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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 JOSEPH TERRY

IDAHO PUBLIC UTILITIES COMMISSION

FEBRUARY 15, 2023

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

A. My name is Joseph Terry. 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 ("Commission") as an Auditor 3.

Q. What is your educational and professional background?

A. I have included my educational and professional background as Exhibit No. 118

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present my adjustments to Veolia Water Idaho's ("Company" or "Veolia"):(1) Return on Equity ("ROE"), recommending a 9.0% ROE; (2) The Company's power cost deferral recovery; (3) The Company's rate case expense recovery; (4) the Company's rate base for the removal of deferred convenience fees; and (5) the Company's tank panting deferral.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes, I am sponsoring Exhibit Nos. 118, 119, 120, and 121.

Rate of Return

Q. Please explain the basis for the Rate of Return for the Company.

A. In capital intensive industries like water utilities, companies must have access to the capital markets in order to meet its capital requirements. The Company must have enough money in the revenue requirement to pay all its bills, including servicing its capital obligations. Rate of Return is a significant part of a utility's revenue requirement.

Q. What sources of capital does the Company have?

A. The Company has two forms of capital financing, debt and equity.

Q. Please explain the calculation of the cost of debt financing?

A. All debt has a contract that dictates the interest rate for that debt. Therefore, the weighted average of the interest rates of all the debt the Company has is the weighted average cost of debt.

Q. Please explain the calculation of the cost of equity financing?

A. Because there is no contract explicitly stating what investors require, various different methods are used to determine the appropriate return to attract investors.

Q. What legal standards have been established for determining a fair and reasonable rate of return?

A. The legal test of a fair rate of return for a utility company was established in the Bluefield Water Works decision of the United States Supreme Court and repeated specifically in Hope Natural Gas.

In Bluefield Water Work and Improvement Co. V. West Virginia Public Service Commission, 262 U.S. 679, 692, 43 S.Ct 675, 67 L.Ed. 1176 (1923), the Supreme Court Stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

In FPC v. Hope Natural Gas Company, 320 U.S. 591, 603, 64 S.Ct 281, 88 L.Ed. 333 (1944), the Court stated:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs for the business. These include service on the debt and dividends on the stock. (Citation omitted)
> By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

The Supreme Court decisions in Bluefield Water Works and Hope Natural Gas have been affirmed in Re Permian Basin Area Rate Case, 390 U.S. 747, 88 S. Ct 1344, 20 L.Ed 2d 315 (1968), and Duquesne Light Co. v. Barasch, 288 U.C. 299 109 S. Ct. 609 L.Ed.2d. 646 (1989). The Idaho Supreme Court has also adopted the principles established in Bluefield Water Works and Hope Natural Gas. See In Re Mountain States Tel. & Tel. Co. 76 Idaho 474, 284 P.2d 681 (1955); General Telephone Co. v. IPUC, 109 Idaho 942, 712 P.2d 643 (1986); Hayden Pines Water Company v. IPUC, 122 Idaho 356, 834 P.2d 873 (1992).

As a result of these United States and Idaho Supreme Court decisions, three standards have evolved for determining a fair and reasonable rate of return: (1) The Financial Integrity or Credit Maintenance Standard; (2) The Capital Attraction Standard; and (3) The Comparable Earnings Standard.

In addition, these Supreme Court decisions have established that the return on equity can change with market conditions, and that the reasonableness of the end result is more important than how you got there.

Q. What methods are used to establish an ROE?

A. Models are used to estimate what ROE is required for the Company to maintain the standards mentioned previously. I have picked three different models that I believe are useful to create a range of the cost of equity, and from that range I establish a recommendation. The models I selected are the Comparable Earnings Model, Discounted Cash Flows ("DCF"), and the Capital Asset Pricing Method ("CAPM").

Q. Are there any outside factors to consider before discussing your specific analysis?

A. Yes. I would like to discuss issues dealing with the state of the economy, the Company being a wholly-owned subsidiary, the Hamada Formula, and the proxy group I use for my analysis.

Q. What are the issues with the state of the economy.

A. The economy is in a period of significant inflation. The Federal Reserve has been increasing interest rates in attempts to curb this inflation. Rising interest rates can have other effects than trying

to curb inflation, and this can affect my analysis determining an appropriate ROE.

