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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF VEOLIA WATER IDAHO, INC. FOR A GENERAL RATE CASE	)))))))	**CASE NO. VEO-W-22-02**

DIRECT TESTIMONY OF TRAVIS CULBERTSON

IDAHO PUBLIC UTILITIES COMMISSION

FEBRUARY 15, 2023

Q. Please state your name and business address for the record.

A. My name is Travis Culbertson. My business address is 11331 W. Chinden Blvd., Ste. 201-A, Boise, ID 83714.

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

A. I am employed by the Idaho Public Utilities Commission ("Commission") as an Auditor III.

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

A. My testimony outlines Commission Staff's ("Staff") proposed adjustments to Veolia Water Idaho, Inc.'s ("Company" or "Veolia") revenue requirement as filed. I will present Staff's summary adjustments to the Company's proposed revenue requirement, outline an adjustment to the Gross Revenue Conversion Factor ("GRCF"), adjustments to Operating and Maintenance ("O&M") expenses, my proposed rate design, and my recommendation regarding the proposed Distribution System Improvement Charge ("DSIC") mechanism.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. I am sponsoring Exhibit Nos. 129, 130, 131, 132, 133, 134, and 135.

Q. How is your testimony organized?

A. My testimony is organized by the following topics:

Q. What is your educational and experience background?

A. My education and experience are provided in Exhibit No. 129.

<u>Revenue Requirement</u>

Q. Please provide a summary of Staff's proposed revenue requirement in this case.

A. Staff recommends a total revenue requirement of $55,854,457, an increase in the Company's annual revenues of $3,438,334, or 6.56%. Staff's revenue requirement is based on a 9.0% Return on Equity ("ROE") and a capital structure consisting of 44.43% debt and 55.57% equity for a Weighted Average Cost of Capital ("WACC") of 6.77% applied to net rate base of $261,118,238.

Q. Please outline Staff's adjustments to the Company's proposed revenue requirement components.

A. Staff is recommending twenty-eight (28) adjustments to the Company's requested revenue requirement. Exhibit No. 130 provides a brief summary of

Staff’s adjustments, the impact of each adjustment on the Company’s revenue requirement, and the Staff witness sponsoring testimony supporting the adjustment. Below is a brief summary of each adjustment:

> Adjustment No. 1 updates the Company’s previously unadjusted expense accounts through December 31, 2022, consistent with Staffs proposed updated test year.
>
> Adjustment No. 2 updates the Company’s GRCF to include the current Idaho state income tax rate. I will provide additional detail later in my testimony.
>
> Adjustment No. 3 updates the Company’s WACC to incorporate Staff witness Terry’s recommendation for a 9.0% ROE.
>
> Adjustment No. 4 will update the revenue requirement based on revenue normalization adjustments proposed in Staff witness Eldred’s testimony. Staff may provide an updated Exhibit to incorporate the quantification of this adjustment after information is received from the Company.
>
> Adjustment No. 5 adjusts the Company’s net rate base, as discussed in Staff witness English’s testimony.
>
> Adjustment No. 6 removes the annual depreciation expense associated with plant placed in service after

December 31, 2022. Staff witness English provides testimony supporting this adjustment.

Adjustment Nos. 7 - 14 are supported in Staff witness Johnson's testimony and adjusts various payroll related expenses, including worker's compensation expense, post-retirement benefits other than pension, healthcare insurance, employee 401(k) matching contributions, employee tuition benefits, fringe benefits, payroll taxes, and the 2023 wage increases.

Adjustment No. 15 reduces costs associated with customer billing. Staff witness Johnson's testimony outlines support for this adjustment.

Adjustment No. 16 adjusts vehicle expenses that include adjustments for inflation percentages and an overstatement of fuel and lease costs. Staff witness Johnson provides testimony supporting the adjustment.

Adjustment No. 17 adjusts Office expenses associated with the four employees that the Company did not hire as of December 31, 2022, and other expenses not required by the Commission. Staff witness Johnson provides testimony supporting the adjustment.

Adjustment No. 18 removes advertising expenses not required by the Commission. Staff witness Johnson provides testimony supporting this adjustment.

Adjustment No. 19 adjusts Shared Management and Services ("M&S") fees and excludes parent company employees' wages and executive travel and training. I will provide additional detail later in my testimony.

Adjustment Nos. 20 and 21 adjusts General Insurance expense to update Company's average expense and remove Company caused Injury and Damages. I will provide additional detail later in my testimony.

Adjustment No. 22 removes specific safety expenses for trainings no longer offered or have yet to be scheduled. Staff witness Johnson provides testimony supporting this adjustment.

Adjustment Nos. 23 and 24 adjust the Company's rate case expenses. Staff witness Terry and Staff witness Eldred provide testimony supporting these two adjustments.

Adjustment No. 25 adjusts the Company's amortization expense for deferred tank painting. Staff witness Terry provides testimony that outlines removing 2023 expense.

Adjustment No. 26 adjusts the Company's amortization expense for deferred power costs. Staff witness Terry provides testimony that outlines two adjustments.

Adjustment No. 27 removes nine miscellaneous expenses from the Company's unadjusted O&M - Miscellaneous Expense account. Staff witness Johnson provides testimony supporting this adjustment.

Adjustment No. 28 reduces the cost of power and chemical expense due to the reduction in weather normalized test year consumption using Staff's 2022 Test Year, as outlined in Staff witness Eldred's testimony.

