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IDAHO PUBLIC
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Attorneys for Veolia Water Idaho, Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF VEOLIA WATER IDAHO, INC. FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE IN THE STATE OF IDAHO	)))))))	**CASE NO. VEO-W-22-02**

REBUTTAL TESTIMONY OF DAVID NJUGUNA FOR

VEOLIA WATER IDAHO, INC.

MARCH 8, 2023

Q. Please state your name, occupation and business address.

A. My name is David Njuguna, and my business address is 461 From Rd, Suite 400, Paramus, New Jersey 07652. I am employed by Veolia Water M&S (Paramus), Inc. ("VWM&S") as Manager – Regulatory Business.

Q. Are you the same David Njuguna that filed direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to Staff witness English recommendation to allow only plant in services to December 31, 2022 and the use of the Average of Monthly Averages to determine the Rate Base amount. In addition, I will address the reduction in the allowed depreciation expense amount and the treatment of deferred debits in Rate Base.

Q. What Exhibits are you sponsoring along with your rebuttal testimony?

A. Yes. I will be sponsoring Exhibits:

1. Exhibit No. 19-Revenue Deficiency.
2. Exhibit No. 20-Schedule 2 Depreciation Expense
3. Exhibit No. 20 Schedule 4-State and Federal Income Taxes & Gross Multiplier
4. Exhibit No. 21 Schedule 1-Rate Base Summary
5. Exhibit No. 21 Schedule 2-Summary Rate Base Calculation
6. Exhibit No. 21 Schedule 3-Forecasted Plant In Service
7. Exhibit No. 21 Schedule 4-Accumulated Depreciation and CIAC Amortization
8. Exhibit No. 21 Schedule 5-Construction Advances
9. Exhibit No. 21 Schedule 6-Contributions in Aid of Construction (CIAC)

10. Exhibit No. 21 Schedule 8- Accumulated Deferred Income Taxes

11. Exhibit No. 21-Schedule 9-Deferred Debits

12. Exhibit No. 21-Schedule 10-Working Capital Allowance

Exhibit No. 19 indicates the Company Rebuttal Revenue Deficiency. Even though our supporting testimony shows a higher revenue requirement, the Company is not proposing to change rates or revenues greater than those originally filed.

Exhibit No, 20 Schedule No. 2 represents depreciation expense based on updates to the Company's Rate Base as shown in Exhibit No. 21. Exhibit No. 20 Schedule 4 reflects an update to the State Income tax rate from 6% to 5.58%.

Exhibit No. 21 represents the Company's Test Year Rate Base with actual Plant in Service to February 28, 2023 and one month estimated capital investments for the month of March 2023.

Rate Base

Q. Do you agree with Staff's methodology of calculating Rate Base?

A. No. Staff calculated the Company's rate base using the Average of Monthly Averages Method for the year-ended December 31, 2022. In Staff's testimony, they claim the Company's proposed rate base includes 530-post test year which they claim that, due to supply chain uncertainties, it is not reasonable to assume these projects will be completed on time and what the final cost will be. In addition, Staff does not include the full value of capital additions in 2022 nor consider any plant additions in 2023 in its calculation of Rate Base.

Q. Do you agree with Staff's position as to the uncertainty in the completion of forecasted projects?

A. No. The Company is able to demonstrate a good track record in the completion of projects it plans to put in service by certain dates. In response to Staff data request No. 150, the Company was able to demonstrate the completion of projects up to December 2022 for a total plant in Service Balance of $ 571,591,827 as at December 31, 2022. In Exhibit No 21, Schedule 2, the Company provides the Plant In Service balance which includes actuals to February 28, 2023 and one month's forecast. As demonstrated in this Exhibit and per Witness Cooper's rebuttal testimony, the Company has been completing planned projects as proposed in the Rate Case. Thus, the Company should be allowed to earn a return on these investments as they will be in use and providing services to customers at the point in time that rates are set.

Q. Do you agree with Staff's methodology of valuing Rate Base?

A. No. Staff acknowledges the Test Year end method of valuing Rate Base, but asserts that including capital additions that occurred throughout the year in rate base at their year-end value creates an expense/revenue mismatch and that this would allow the Company to earn a return on its rate base as if the plant has been in service for the whole year.

Q. Do you agree with Staff position that capital additions that occurred throughout the year are included in rate base at their year-end value?

A. No. When the Company places plant into service, depreciation commences in the following month. Thus, projects placed into service earlier would begin depreciation earlier and the value net of depreciation would be lower than those projects placed into service later.