Q. What is the first of those effect?

A. Many methods to estimate a proper ROE use interest rates as a base line. As these rates increase it will also increase the ROE range recommended.

Q. What is the second effect?

A. When the Federal Reserve uses interest rates to curb inflation, it can have the unintended consequence of causing a recession.

Q. Has the Federal Reserve effectively avoided this unintended consequence in the past?

A. Not exactly. Since 1961 the Federal Reserve has increased interest rates to curb inflation nine times. Eight of those times the country has gone into a recession afterwards.[1]

Q. Is there evidence that this cycle may be beginning?

A. Yes. Many large corporations are announcing layoffs. One example is that Google has announced the largest layoffs in its existence.[2] In addition, since August 2022, the treasury yield curve has been inverted.[3]

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[1] https://www.politico.com/news/2022/03/29/federal-reserve-recession-inflation-rates-00021119
[2] https://gizmodo.com/google-layoffs-12000-workers-largest-cuts-history-1850010658
[3] https://home.treasury.gov/

Q. What is an inverted yield curve and what does it mean?

A. An inverted yield curve is when short term treasury rates (in this case 1 year treasury rates) are higher than the long-term treasury rates (in this case I am using the 10-year treasury rates). Every recession since the 1960's has been preceded by an inverted yield curve.

Q. How does this effect investor viewpoints.

A. In troubled economic times investors tend to move their money to safer investment vehicles. This would be things like treasuries, dividend producing stocks like utilities, Exchange Traded Funds, and the like.

Q. How does this impact ROE?

A. While this will not have a direct impact on the quantification of ROE, with more demand for these types of investments it will tend to support lower ROE recommendations. Some of these effects are already being seen. Some of the comparable utilities used in the analysis are at or near their 52-week high. While the Dow Jones and S&P 500 are not.[4]

Q. What are the effects of the Company being a wholly-owned subsidiary of Veolia North America ("VNA")?

[4] Yahoo Finance pulled on January 30, 2023

A. The Company does not have publicly traded stock as a wholly-owned subsidiary. Therefore, only the parent company and comparable utilities should be used when evaluating the required cost of equity. Also, the Company's debt acquisition is all handled by VNA. Due to size and better geographic diversity, VNA would have better ratings than the Company would have on its own. This provides an overall benefit to the Company and ratepayers.

Q. What benefits do customers receive by the Company being a subsidiary of VNA?

A. The first is lower debt rates. This has already been incorporated in the Company's debt rate calculation for the overall rate of return. The second benefit is that the Company may be able gain economies of scale with purchasing inventory needed for capital projects and maintenance. These have already been captured in the maintenance expense and plant in service. The last benefit is the greater ability to attract equity investors. Witness Walker's analysis on page 20 of his testimony states that the Company's risk is higher than the comparable group's because of its size. However, if you included the totality of the VNA's footprint, the size and diversity issue becomes moot. And if you look at the next level up, Veolia Environnement S.A., where

all the stock is purchased and sold, the size and diversity risk is eliminated. To include any adjustment or bias due to the small size of the Company denies these benefits of the larger entity to the ratepayers.

Q. Your next factor is the Hamada formula. Please explain.

A. Mr. Walker proposed to include an adder based on the Hamada Formula that would increase the Company's ROE by 110 basis points or 1.1%.

Q. What is the Hamada Formula?

A. The Hamada Formula is a method used to de-lever the beta or adjust the ROE to compensate for a less than ideal or unequal capital structure.

Q. Do you agree with Mr. Walker's use of the Hamada Formula?

A. No.

Q. Please explain your disagreement with the Hamada Formula.

A. The Hamada formula is used to de-lever the beta in order to calculate an ROE for an ideal capital structure. This formula has a number of conditions attached to it that do not make it applicable to this situation. The first is that the Hamada formula is not designed for a company that follows a constant leverage policy.