Q. Please briefly explain the GRCF.

A. The GRCF is based on revenue-sensitive items that change as revenue changes, including uncollectibles, Commission regulatory fees, Idaho state income taxes, and federal income taxes. The GRCF converts the Company's net operating deficiency into the additional revenues necessary to collect from customers to earn its authorized rate of return after accounting for all the revenue-sensitive items previously mentioned.

Q. What GRCF did the Company use?

A. In its Application, the Company calculated a GRCF of 1.3573%. In calculating the GRCF, the Company used an Idaho State Income tax rate of 6.0%.

Q. Do you agree with the Company's GRCF?

A. No. The Company calculated its GRCF using an outdated Idaho state income tax rate of 6.0%. On September 1, 2022, House Bill 1 reduced the corporate tax rate to 5.8%; therefore, I recommend an adjustment to Company's GRCF to account for the correct Idaho state income tax rate. I have calculated the appropriate GRCF to be 1.3545% as shown in Exhibit No. 132. This adjustment will impact the revenue requirement associated with all other adjustments proposed by Staff.

O&M EXPENSE ADJUSTMENTS

Q. Please briefly explain how the Company calculated its adjustment to shared M&S fees.

A. The Company's proposed revenue requirement includes an allocation of shared assets and costs from its parent company for corporate office support, services, management functions and Information Technology ("IT") assets. Shared costs are allocated based on a three-factor approach. The M&S fee expense is based on six months of actual costs through June 30, 2022, and then is annualized to support a full year. An adjustment of 3.5% is included as a wage adjustment factor for the parent company's employees in New Jersey. Finally, an insurance premium adjustment is made as a projection that may change from year to year.

Shared assets are allocated to the Company as operating expenses, rather than capitalizing portions of shared assets individually, which has been prior practice. The pro forma expense is adjusted to include shared asset expenses, including IT depreciation expense and a rate of return.

In the Application, the Company proposed an adjustment to increase M&S Fees by $499,821 for an annual total of $4,566,635.

Q. Please explain Staff's adjustment to the M&S fees.

A. As shown in my Exhibit No. 133, I recommend reducing the Company's proposed M&S expense by $455,782, for a total recovery of $4,110,853.

Q. Please explain your first adjustment to shared IT assets.

A. Embedded in the Company's calculation of shared IT assets is a return on shared IT assets. Because the Company is including a return on the shared M&S IT assets at the Company's requested pre-tax rate of return of 9.85%, I was concerned that the parent company was attempting to include additional profits. Without additional scrutiny, the opportunity exists for the parent company to profit from its allocated charges to its subsidiary. Idaho customers should not be paying additional returns to the Company's parent. The Idaho State Supreme Court has stated that affiliated transactions must be at the lower of cost or market.[1] If there are efficiencies by having a parent company perform certain functions that would otherwise be paid for by individual subsidiaries, those functions must cost less than the market rate for each individual subsidiary. Thus, the allocation from the parent company to the Company must be at cost. Adding a return for shared IT asset cost effectively includes a return for the parent company. To eliminate the collection of additional profit, I have removed the return, which is a decrease to shared M&S fees of $147,890.

Q. Please explain your adjustment to the shared M&S fee depreciation expense?

A. The shared M&S IT assets use depreciation rates that are not approved by the Commission, and the Company adds a pro forma adjustment to the depreciation expenses out to March 2023. I adjusted the depreciation expense by removing all depreciation expense associate with 2023 IT assets, and I also adjusted the depreciation rates to align with rates approved by this Commission. The depreciation rates that I adjusted include computer hardware, computer software, and office furniture. The adjustment to depreciation expense is a total of $25,252. In total, my two adjustments to shared M&S IT assets, including the

[1] Boise Water Corp. v. IPUC, 97 Idaho 832, 555 P. 2d 163 (1976).

adjustment to shared M&S IT assets return and depreciation expense, is $173,142.

Q. Please explain the Company's calculation of other M&S fees.

A. When reviewing the cost allocation manual, only IT wages are directly assigned when possible, and the other salaries and expenses are allocated using the Massachusetts Allocation Method ("MAM"). The MAM is a reasonable method to allocate the shared expenses, when necessary, but Staff continues to support direct assignment of costs and encourages utilities to implement processes that will directly assign costs. By not directly assigning costs, Staff is concerned that cost-savings from various shared M&S departments are not being allocated fairly to Idaho ratepayers.

The Cost Allocation Manual, provided by the Company in response to Staff Production Request No. 43, outlines each department at the corporate office and the employees that work on regulated business units and the support they provide. With the distinction that there are employees that do not work on regulated business units at the corporate office, there are costs that are being allocated to Idaho that are not related to working regulated business items. *See* Cost Allocation Manual. Thus, I recommend a disallowance of the salary expenses that are part of non-regulated business units.

Q. Are there departments at the parent company, in New Jersey, that allocated inappropriate expenses?

A. Yes. There are three departments that I recommend removing out of M&S fees. The parent company allocated expenses of employees that are not working in direct relation to the regulated business units. Therefore, I have adjusted expenses from the following departments: legal, Human Resources ("HR"), and office of the Chief Operating Officer ("COO").

The corporate legal department allocated $160,977 to the Company, even though the Company uses local counsel, Givens Pursley. The Cost Allocation Manual provides descriptions that 19 corporate attorneys work at the parent company, but only 15 of them work on items directly related to Idaho jurisdiction. I propose removing legal costs that are allocated by the Company that provide no benefit to Idaho jurisdiction. The Company's test year include costs for nineteen attorneys that work at the corporate level. I removed the four attorneys that do not work on Idaho jurisdiction items, which is a decrease to shared M&S fees of $33,890.