Q. Why is the averaging of historical rate base method not the most applicable way to calculate Rate Base for Veolia Water Idaho?

A. When determining a test period, the primary objective is to develop normalized results of operations that best reflect the operating conditions during the time the new rates will be in effect. Veolia Water Idaho uses a historical test period adjusted for known and measurable changes to coincide with when rates will be in effect and this is consistent with prior rate cases that the Company has filed before the Commission.

In an environment where the Company is making large capital investments, using the averaging of historical rate base method omits capital additions in-service when new rates will be in effect, which signifies the Company is not adequately capturing the conditions it will experience in future when new rates are set.

When a utility is making significant capital investments, a historical test period does not allow the utility to recover the true cost of service in a timely manner, as the Company will continue to place assets into service during the test period and begin to incur depreciation expense as soon as the assets are in service.

Q. Why does the Company propose to use the End of Test Year methodology to value Rate Base?

A. Rate base calculated using an end of period basis is more appropriate as it better aligns the level of investment that will be used when customer rates are set since a significant driver of the Company's rate case is the capital investment the Company has incurred.

Veolia continues to make substantial levels of capital investments in its water infrastructure to address customer growth, replacement and maintenance of Veolia's water infrastructure and to sustain reliability and safety. As soon as new plant is placed in service, the Company starts depreciating the new plant and incur other costs related to the investment.

Unless this new investment is reflected in rates in a timely manner, it has a negative impact on the Company's earnings, especially because the new plant is typically far more costly to install than the cost of similar plant embedded in rates. As plant is completed and is providing service to customers, it is appropriate for the Company to receive timely recovery of the costs associated with that plant.

Q. In preparing rebuttal schedules, did you notice any computation errors?

A. Yes. In preparing my rebuttal schedules, I noted an inadvertent mathematical error in the addition of monthly Rate Base elements. This related to Exhibit No. 11, Schedule 2 – Summary of Projected Rate Base. The mathematical error carries through from columns 03/31/2022 through 01/31/2023 and resulted in the Omission of Regulatory Liability-New Federal Tax Law (TCJA) in the computation of the total Rate Base as shown on line 15. This error carries on in subsequent updates to this schedule provided during discovery. The Company has corrected for this error in Rebuttal Exhibit No. 21, Schedule No. 2.

Q. How does this affect the Company Position?

A. This change has no impact on the Company's filing position nor rebuttal position but many impact Staff's position because Staff's testimony appears to have repeated this computational error.

<u>Depreciation Expense</u>

Q. Do you agree with Staff's proposed depreciation expense adjustment of $546,459?

A. No. In calculating the depreciation expense, Staff removed all 2023 plant additions forecasted to be in service by March 31, 2023 from rate base on the assertion that it is unknown if the Company will be able to complete these projects on time. As outlined in the rebuttal testimony of Company witness Cooper, the Company is able to demonstrate a track record in the completion of projections. As of the end of February 2023, the Company's actual Plant in Service balance is $575,098,483, which is $2,581,520 higher than the projected amount when the Company filed its rate case in September 2022. This demonstrates that the Company is committed to completing projects as planned and should be allowed to include these projects in its rate base and depreciation expense calculated based on the plant projected to be in service as at the end of March 31, 2023.

Deferred Expense Treatment in Rate Base

Q. Are there any other adjustments to Rate Base that you disagree with?

A. Yes. Staff proposes to remove from rate base the unamortized balance of deferred power costs, the unamortized balance of deferred rate case expenses and the unamortized balance of deferred convenience fees stating these are short term regulatory assets and that the opportunity to recover expenses is sufficient and including this in rate base is unnecessary.

Q. Why do you disagree with Staffs adjustment?

A. Though Staff states these deferral are of a short-term nature and the opportunity to recover expenses is sufficient, they go ahead to recommend a four-year amortization period which is contrary to treatment of assets short-term in nature. Thus, Staff's elimination of the unamortized expense from the rate base on the basis of its short term nature is contrary to its recommendation of a longer amortization period and should be included in rate base.

Q. What does the Company recommend?

A. The Company recommends the inclusion of the unamortized balance of the deferred power costs, deferred rate case expense and deferred convenience fees in rate base similar to the rate base treatment that has been allowed for deferred Tank Painting Expenses and an amortization period of 2 years as recommended by Company witness Jacob.

Q. Does this conclude your rebuttal testimony?

A. Yes.