1 Q. What is a constant leverage policy?
2 A. A constant leverage policy is when a company
3 rebalances its structure so that debt to equity ratios
4 remain fairly constant.
5 Q. Has VNA used a constant leverage policy?
6 A. It appears so. In the last five rate cases the
7 Company has proposed near 50% debt to 50% equity capital
8 structure. The farthest away from the 50%/50% capital
9 structure VNA has been, is in this rate case where the
10 Company proposed a 44% debt to 56% equity capital
11 structure. Whether or not VNA has an official constant
12 leverage policy or not does not matter as the effect is
13 still the same.
14 Q. Are there any other critiques of the Hamada
15 formula?
16 A. Yes. The Hamada formula is usually recommended
17 for a company that has a high level of debt. A level
18 that is far above optimal. Optimal is generally assumed
19 to be anything below a 2:1 debt to equity ratio. In the
20 last five rate cases the Company was only over a 1:1 debt
21 to equity ratio once. In Case No. UWI-W-06-02, the
22 Company proposed a 51.46% debt and 48.54% equity. In
23 this Application, the Company's capital structure has
24 more equity than debt. This is not a highly leveraged
25 company, and therefore the Hamada formula is

1 inappropriate.

2 Q. Do you have any other reasons to oppose the

3 Hamada formula?

4 A. Yes, there is one last issue with using the

5 Hamada formula for the Company. The Hamada formula does

6 not take into account default risk. This is the risk

7 that a company may default on its loans. Even with the

8 unsettled financial markets recently, VNA has maintained

9 its Baa1 credit rating. This shows that the default risk

10 is quite low for VNA and by extension the Company.

11 Q. Has the Commission ever accepted the Hamada

12 Formula?

13 A. I could not find a case where the Hamada

14 Formula has been accepted by this Commission.

15 Q. What is the effect on the Company's

16 recommendation without the Hamada Formula?

17 A. Witness Walker's Hamada adjustment was a 110

18 basis points or 1.1% increase to the recommended ROE. If

19 you removed this adjustment from Witness Walker's

20 recommendation, the resulting ROE would be 9.7%.

21 Q. Your last point has to do with the proxy group

22 you used. Please explain.

23 A. For the most part I agree with the proxy group

24 Witness Walker used for his analysis. However, I feel it

25 is always appropriate to include Veolia Water Idaho's

parent company in the proxy group, should the data be available and be somewhat comparable to the proxy group.

Q. Was the data available?

A. It was. However, because it is traded in France and not the U.S., there may be some differences from the rest of the proxy group.

Q. Is it somewhat comparable to the proxy group?

A. Yes. Veolia Environnement S.A. is a water/wastewater company and falls in line with the other companies in the proxy group. However, because of the foreign stock exchange, I do not believe it should hold any more influence than any other company in the proxy group.

Q. Let's move on to the Comparable Earnings Method. What is the theoretical basis for this method of analysis?

A. The Comparable Earnings Method is directly from the comparable earnings requirement in the Hope and Bluefield cases, which is the third standard mentioned above. The earnings of the proxy group are compared to establish an appropriate level of earnings for the Company.

Assuming that the proxy group is made of companies that maintain their financial integrity and attract capital, the Comparable Earnings Standard will

also fulfill the first and second standard as well. The proxy group consists of established companies that are financially sound and able to attract capital. Thus, this method complies most cleanly with all three principles established by the court decisions mentioned above. (The Financial Integrity or Credit Maintenance Standard, The Capital Attraction Standard, and The Comparable Earnings Standard.)

Q. How does this method work?

A. The ROE from each company in the proxy group is used to create a range. For my analysis, I used the last three years ROE as a comparison. The 2021 results ranged from 3.51% to 17.31% ROE with an average of 9.78%. The 2020 results ranged from 1.23% to 13.42% ROE with an average of 8.94%. The 2019 results ranged from 2.63% to 13.99% ROE with an average of 9.02%. The average of all the results together is a ROE of 9.25% with a median of 10.26%. That analysis is found in Exhibit No. 119, Schedule 1.

Q. Let's turn our attention to the discounted cash flow methodology. Please explain the basis for the DCF method.

A. The DCF method is based upon the theory that (1) stocks are bought for the income they provide (i.e., both dividends and gains from the sale of the stock), and

(2) the market price of stocks equals the discounted value of all future incomes. The discount rate, or cost of equity, equates the present value of the stream of income to the current market price of the stock.

Q. How does this method comply with the standards presented above?

A. This relates to the Capital Attraction Standard, as this method attempts to establish what ROE investors could be looking for in the proxy group of stocks. However, all these standards are very interrelated. Therefore, for the Company to be able to attract capital it must also be able to maintain its financial integrity, and it must be able have comparable earnings to other similar investments.