At the parent company, there are twenty-three HR employees. Of those, nineteen work directly with the regulated side of the business. The Company's proposed revenue requirement includes $204,329 in HR expenses allocated from the parent company. As mentioned previously, my concern is that the parent company is not directly assigning costs and relying on allocation factors to push the costs of each HR employee to Idaho customers. Thus, I propose removing the corporate HR costs allocated to the Company that are not associated with doing any work for the Company. I recommend decreasing M&S fees by an additional $35,536 to account for the four HR employees that are not doing work on the regulated side of the parent company.

The Office of the COO allocated $61,237 to the Company. The COO does not benefit Idaho ratepayers but supports the board of directors and helps the parent company earn a profit for shareholders. Thus, I am proposing removing the entire $61,237.

Q. Do you propose any other adjustments to M&S fees?

A. Yes. I propose two adjustments related to the salary increase factor and the change in insurance premiums. First, I am concerned that Idaho ratepayers are paying higher wages for the employees located in New Jersey, than the wages for employees in Idaho. Idaho customers should not be burdened by the higher wages required to employ people in New Jersey.

I have also removed the 2023 proposed salary increase percentage for corporate employees to be consistent with the other payroll adjustments supported in Staff witness Johnson's testimony. This adjustment decreases shared M&S fees by an additional $118,754.

As mentioned in Staff witness Johnson's testimony regarding insurance premiums, Staff recommends using 2022 actual expenses. As of the filing of my testimony, the Company has not provided supplemental workpapers for the 2022 insurance premiums. Thus, I recommend removing the pro forma insurance premium included in the allocated shared M&S fees, which is a decrease of $29,873.

Q. Please explain the adjustment made to remove the Company's allocated portion of training and travel for corporate executives.

A. I propose removing the costs of executive travel and training that were allocated to the Company, which reduces the M&S Fees by $1,286. The main responsibility of corporate executives is to increase profits for shareholders, which is a function that does not directly benefit Idaho ratepayers.

Q. Please explain the adjustment made to remove the allocated portion of board of directors' compensation for the Company.

A. The Company included $2,064 for board of director's compensation. The main responsibility of the corporate board of directors is to earn a profit for shareholders, which is a function that does not directly benefit Idaho customers.

Q. Please summarize your adjustment to shared M&S fees.

A. I propose that the Company recover $4,110,853 in shared M&S fees, which is the amount I have included in Staff's revenue requirement.

Q. What adjustments did the Company make to General Insurance?

A. The Company proposed to increase expenses for business insurance, including liability and property coverage. The Company calculated the average of the insurance expense without reserves and with claim payments for the years 2020 and 2021, and increased its general insurance expense from its historic test year ending June 30, 2022, to the average of 2021 and 2020.

Q. Please explain your adjustment to General Insurance Expense in Exhibit No. 134.

A. The 2022 actual general insurance expense was $133,309. Rather than proposing to use the actual 2022 amount, I am proposing the three-year average of $206,119, shown on Line 6, compared to the Company's two-year average of $242,524. This adjustment provides the Company an additional $72,810 over the actual amounts incurred during 2022 to account for year-to-year volatility. This adjustment reduces the Company's expense by $36,405.

Q. Please explain your next adjustment to General Insurance.

A. I reviewed the Company's Injuries and Damages payments provided in Response to Staff Production Request No. 11. The Company paid $97,685 in insurance claims in 2022. I removed $28,947 from Injuries and Damages caused by employees errantly leaving valves open and vehicle crashes where the employee was at fault. Customers should not pay for injuries and damages that are due to negligence of the Company employees. By disallowing recovery of claim payments for damages caused by employees, I recommend decreasing recovery of Injuries and Damages by $28,947 as shown on Line 8. After removal of the employee-fault damages, the Company will still recover $85,824 to account for other damages.

Rate Design

Q. Please provide Company's proposed rate design.

A. The Company proposed a uniform percentage increase to all rate components. The Company's approach is consistent with the across the board methodology accepted in the 2011, 2015, and 2020 rate proceedings.

Q. Are any changes to the rate structure being proposed in Company's Application?

A. Yes. Although the Company is requesting an across the board, uniform percentage rate increase to all customer classes, they are requesting no rate increase to the Private Fire Protection customer class. As such, the increases to other classes absorb additional revenues that are not going to be collected from the Private Fire Protection customer class.

Q. Does Staff support the Company's rate design proposal?

A. Not entirely. I do recommend spreading Staff's increase uniformly across all rate components within Schedule No. 1 similar to what the Company proposed in its Application; however, I do not support the Company's proposal to not increase rates for the Private Fire Protection customer class for reasons explained in Staff witness Eldred's testimony. Instead, Staff is recommending the increase be spread across all rate components for all classes including Private Fire Protection. Exhibit No. 135 provides the rate design associated with Staff's recommended 6.56% increase to each customer class, and the Existing Eagle Water Company customers.

Q. Do you believe the current rate design structure is fair, just, and reasonable?

A. Yes. Without a valid load and Cost of Service

Study, a uniform across the board percentage increase is consistent with prior rate case filings. However, I would like to see further analysis of other rate design options that supports Staff's goals of developing new rate designs that still encourages conservation while providing revenue stability. Staff witness Eldred is requesting a new load study that may show the need for different customer classes from what the Company's tariffs currently reflect. However, without a proper comprehensive load study and Cost of Service Study, I am not recommending adjusting the current rate design.

