduced tax rate from January 1, 2018 through May 31, 2018 to customers in one year.

A. The Commission has discretion on the timing and method to return these benefits to customers. The parties agree that returning these benefits to customers in one year is a practical approach to mitigate any rate increase granted during a time that many customers may still be recovering from diminished employment opportunities and other financial difficulties. This approach essentially creates a two-year phase in of the stipulated revenue requirement increase.

Q. How does the Settlement address other revenue requirement issues?

A. The Settlement specifically addresses the recovery of the Company's contributions to its pension plan and updates the Company's depreciation rates.

Q. Please discuss the recovery of the Company's pension contributions.

A. Consistent with settlements approved by the Commission in Order Nos. 32443 and 33436 (Case Nos. UWI-W-11-02 and UWI-W-15-01, respectively), a base level of pension expense recovery is established. The Company will be authorized to record a deferred asset or liability for the difference between the actual cash contributions in each year and the base level included in rates. In this Settlement, the parties agree that $1,312,595 is the appropriate base level for pension recovery.

Q. Please discuss the Company's depreciation expense and how it is reflected in the Settlement.

A. Prior to the filing of its Application, the Company hired Alliance Consulting Group to conduct a depreciation study of the Company's depreciable assets as of December 31, 2019. This was the Company's first comprehensive depreciation study and it established the proposed depreciation rates included in the testimony and exhibits sponsored by witness Dane A. Watson on behalf of the Company. The depreciation rates agreed to in the Settlement are included in Exhibit C of the Settlement and reflect updates proposed by Staff. These updated depreciation rates reduce the Company's proposed depreciation expense and revenue requirement.

Q. How does the Settlement propose the Company recover intervenor funding if granted by the Commission?

A. The revenue requirement agreed to in the Settlement does not include an amount to recover intervenor funding. As allowed by statute and by Commission's procedural rules, parties may request and the Commission may award intervenor funding to be paid by the Company. If the Commission awards intervenor funding in this case, the parties agree that the Company should be allowed to recover the intervenor funding as an incremental addition to the first-year revenue requirement. The second-year revenue requirement will decrease by the amount of intervenor funding awarded by the Commission, so the Company will not continue to recover intervenor funding after April 30, 2022.

Q. Are there any other provisions in the Settlement that you would like to address?

A. Yes. The Settlement requires the Company to complete a load study to provide max-day and max-hour factors for each customer class and the water system as a whole. The Company will convene a discussion process with interested parties to receive input on the different study components. The study will be filed in the Company's next general rate case and will allow parties to determine the appropriate level of costs to be assigned or allocated to the different customer classes.

The Company will also broaden its public outreach efforts and host annual workshops for all interested parties. Commission Staff, the Idaho Department of Environmental Quality, and the Idaho Department of Water Resources will participate in the discussion on a range of topics related to water conservation and resource planning.

Additionally, the Company has agreed to meet with representatives of CAPAI to examine the current status of SUEZ Water's low-income assistance program, the level of participation and effectiveness of the program, and to identify and consider opportunities to improve the program for low-income customers.

Q. Do you have any other comments on the Settlement?

A. Yes. Staff has examined Exhibits A – C and verified they are consistent with the Settlement and reasonably recover the proposed revenue requirement. As implied in this testimony, the Settlement represents a fair, just, and reasonable compromise of the positions put forth by all parties and is in the public interest.

Therefore, Staff recommends the Commission approve the Settlement without material changes or modifications.

Q. Please explain concerns you are aware of related to water quality.

A. Customers in the Boise Bench area continue to have complaints about water quality. Staff has investigated complaints and attended town hall style meetings held by SUEZ Water with customers. Although SUEZ Water has made some improvements, customer concerns still exist. Staff will continue to investigate these concerns. Staff will also monitor and track the Company's ongoing plans to replace pipe, flush lines, and make improvements to the Taggart well as approved by the Idaho Department of Environmental Quality. Staff will also evaluate delayed or accelerated timelines for improvements and provide additional customer communications.

Q. Does this conclude your testimony?

A. Yes, it does.

Professional Qualifications
of
Donn English
Program Manager - Accounting and Audit
Program Manager - Technical Analysis
Idaho Public Utilities Commission

EDUCATION

Mr. English graduated from Boise State University in 1998 with a Bachelor of Business Administration degree in Accounting. His studies concentrated on corporate finance and taxation. He was a member of the Alpha Beta Psi honor society for Accounting students. He completed the Annual Regulatory Studies Program, the Advanced Regulatory Studies Program, and the Accounting and Ratemaking Course offered through the Institute of Public Utilities at Michigan State University. Additionally, he regularly attends meetings and conferences sponsored by the National Association of Regulatory Commissioners (NARUC) and the Society of Utility and Regulatory Financial Analysts.

In 2001, Mr. English became a designated member of the American Society of Pension Professionals and Actuaries (ASPPA) and was awarded the professional designation of Qualified Pension Administrator (QPA) and Qualified 401(k) Administrator (QKA). Mr. English was also a member of the Association of Certified Fraud Examiners.

BUSINESS EXPERIENCE

Prior to joining the Idaho Public Utilities Commission (IPUC), Mr. English was a Trust Accountant with a pension administration, actuarial, and consulting firm in Boise, Idaho. In 1999, He was promoted to Pension Administrator, and in 2001 he was promoted to Pension Consultant. In that capacity, Mr. English performed actuarial calculations and the required non-discrimination calculations for hundreds of qualified retirement plans. He completed and filed Form 5500s and represented clients during audits by the Department of Labor and the Internal Revenue Service. He also participated on the task force that wrote questions for the ASPPA administrator and actuarial exams.

Professional Qualifications
of
Donn English
continued

Mr. English joined the IPUC in 2003 as a Staff Auditor. In 2016, he was promoted to Audit Team Lead, and in 2018 he became the Program Manager for the Accounting and Audit Department within the Utilities Division. In 2020, Mr. English also accepted the responsibility of supervising the Technical Analysis and Energy Efficiency team. At the Commission, Mr. English has audited a number of utilities including electric, water, and natural gas companies, and provided comments and testimony in numerous cases that deal with general rates, tax issues, pension issues, depreciation and other accounting issues, and other regulatory policy decisions. MR. English participates in the Energy Efficiency Advisory Groups and External Stakeholder Advisory Committees for Idaho Power, Avista Utilities, Rocky Mountain Power, and Intermountain Gas Company. He is the Commission's representative on the NARUC Subcommittee of Accounting and Finance, and he also teaches at the NARUC Rate School.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17th DAY OF MARCH 2021, SERVED THE FOREGOING **DIRECT TESTIMONY OF DONN ENGLISH IN SUPPORT OF THE STIPULATION AND SETTLEMENT,** IN CASE NO. SUZ-W-20-02, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

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