Q. What were the results of the DCF model?

A. As is shown in Exhibit No. 119, Schedule 2, the results ranged from 3.50% to 11.39% with an average of 7.91% and median of 9.04%.

Q. How was it calculated?

A. The formula for this method is:

$$ROE = \frac{D_0}{P_0} + g$$

Where:

D_0 = Currently announced dividends

P_0 = Current stock price

g = Growth rate

1 Q. What did you use for the currently announced
2 dividends?
3 A. I used the dividend declared for 2022 as the
4 current dividends.
5 Q. What did you use for the current stock price?
6 A. I used the January 30, 2023, stock price.
7 Q. What did you use for the growth rate?
8 A. I used the five-year expected future growth
9 rate and the five-year historical growth rate as pulled
10 from Yahoo Finance on January 30, 2023. However, I
11 removed three companies from the proxy group.
12 Q. Which companies did you remove?
13 A. California Water Services Group, SJW Corp and
14 Veolia Environnement S.A.
15 Q. Why did you remove those three companies?
16 A. Both California Water Service Group and SJW
17 Corp had a historical growth rate that was negative.
18 Veolia Environnement S.A. had extremely high growth rates
19 (11.7% going forward and 15.07% historical). All of
20 these were extreme outliers from the rest of the proxy
21 group and therefore, I do not believe it would be proper
22 to skew the results due to these outliers.
23 Q. Let's turn our attention to the Capital Asset
24 Pricing Model("CAPM"). Please explain the basis for the
25 CAPM method.

A. The CAPM is based on the theory that investors hold diversified portfolios and require more return from more risky assets in their portfolio than less risky assets in their portfolio. A company with a higher risk profile will require higher returns to attract capital and maintain financial integrity, while a company with a lower risk profile will require less return.

Q. How does this method comply with the standards presented above?

A. This relates to the Capital Attraction Standard, as this method attempts to establish what ROE investors could be looking for in the proxy group of stocks based on the riskiness of each proxy company. This method attempts to estimate what ROE investors are expecting from the proxy group. However, all of these standards are very interrelated. Therefore, for the Company to be able to attract capital it must also be able to maintain its financial integrity and, therefore, it must be able have comparable earnings to other similar investments.

Q. How does the model calculate risk?

A. This model uses beta, which is a measure that shows the Company's returns in relation to the market. A beta of one means the company moves with the market on a one for one basis. A beta below one means that when the

1 market drops the company's stock price does not drop as
2 much and is therefore less of a risk to invest in. A
3 beta above one means that the company's stock price drops
4 faster than the market and is therefore more of a risk.
5 As a whole, utilities tend to be relatively safe
6 investments when compared with the market.
7 Q. What are your results from the CAPM?
8 A. My results from the CAPM range from 6.32% to
9 13.11% with an average of 9.33% and a median of 8.98%, as
10 shown in Exhibit No. 119, Schedule 3.
11 Q. How does this analysis work?
12 A. The formula is:
13 $ROE = R_f + \beta(R_m - R_f)$
14 Where:
15 R_f = Risk Free Rate
16 β = Beta
17 R_m = Market return
18 Q. What did you use for the Risk-Free Rate?
19 A. I used both the 1-month and 30-year treasury
20 rates as a risk-free rate. In addition, I used the
21 average rates from January 1, 2022, to January 27, 2023,
22 as well as the January 27, 2023, treasury rates alone.
23 The 1-month treasury rates are generally accepted as the
24 least risky assets an investor could own, while the 30-
25 year rate tends to have the future expectation of

1 inflation included. Because we have been in a time of
2 quickly rising interest rates, I included the average of
3 the previous year as well as the latest rates. This
4 compounds the amount of data to parse but provides better
5 overall results to draw a conclusion from.
6 Q. What did you use for the Market Return?
7 A. I used the average returns of the S&P 500
8 including dividends since 1922. This gives a long-term
9 perspective on what the market returns are for companies.
10 Q. What did you use for Beta?
11 A. I used each individual companies' 5 year
12 rolling beta as provided in Yahoo Finance on January 30,
13 2023.
14 Q. What is your overall recommendation?
15 A. Using the average and the median of all these
16 factors I get a range from 7.70% to 10.26% as shown in my
17 Exhibit No. 119, Schedule 4. I recommend a 9.0% ROE,
18 which is the middle of the range. With the economic
19 factors mentioned above, it provides the Company a
20 sufficient return to accomplish all three standards.
21 Q. How does this impact the overall rate of return
22 you are proposing?
23 A. This lowers the overall rate of return from
24 7.77% to 6.77% as shown in Exhibit No. 119, Schedule 5.
25 Q. How is that calculated?