DSIC Mechanism

Q. Please explain the Company's proposed DSIC mechanism?

A. The Company proposed a DSIC mechanism that bi-annually adjusts rates to recover costs related to the replacement and/or rehabilitation of the Transmission and Distribution ("T&D") system. Recovery of costs would include replacements of mains, services, hydrants, valves, meters, and other infrastructure. The DSIC is a surcharge mechanism that would allow for rate increases between general rate case proceedings which specifically relate to non-revenue producing investments.

Under the Company's proposal, rates would change twice each year. The Company bills customers every other month, or six times a year. With the Company's DSIC mechanism, rates would change after every third bill. Staff would be required to perform an audit and prudence analysis of the Company's distribution system improvements twice each year to ensure customers are only paying for prudent capital improvements.

Q. Do you support the DSIC mechanism?

A. No. I analyzed the Company's request for a mechanism and recommend the Commission deny the Company's DSIC mechanism. While I support the Company's work to maintain safe and reliable service by replacing or upgrading aging infrastructure, I believe that these costs are more appropriately reviewed and recovered through traditional ratemaking in general rate cases rather than through a bi-annual cost recovery mechanism as proposed by the Company. Further, the costs that the Company proposes to fund through the DSIC are different from costs the Commission has approved for recovery in other annual cost adjustment mechanisms, such as the cost of natural gas or electricity. Those annual cost adjustment mechanisms were justified based on costs that are highly unpredictable and/or volatile, not within the Company's ability to plan and control, and are sufficiently large risking the "potential" for the Company to earn an adequate return. However, the types of expenses the Company wishes to recover through the DISC are known and predictable capital expenditures that can be planned well in advance and can be included for recovery in a general rate case. Further, the Company has the financial ability and access to capital to fund these projects between rate cases.

Q. Have similar mechanisms been proposed by other Idaho utilities?

A. Yes. Intermountain Gas requested a capital cost adjustment tracker for replacing pipes and other distribution-related capital expenditures.

Q. What was the result?

A. The Commission denied Intermountain's request in Order No. 34090. The Commission stated:

> [W]e find that a general rate case provides the best comprehensive venue for review of the Company's costs, revenues, and rate base in terms of known, routine, planned-for expenditures.
>
> ***
>
> We also find that the costs the Company seeks to recover are predictable and not necessarily volatile. While, as the Company argued, part of these costs may be unpredictable (e.g., destruction of Company property by the public; inflation of pipe costs), they are not the types of costs that significantly vary from the revenue requirement embedded in base rates.
>
> We are unaware of any emergency or factual showing that would necessitate approval of a

> special mechanism for the recovery of these expenditures. The Company should manage these costs through prudent business planning. The Company has not shown it cannot make what it considers exceptionally important infrastructure improvements and investments while earning fair returns on its investments. […]
>
> […] Recovery of costs related to the replacement of aging infrastructure, whether accelerated or otherwise, is best accomplished in a general rate case that allows analysis of all expenses, rate base, and impact on the Company's return on equity.

Order No. 34090 at 9-10.

Q. Please discuss why the expenses the Company proposes to recover through the DISC are appropriately recovered through a general rate case.

A. Adjustment mechanisms are not the proper recovery method for large infrastructure projects. The prudence and recovery of infrastructure costs are best addressed through traditional ratemaking in a general rate case where all expenses, rate base, and impacts on the Company's return on equity can be examined. In addition, annual adjustment mechanisms lessen the incentive for utilities to control costs.

Other utilities in Idaho have successfully used rate cases to seek recovery for infrastructure replacements similar to the projects the Company discusses in this case. Avista has been replacing aging infrastructure for several years (Case Nos. AVU-E-19-04, AVU-E-21-01) and has not proposed an annual adjustment mechanism to recover those costs. Instead, utilities file regular rate cases to fund ongoing projects. Staff supports the recovery of these types of capital investments through general rate cases recovery and does not believe it has harmed the utilities financial viability.

Q. What types of expenses are appropriate for an annual cost adjustment mechanism?

A. One of the main reasons for implementing a cost adjustment mechanism is that expenses may be volatile and highly unpredictable. Staff reviewed the types of project expenses that the Company proposed to recover through the DSIC and does not believe that any of these costs are significantly unpredictable, or variable, and can be planned well in advance.

Unpredictable and volatile costs create an issue in traditional ratemaking when actual costs vary significantly from the revenue requirement embedded in base rates. Power and gas supply costs are a good example. Idaho Power requested the implementation of its Power Cost Adjustment ("PCA") after Idaho Power had previously been granted approval for two emergency surcharges to meet volatile and unpredictable power supply costs in drought years. The Commission agreed that the circumstances warranted an annual adjustment:

> We find that the current system of normalizing power supply costs and granting Idaho Power a surcharge during drought years is defective because it is unpredictable. Presently, Idaho Power must take the initiative to seek a drought related surcharge when it believes its financial condition has deteriorated to the point where additional rate relief is critical.

Order No. 24806 at 5. The Commission emphasized "that our decision [to adopt a PCA] is limited to the unique circumstances of Idaho Power's highly variable power supply costs." *Id.* Thus, a driver for the Commission's adoption of Idaho Power's mechanism was due to highly unpredictable and volatile nature of power supply costs and the resulting financial impact on Idaho Power impeding the utility's opportunity to earn a fair return.

Another reason for implementing a mechanism is that the Company's financial position is harmed by pursuing cost-effective energy efficiency. Because large scale, company-sponsored energy efficiency can reduce the volumetric sales needed to recover the fixed costs of providing service, the Commission adopted the Fixed Cost Adjustment ("FCA") for Idaho Power and Avista to ensure that acquiring cost-effective energy efficiency does not financially harm those utilities.