A. The overall rate of return is the weighted average cost of capital. I accept the Company's proposal for the capital structure and the debt rate. Therefore, the only change is the ROE. This lowers the weighted average of equity from 6% to 5% and therefore, the overall weighted average cost of capital or rate of return to 6.77%

POWER COST DEFERRAL AND AMORTIZATION

Q. Do you have any adjustments with the Company's power cost deferral recovery?

A. Yes.

Q. Please describe the Power Cost Deferral Mechanism.

A. The mechanism was initially approved by the Commission in Order No. 28800, Case No. UWI-W-01-02, which allowed the Company to defer the impacts of Idaho Power's Power Cost Adjustment ("PCA") on the Company and for recovery in future rate case proceedings. It was later adapted to include Idaho Power's Fixed Cost Adjustment ("FCA") mechanism.

Q. Did the Company propose a deferral amount?

A. Yes. The Company proposed to defer $1,069,555, consisting of $411,425 of unamortized costs from Case No. SUZ-W-20-02 and $658,130 in new power costs.

Q. Do you agree with that amount?

A. No. The Company included estimated pro forma power expenses from January 2023 to March 2023, along with accrued interest for that time period.

Q. Why do you disagree with this?

A. This deferral is not to be used for expenses the Company has not yet experienced.

Q. What do you recommend instead?

A. I recommend using the actual expenses the Company has incurred through the year ended December 31, 2022, along with interest at the customer deposit rate. This is consistent with Staff's position on the Company's test year and cut-off date as described in Staff witness English's testimony. The actual 2022 power cost deferral with accrued interest is $644,867, and when combined with the remaining unamortized amount of $411,425, is $13,264 less than the Company's request. Exhibit No. 120.

Q. What amortization period is the Company recommending to recover its power cost deferral?

A. The Company proposes a two-year amortization of its power cost deferral.

Q. Do you agree with that amortization period?

A. No. The average time frame between rate cases since 2011 has been 3.667 years, or approximately 4 years. Therefore, I recommend a four-year amortization. This is consistent with the settlement in the Company's

1 last rate case.

2 Q. What is the effect of lengthening the

3 amortization period?

4 A. This will reduce amortization expense by

5 $270,705 which is a revenue requirement impact of

6 $288,746.

7 Q. Are there any other concerns with the power

8 deferral?

9 A. Yes. The Company proposed to include the power

10 cost deferral in rate base to earn an additional return.

11 This is a relatively short-term regulatory asset, and

12 historically, the Commission has stated that the

13 opportunity to recover expenses is sufficient that

14 including this in rate base is unnecessary. In addition,

15 the Company has already accrued interest at the customer

16 deposit rate. It is not appropriate for the Company to

17 accrue interest on a deferral and then include the amount

18 in rate base to earn an additional return.

19 Q. What is the impact of the rate base adjustment?

20 A. In isolation, this adjustment would reduce rate

21 base by $990,780. However, this amount was removed in

22 Staff witness English's calculation of the Company's 2022

23 average rate base.

24 **RATE CASE EXPENSE ADJUSTMENT**

25 Q. Please explain the Company's Rate Case

deferral?

A. The Company included the unamortized amount of $62,225 from the previous rate case, Case No. SUZ-W-20-02, and the current estimated expenses of $343,620 for a total of $405,845.

Q. Please explain your adjustment to the Company's rate case expenses.

A. My adjustment is a three-part adjustment: (1) remove the current case intervenor funding; (2) change the amortization timeframe from two years to four years; and (3) remove the Company's deferred rate case expenses from rate base. The details of these adjustment are included in my Exhibit No. 121.

Q. Please explain the costs you wish to remove from the rate base deferral?

A. The Company included $40,000 in estimated intervenor funding for this rate case.

Q. Is that inappropriate?

A. Not normally. Idaho Code §61-617A allows for the Commission to order a utility with intrastate annual revenues exceeding $3.5 million up to $40,000 in intervenor funding to offset the costs for intervenors to participate in the case.

Q. Why are you proposing to remove the intervenor funding for this case?

A. This case has four intervenors: Ada County, City of Boise, Micron, and Sharon Ullman. I believe it is premature to estimate intervenor funding, if any, that may be ordered.

Q. Why do you think that intervenor funding may not be ordered?

A. These intervenors are unlikely to qualify on the consideration that the costs of intervention need to be a significant financial hardship for the intervenor.

Q. What is the impact of this adjustment?

A. This will reduce the rate case expenses by $40,000. It will also reduce the rate case amortization by $20,000 before my adjustment to extend the amortization period that is discussed later.

Q. Why do you propose a four-year amortization for the rate case expense deferral?

A. Similar to the Power Cost Deferral amortization above, the average time frame between rate cases since 2011 has been approximately four years. Therefore, I recommend a four-year amortization. Again, this is consistent with the settlement in the Company's last rate case.

Q. What is the effect of this adjustment?

A. The four-year amortization reduces amortization expense by $96,461, which when combined with the removal

of the intervenor funding is a reduction of $111,461 to amortization expense. The total revenue requirement reduction of these two adjustments is $102,269.

Q. Are there any other concerns with the deferred rate case expenses?

A. Yes. The Company proposed including the deferred rate case expenses in rate base to earn a return. The Commission has never authorized the Company to earn a return on deferred rate case expenses. Historically, the Commission has stated that the opportunity to recover expenses is sufficient and that a return is unnecessary. Order No. 33304

Q. What is the impact of removing deferred rate case expense from rate base?

A. This adjustment would reduce rate base by $405,841; however, it has already been incorporated in Staff witness English's calculation of the 2022 average rate base.

CONVENIENCE FEES

Q. Please explain the Convenience Fees Deferral.

A. The Company was authorized in Order No. 34405, Case No. SUZ-W-19-01, to defer three years of costs incurred to process payment transactions (Convenience Fees). There was no amortization period provided in that order, nor was authority granted for a carrying charge or

for the Company to include the convenience fees in rate base to earn a return.

Q. Do you agree with including this deferral in rate base?

A. No. This is a relatively short-term regulatory asset, and historically, the Commission has stated that the opportunity to recover expenses is sufficient that a return is unnecessary. Order No. 33304

Q. What is the impact of the rate base adjustment?

A. This adjustment would reduce rate base by $81,138, however it has already been incorporated in Staff witness English's calculation of the 2022 average rate base.

Q. Please explain the Tank Painting deferral and amortization.

A. In past cases (Case Nos. UWI-W-04-04, UWI-W-06-02, UWI-W-09-01, UWI-W-11-02, UWI-W-15-01, and SUZ-W-20-02) the Company has included tank painting as a deferred asset to be amortized over 20 years and included it in rate base. This has been accepted by Staff and the Commission in the past (Case No. UWI-W-04-04).

Q. Do you have any adjustments to the Company's tank Painting Deferral and amortization?

A. Yes. The Hidden Hollow tank will be painted in March of 2023. As stated in Staff witness English's

testimony, Staff is proposing a cut-off date on December 31, 2022. Because this tank painting will happen after the cut off, I propose removing the deferral and resulting amortization.

Q. What are the effects of this adjustment?

A. This would affect both the amortization expense and rate base.

Q. What is the effect on amortization expense?

A. This adjustment reduces the Company's amortization expense by $22,500, and reduces the revenue requirement by $22,679

Q. What is the impact of the rate base adjustment?

A. This adjustment would reduce rate base by $450,000, however it has already been incorporated in Staff witness English's calculation of the 2022 average rate base.