The FCA is only used to recover costs that were established in a rate case (the fixed cost per customer).

It provides a true-up of the actual collection of fixed costs per customer compared to what was assumed in base rates. Order No. 33527 at 2. It is not used for infrastructure replacement and upgrade costs.

Q. Do you believe the Company could plan for the proposed DSIC expenses through its planning process?

A. Yes. I considered whether the type of costs proposed for recovery in the DSIC can be managed through its planning process. I reviewed the projects and types of expenses the Company plans to implement in the next five years and believe the Company has a significant amount of control over the timing of these expenses. I believe the DSIC is unnecessary because most of these expenses are project costs which the Company can manage through its planning process.

The costs proposed for recovery in the DSIC can be planned and managed by the Company throughout the course of the project. Within the next five years, the Company plans to replace aging infrastructure items as part of its budget of replacement costs. The Company can decide when to incur project expenses and cost of the projects through its budgeting processes. This gives the Company a significant amount of flexibility to adjust its project plans and to incur costs as its budget for each year allows.

A predictable capital expense that the Company can manage over time is ideal for recovery through traditional ratemaking in a general rate case. Rates established in general rate cases have a long history of successfully providing utilities adequate recovery of these types of infrastructure costs.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

Professional Qualifications
Of
Travis Culbertson
Auditor 3
Idaho Public Utilities Commission

EDUCATION

Mr. Culbertson graduated from Boise State University in 2012 with a Bachelor of Business Administration degree in Accounting with an emphasis on Internal Audit.

BUSINESS EXPERIENCE

Prior to joining the Idaho Public Utilities Commission ("IPUC"), Mr. Culbertson was a Junior Accountant with a custom home builder in Meridian, Idaho. In 2016, he was promoted to Accountant. Responsibilities included, but not limited to, accounts payable, payroll, client construction accounting, implementation of a new payroll service system, benefits, and onboarding of new employees. He performed month-end reconciliations of expenses, accruals, pre-paid, monthly construction bank draws, payroll processing, check processing, inventory controls, internal audit, and many other assigned tasks.

Mr. Culbertson joined the IPUC in October 2018 as an Auditor. In May 2021, he was promoted to Senior Auditor and in August 2021 joined the Technical Analysis team where he focused on rate design. At the IPUC, he has been involved in many different types of audits and cases for electric, gas, and water utilities. Such cases included PacifiCorp's Energy Cost Adjustment Mechanism, PacifiCorp's depreciation study, Avista Power Cost Adjustment, Avista general rate cases in 2019 and 2021, SUEZ Water Idaho, now known as Veolia Water Idaho, Inc. 2020 general rate case, Idaho Power's Value of Distributed Energy Resources, and several other utility filings. In October 2022, he was promoted to Auditor 3, where he added a focus on small water companies transitioning to regulation and ensuring regulated entities are in compliances. Mr. Culbertson attends yearly training programs provided, or sponsored, by the National Association of Regulatory Utility Commissioners ("NARUC"). He has attended NARUC Rate School, University of Missouri – Financial Research Institute, and NARUC Subcommittee on Accounting and Finance annual meetings.