Q. Does that conclude your testimony in this proceeding?

A. Yes, it does.

Veolia Water Idaho
VEO-W-22-02
Relevant Experience and Education

Education

B.B.A. Accounting	August 2007	Boise State University
Certified Rate of Return Analyst (CRRA)	April 2018	
Society of Utility and Regulatory Financial Analysts (SURFA)		
• New Orleans, LA	April 2018, 2019	
• Richmond, VA	April 2022	
NARUC Rate School		
• Albuquerque, NM	May 2012	
• San Diego, CA	May 2014	
NARUC Accounting and Finance Meetings		
• Portland, OR	Sept 2013	
• Pittsburg, PA	Oct 2019	
• Cleveland, OH	Oct 2022	
NARUC WCPSC Annual Education Conference		
• Honolulu, HI	June 2022	
NAWC Staff Water Policy Forum		
• Scottsdale, AZ	December 2014	

Relevant Experience

Public Utilities Commission	May 2011 to present	Auditor 3

General Rate Cases

Electric Cases	
• AVU-E-12-08	Avista
• AVU-E-19-04	Avista
• AVU-E-21-01	Avista
• PAC-E-11-12	PacifiCorp
• PAC-E-21-07	PacifiCorp
Natural Gas Cases	
• AVU-G-17-01	Avista
• AVU-G-21-01	Avista
• INT-G-16-02	Intermountain Gas
Water Cases	
• DIA-W-15-01	Diamond Bar Water
• MNV-W-16-01	Morningview Water
• MNV-W-19-01	Morningview Water
• SUZ-W-20-02	Suez
• TRH-W-13-01	Troy Hoffman
• UWI-W-11-02	United Water Idaho
• UWI-W-15-01	United Water Idaho
• SPL-W-13-01	Spirit Lake East

Exhibit No. 118
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23

Veolia Water Idaho
Case No. VEO-W-22-02
Comparable Earnings Method

Company	Dividend Yield	2021 ROE	2020 ROE	2019 ROE
American States Water Co	1.67%	13.70%	13.42%	13.99%
American Water Works Co Inc	1.71%	17.31%	10.99%	10.15%
California Water Service Gp	1.68%	8.55%	10.51%	8.09%
Essential Utilities, Inc.	2.44%	8.33%	6.08%	5.79%
Middlesex Water Co	1.45%	9.85%	11.02%	10.38%
SJW Corp	1.97%	5.85%	6.71%	2.63%
York Water Co	1.81%	11.13%	11.59%	10.73%
Veolia Environnement	3.37%	3.51%	1.23%	10.44%
	Average	9.78%	8.94%	9.02%
	Max	17.31%	13.42%	13.99%
	Min	3.51%	1.23%	2.63%
	Median	9.20%	10.75%	10.26%

Source Yahoo Finance
1/30/2023

Exhibit No. 119
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23 Schedule 1

Veolia Water Idaho
Case No. VEO-W-22-02
Discounted Cash Flows

Company	Dividend	Dividend Yield	Growth Est	Last 5 yrs	DCF Est	DCF Hist
American States Water Co	$ 1.59	1.67%	4.40%	8.07%	6.07%	9.74%
American Water Works Co Inc	$ 2.62	1.71%	8.28%	7.79%	9.99%	9.50%
California Water Service Gp	$ 1.04	1.68%	11.70%	-9.52%		
Essential Utilities, Inc.	$ 1.15	2.44%	6.60%	1.06%	9.04%	3.50%
Middlesex Water Co	$ 1.25	1.45%	2.70%	9.94%	4.15%	11.39%
SJW Corp	$ 1.52	1.97%	9.80%	-5.65%		
York Water Co	$ 0.81	1.81%	4.90%	7.23%	6.71%	9.04%
Veolia Envronnement	$ 1.06	3.37%	11.70%	17.69%		
				Average	7.19%	8.63%
				Max	9.99%	11.39%
				Min	4.15%	3.50%
				Median	6.71%	9.50%

Source Yahoo Finance

1/30/2023

Removed to avoid skewing data

Overall

Average	7.91%
Max	11.39%
Min	3.50%
Median	9.04%

Exhibit No. 119
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23 Schedule 2