VEOLIA WATER IDAHO, INC.
VEO-W-22-02
Summary of Staff's Adjustments

Adj No.	Staff Witness	Exhibit No.	Title with Brief Description	Column (1) Staff Expense Adjustment Amount	Column (2) Staff Revenue Adjustment Amount	Column (3) Staff Adjustment to Co. Revenue Requirement	Column (4) Total Revenue Requirement Adjustment	Column (5) Revenue Requirement Total	Column (6) Revenue Requirement % Adj
			Company Application Revenue Requirement Requested Test Year 6/30/2022					$ **12,107,227**	23.41%
1	Culbertson		Unadjusted Expense brought to 12/31/2022 Test Year	$ 12,720		$ 12,822	$ 12,822	$ 12,120,049	23.43%
2	Culbertson	132	Gross Revenue Conversion Factor - State Income Tax Rate at 5.8%			$ (41,251)	$ (28,430)	$ 12,078,797	23.36%
3	Terry	119	Return on Equity at 9.00%			$ (3,802,707)	$ (3,831,137)	$ 8,276,091	16.00%
4	Eldred	124	Revenue Adjustment		$ 698,264	$ (703,820)	$ (4,534,956)	$ 7,572,271	14.45%
5	English	102	Rate Base - Average of Monthly Averages for 2022			$ (1,680,099)	$ (6,215,055)	$ 5,892,173	11.24%
6	English	103	Depreciation Expense	$ (546,459)		$ (550,807)	$ (6,765,861)	$ 5,341,366	10.19%
7	Johnson	104	Payroll Expense	$ (873,970)		$ (880,924)	$ (7,646,785)	$ 4,460,442	8.51%
8	Johnson	105	Workers Compensation	$ (19,110)		$ (19,262)	$ (7,666,047)	$ 4,441,180	8.47%
9	Johnson	106	Post-Retirement Benefits Other than Benefits	$ (54,144)		$ (54,575)	$ (7,720,622)	$ 4,386,605	8.37%
10	Johnson	107	Healthcare Insurance	$ 240,439		$ 242,352	$ (7,478,270)	$ 4,628,957	8.83%
11	Johnson	108	Employee 401k	$ (44,890)		$ (45,247)	$ (7,523,518)	$ 4,583,710	8.74%
12	Johnson	109	Employee Tuition Benefits	$ (5,361)		$ (5,403)	$ (7,528,921)	$ 4,578,306	8.73%
13	Johnson	110	Fringe Benefits Adjustment	$ 203,700		$ 205,321	$ (7,323,600)	$ 4,783,627	9.13%
14	Johnson	111	Payroll Taxes	$ (101,906)		$ (102,717)	$ (7,426,316)	$ 4,680,911	8.93%
15	Johnson	112	Customer Billing	$ 611		$ 616	$ (7,425,701)	$ 4,681,526	8.93%
16	Johnson	113	Vehicle Allocation	$ (166,799)		$ (168,126)	$ (7,593,827)	$ 4,513,400	8.61%
17	Johnson	114	Office Expense	$ (27,544)		$ (27,763)	$ (7,621,590)	$ 4,485,637	8.56%
18	Johnson	115	Advertising Expense	$ (30,000)		$ (30,239)	$ (7,651,829)	$ 4,455,398	8.50%
19	Culbertson	133	Shared Management & Services ("M&S") Fees	$ (455,782)		$ (459,409)	$ (8,111,238)	$ 3,995,990	7.62%
20	Culbertson	134	General Insurance	$ (36,405)		$ (36,695)	$ (8,147,932)	$ 3,959,295	7.55%
21	Culbertson	134	General Insurance - Injuries and Damages	$ (28,947)		$ (29,178)	$ (8,177,110)	$ 3,930,117	7.50%
22	Johnson	116	Safety Expense	$ (29,250)		$ (29,483)	$ (8,206,593)	$ 3,900,634	7.44%
23	Terry	121	Rate Case Amortization Expense	$ (111,461)		$ (112,348)	$ (8,318,941)	$ 3,788,286	7.23%
24	Eldred		Rate Case Amortization Expense	$ (40,495)		$ (40,817)	$ (8,359,758)	$ 3,747,469	7.15%
25	Terry		Tank Painting Amortization Expense	$ (22,500)		$ (22,679)	$ (8,382,437)	$ 3,724,790	7.11%
26	Terry	120	Deferred Power Expense	$ (270,705)		$ (272,859)	$ (8,655,296)	$ 3,451,931	6.59%
27	Johnson	117	Miscellaneous Expense	$ (4,585)		$ (4,622)	$ (8,659,917)	$ 3,447,310	6.58%
28	Eldred		Variable Expense due to Volume	$ (8,904)		$ (8,975)	$ (8,668,893)	$ 3,438,334	6.56%

VEOLIA WATER IDAHO, INC.
Statement of Operating Income per Books and Pro forma under
Present and Proposed Rates for the Test Year Ending December 31, 2022
Staff Proposed Revenue Deficiency Calculation

Line No.	Description	Column (1) Per Books 06/30/22	Column (2) Test Year Adjustment	Column (3) Adjusted Test Year	Column (4) Under Proposed Rates Staff Adjustments	Column (5) Under Proposed Rates Staff Proforma
1	Operating Revenues	$ 49,459,567	$ 2,956,556	$ 52,416,123	$ 3,438,334 6.56%	$ 55,854,457
	Operating Expenses					
2	Operation & Maintenance	$ 17,656,607	$ 2,957,635	$ 20,614,241	$ 27,141	$ 20,641,382
3	Depreciation	$ 9,696,461	$ 404,170	$ 10,100,631	$ -	$ 10,100,631
4	Amortization Of UPAA	$ 20,712	$ 261,873	$ 282,585	$ -	$ 282,585
5	Total Depreciation and Amortization	$ 9,717,173	$ 666,043	$ 10,383,216	$ -	$ 10,383,216
	Taxes Other Than Income					
6	Ad Valorem	$ 1,769,525	$ 375,507	$ 2,145,032	$ -	$ 2,145,032
7	Payroll Taxes	$ 773,986	$ 22,891	$ 796,877	$ -	$ 796,877
8	Total Taxes Other Than Income	$ 2,543,511	$ 398,398	$ 2,941,909	$ -	$ 2,941,909
9	Total Operating Expenses Excluding Income Taxes	$ 29,917,291	$ 4,022,076	$ 33,939,367	$ 27,141	$ 33,966,508
10	Operating Income Before Income Taxes	$ 19,542,276	$ (1,065,520)	$ 18,476,756	$ 3,411,194	$ 21,887,949
	Income Taxes					
11	State Income Taxes	$ (1,257,899)	$ 1,879,354	$ 621,454	$ 197,849	$ 819,304
12	Federal Income Taxes	$ 4,246,014	$ (1,516,654)	$ 2,729,360	$ 674,802	$ 3,404,163
13	Total Income Taxes	$ 2,988,115	$ 362,700	$ 3,350,815	$ 872,652	$ 4,223,466
14	Utility Operating Income	$ 16,554,161	$ (1,428,220)	$ 15,125,941	$ 2,538,542	$ 17,664,483
15	Adjusted Rate Base			$ 261,118,238		$ 261,118,238
16	Rate of Return on Rate Base			5.79%		6.76%
17	Required Rate of Return			6.77%		
18	Required Net Operating Income			$ 17,677,705		
19	Operating Income Deficiency			$ 2,551,764		
20	Gross Revenue Conversion Factor			1.3545		
21	Revenue Deficiency less Intervenor Funding (Order No. 35063)			$ 3,438,334		

Exhibit No. 131
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T. Culbertson, Staff
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Veolia Water Idaho, Inc.
VEO-W-22-02
Staff Proposed Gross Revenue Conversion Factor
Adjustment No. 2

Line No.		Company Proposed	Staff Proposed
1	Net Operating Income Requirement	1.000000	1.000000
2	IPUC Assessment Rate	0.001995	0.001995
3	Uncollectible Accounts Expense	0.005899	0.005899
4	Rate Applicable to O&M Expense & IPUC Assessment	0.007894	0.007894
5	State Tax Rate	0.060000	0.058000
6	Effective Net State Tax Rate	0.059526	0.057542
7	Federal Income Tax Residual	0.067420	0.065436
8	Incremental Federal Income Tax Rate	0.210000	0.210000
9	Effective Federal Tax Rate	0.195842	0.196258
10	Composite:IPUC Fees, Uncollectibles & Income Taxes	0.263262	0.261694
11	Composite Residual	0.736738	0.738306
12	Net to Gross Multiplier	**1.357334**	**1.354452**

Veolia Water Idaho, Inc.
VEO-W-22-02
Staff Proposed Shared Management & Services Fees
Adjustment No. 19

Line No.	Description				Company Adjustment Amount	Staff Proposed Adjustment
1	To normalize Management & Services fees based on actual 6 months ended June 2022, then annualized. Include salary increase factor, expected 2023 change in insurance premiums and shared				$ 499,821	$ (455,782)
2		**Year**	**M&S Fees**	**Amount**	**Total**	
3	Per Books for reference only	2019	$ 3,814,660			
4		2020	$ 3,538,627			
5		2021	$ 4,016,367			
6	six months ending June 30, 2022		$ 2,062,183			
7	Normalize 2022 actuals through June 30, 2022 removing depreciation expense of	2022		$3,392,981		$ 3,392,981
8	Salary increase factor 3.50%			$ 118,754		$ -
9	Expected 2023 change in insurance premiums (Auto/General/Umbrella Liability and Workers Compensation)			$ 29,873		$ -
10	**Staff Adjustment** Removal of Legal Department Salarys and Expenses					$ (33,890)
11	**Staff Adjustment** Removal of Department Salarys and Expenses					$ (35,536)
12	**Staff Adjustment** Removal of COO Salarys and Expenses					$ (61,237)
13	**Staff Adjustment** Removal of Executive Travel and Training					$ (1,286)
14	**Staff Adjustment** Removal of Executive Compensation					$ (2,064)
15	Adjustment for shared assets (includes depreciaton expense)			$1,025,027		$ 1,025,027
16	**Staff Adjustment** Adjustment of shared assets pre-tax rate of return					$ (147,890)
17	**Staff Adjustment** Adjustment of shared assets depreciation expense					$ (25,252)
18	**Pro Forma M&S Fees**				$ 4,566,635	$ 4,110,853
19	**12 months ending December 31, 2022 Account 90850**				$ 4,066,814	$ 4,066,814
20					$ 499,821	$ 44,039
21	**Staff Expense Adjustment**					$ (455,782)
22	**Staff Revenue Requirement Adjustment**					$ (459,409)

Exhibit No. 133
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T. Culbertson, Staff
02/15/23

Veolia Water Idaho, Inc.
VEO-W-22-02
Staff Proposed General Insurance
Adjustment Nos. 20 & 21

Line No.	Description					Company Adjustment Amount	Staff Proposed Adjustment
1	To adjust casualty and property insurance to remove IBNR - incurred but not recorded reserves and to include deductible claim payments expense GL account 26200 CE 75002. Premiums for Casualty and Property Insurance are included in M&S fees 90850, and Prior to Sept. 2019 Claims Payments were also included in M&S Fees					$ 151,177	$ (65,353)
2	Year	Insurance with Reserves 91400 per books	Exclude Reserves in 91400	Claims Payments 26200	Expense without Reserves w/ Claims	Total	
3	2020	$ 693,760	$ (692,966)	$ 171,732	$ 172,526		
4	2021	$ 204,689	$ (204,020)	$ 311,853	$ 312,522		
5	Average			$ 241,793	$ 242,524		
6	**Test Year Casualty Business Insurance Expense (not including premiums included in M&S Fees 90850)**					$ 242,524	$ 206,119
7	Historic Test Year Amounts	$ 227,124	$ (226,899)	$ 91,123	$ 91,347		
8	**Staff Adjustment No. 21**	Removal of Injury and Damages - Company				$ -	$ (28,947)
9	**Test Year Casualty Business Insurance Expense**					$ 242,524	$ 177,172
10	**Historic Test Year Adjusted Amount excluding Reserves, including Claims payments, and excluding premiums included in M&S Fees 90850**					$ 91,347	$ 91,347
11	**Staff Adjustment No. 20**					$ 151,177	$ 85,824
12	**Staff Expense Adjustment**						$ (65,353)
13	**Staff Revenue Requirement Adjustment**						$ (65,873)

Exhibit No. 134
Case No. VEO-W-22-02
T. Culbertson, Staff
02/15/23

VEOLIA WATER IDAHO, INC.
Staff Proposed Rates Compared to Company Proposed Rates

	Current	Company Proposed	Company % Increase	Staff Proposed	Staff % Increase
Residential					
5/8 Inch	22.96	28.48	24.05%	24.47	6.56%
3/4 Inch	22.96	28.48	24.05%	24.47	6.56%
1 Inch	29.35	36.41	24.05%	31.28	6.56%
1 1/2 Inch	50.21	62.29	24.05%	53.50	6.56%
2 Inch	77.92	96.66	24.05%	83.03	6.56%
Winter Usage	1.5959	1.9797	24.05%	1.7006	6.56%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7006	6.56%
Over 3 CCF	2.0204	2.5063	24.05%	2.1529	6.56%
Commercial					
5/8 Inch	22.96	28.48	24.05%	24.47	6.56%
3/4 Inch	22.96	28.48	24.05%	24.47	6.56%
1 Inch	29.35	36.41	24.05%	31.28	6.56%
1 1/2 Inch	50.21	62.29	24.05%	53.50	6.56%
2 Inch	77.92	96.66	24.05%	83.03	6.56%
3 Inch	151.97	188.52	24.05%	161.94	6.56%
4 Inch	283.52	351.71	24.05%	302.12	6.56%
6 Inch	473.35	587.20	24.05%	504.40	6.56%
Temporary Meter Charge	25.00	31.01	24.05%	26.64	6.56%
Winter Usage	1.5959	1.9797	24.05%	1.7006	6.56%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7006	6.56%
Over 3 CCF	2.0204	2.5063	24.05%	2.1529	6.56%

VEOLIA WATER IDAHO, INC.
Staff Proposed Rates Compared to Company Proposed Rates

	Current	Company Proposed	Company % Increase	Staff Proposed	Staff % Increase
Public Authority					
5/8 Inch	22.96	28.48	24.05%	24.47	6.56%
3/4 Inch	22.96	28.48	24.05%	24.47	6.56%
1 Inch	29.35	36.41	24.05%	31.28	6.56%
1 1/2 Inch	50.21	62.29	24.05%	53.50	6.56%
2 Inch	77.92	96.66	24.05%	83.03	6.56%
3 Inch	151.97	188.52	24.05%	161.94	6.56%
Street Sweeping	3,680.40	4,565.61	24.05%	3,921.82	6.56%
Winter Usage	1.5959	1.9797	24.05%	1.7006	6.56%
Summer Usage					
Up to 3 CCF	1.5959	1.9797	24.05%	1.7006	6.56%
Over 3 CCF	2.0204	2.5063	24.05%	2.1529	6.56%
Private Fire Lines					
3 Inch and smaller	40.48	40.48	0.00%	43.14	6.56%
4 Inch	61.36	61.36	0.00%	65.39	6.56%
6 Inch	152.39	152.39	0.00%	162.39	6.56%
8 Inch	250.43	250.43	0.00%	266.86	6.56%
10 Inch	390.54	390.54	0.00%	416.16	6.56%
12 Inch	584.98	584.98	0.00%	623.35	6.56%
Hydrants	24.56	24.56	0.00%	26.17	6.56%

VEOLIA WATER IDAHO, INC.
Staff Proposed Rates Compared to Company Proposed Rates
Existing Eagle Water Company Customers

	Current	Company Proposed	Company % Increase	Staff Proposed	Staff % Increase
Residential					
5/8 Inch	6.70	8.31	24.05%	7.14	6.56%
3/4 Inch	6.70	8.31	24.05%	7.14	6.56%
1 Inch	8.56	10.62	24.05%	9.12	6.56%
1 1/2 Inch	14.64	18.16	24.05%	15.60	6.56%
2 Inch	22.73	28.20	24.05%	24.22	6.56%
Winter Usage	0.9309	1.1548	24.05%	0.9920	6.56%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9920	6.56%
Over 3 CCF	1.1786	1.4621	24.05%	1.2559	6.56%
Commercial					
5/8 Inch	6.70	8.31	24.05%	7.14	6.56%
3/4 Inch	6.70	8.31	24.05%	7.14	6.56%
1 Inch	8.56	10.62	24.05%	9.12	6.56%
1 1/2 Inch	14.64	18.16	24.05%	15.60	6.56%
2 Inch	22.73	28.20	24.05%	24.22	6.56%
3 Inch	44.32	54.98	24.05%	47.23	6.56%
4 Inch	82.69	102.58	24.05%	88.11	6.56%
6 Inch	138.06	171.27	24.05%	147.12	6.56%
Winter Usage	0.9309	1.1548	24.05%	0.9920	6.56%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9920	6.56%
Over 3 CCF	1.1786	1.4621	24.05%	1.2559	6.56%

VEOLIA WATER IDAHO, INC.
Staff Proposed Rates Compared to Company Proposed Rates
Existing Eagle Water Company Customers

	Current	Company Proposed	Company % Increase	Staff Proposed	Staff % Increase
Public Authority					
5/8 Inch	6.70	8.31	24.05%	7.14	6.56%
3/4 Inch	6.70	8.31	24.05%	7.14	6.56%
1 1/2 Inch	14.64	18.16	24.05%	15.60	6.56%
2 Inch	22.73	28.20	24.05%	24.22	6.56%
Winter Usage	0.9309	1.1548	24.05%	0.9920	6.56%
Summer Usage					
Up to 3 CCF	0.9309	1.1548	24.05%	0.9920	6.56%
Over 3 CCF	1.1786	1.4621	24.05%	1.2559	6.56%

Private Fire Lines					
3 Inch and smaller	11.81	11.81	0.00%	12.58	6.56%
4 Inch	17.90	17.90	0.00%	19.07	6.56%
6 Inch	44.45	44.45	0.00%	47.37	6.56%
8 Inch	73.04	73.04	0.00%	77.83	6.56%

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 15TH DAY OF FEBRUARY 2023, SERVED THE FOREGOING **DIRECT TESTIMONY OF TRAVIS CULBERTSON.** IN CASE NO. VEO-W-22-02, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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