Veolia Water Idaho
Case No. VEO-W-22-02
Capital Asset Pricing Method

	Return
S&P Since 1922	12.47%

	1 Mo	30 Yr
Avg Risk Free Rate	1.86%	3.15%
1/27/2023 Risk Free Rate	4.61%	3.64%

		Average Risk Free Rate		Jan 27 Risk Free Rate	
Company	Beta	1 Mo	30 Yr	1 Mo	30 Yr
American States Water Co	0.42	6.32%	7.06%	7.91%	7.35%
American Water Works Co Inc	0.55	7.70%	8.28%	8.93%	8.50%
California Water Service Gp	0.49	7.06%	7.72%	8.46%	7.97%
Essential Utilities, Inc.	0.8	10.35%	10.61%	10.90%	10.70%
Middlesex Water Co	0.74	9.71%	10.05%	10.43%	10.17%
SJW Corp	0.63	8.55%	9.02%	9.56%	9.20%
York Water Co	0.57	7.91%	8.46%	9.09%	8.67%
Veolia Envronnement	1.06	13.11%	13.03%	12.94%	13.00%

Min	Max	Mean	Median
6.32%	13.11%	9.33%	8.98%

Exhibit No. 119
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23 Schedule 3

Veolia Water Idaho
Case No. VEO-W-22-02
ROE Results Summary

Summary	
Comparative Earnings	
Average	9.25%
Median	10.26%
DCF	
Average	7.91%
Median	9.04%
CAPM	
Average	9.33%
Median	8.98%

Exhibit No. 119
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23 Schedule 4

Veolia Water Idaho
Case No. VEO-W-22-02
Capital Structure and Rate of Return Calculation

		Company Proposal				Staff Proposal			
Line No.	Capital Structure Component	Amount	Percentage	Cost of Source	Weighted Avg. Cost of Capital	Amount	Percentage	Cost of Source	Weighted Avg. Cost of Capital
1	Debt	$ 1,222,046,487	44.43%	3.99%	1.77%	$ 1,222,046,487	44.43%	3.99%	1.77%
2	Equity	$ 1,528,664,904	55.57%	10.80%	6.00%	$ 1,528,664,904	55.57%	9.00%	5.00%
3	Total	$ 2,750,711,391	100.00%		7.77%	$ 2,750,711,391	100.00%		6.77%

Exhibit No. 119
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23 Schedule 5

Veolia Water Idaho
Case No. VEO-W-22-02
Amortization Expense - Deferred Power

Line No.	Description	Balance	Company Adjustment Amount	Staff Adjustment	
1	Adjustment of amortization of deferred power costs - based on projected deferred power balance as of March 2023		$ 337,294	$ (270,705)	
2	Remainder of amount approved for deferred power expense amortization per Order no. 35030 related to Case no. SUZ-W-20-2 as of March 31, 2023	$ 411,425		$ 411,425	
3	Deferred power as of June 30, 2022	$ 295,583		$ 295,583	
4	Projected additional deferral through March 31, 2023	$ 358,507		$ 347,000	Taking to Dec 31, 2022 actuals, removing projected amounts
5	Projected additional interest through March 31, 2023	$ 4,041		$ 2,284	Taking to Dec 31, 2022 actual Removing projected amounts
6	Total	$ 1,069,555		$ 1,056,292	$ (13,264) Change in Deferral Amount
7	**Test Year annual deferred power amortization expense**		**$ 534,778**	$ 264,073	Adjusting from 2 yr to 4 yr amortization
8	Historic Test Year Expense - Amortization of deferred power expenses (Case No. SUZ-W-20-02)		$ 197,484		
9	**12 months ended December 31, 2022 Account 92061**		$ 197,484	$ 197,484	
10	**Adjustment**		**$ 337,294**	$ 66,589	
				$ (270,705)	

Exhibit No. 120
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23

Veolia Water Idaho
Case No. VEO-W-22-02
Amortization Expense - Rate Case Expenses

Line No.	Description	Company Adjustment Amount	Staff Adj Remove Intervenor Funding	Staff Adj. 4 Year Adj	
1	Adjustment of amortization of rate case expenses - based on projected deferred rate case expense balance as of March 2023	$ 173,055	$ (20,000)	$ (91,461)	
2	Remainder of amount approved for rate case expense amortization per Order no. 35030 related to Case no. SUZ-W-20-2 as of March 31, 2023	$ 62,225	$ 62,225	$ 62,225	
3	**Estimated rate case expense:**				
4	Legal	$ 80,000	$ 80,000	$ 80,000	
5	Rate of Return	$ 30,000	$ 30,000	$ 30,000	
6	Cost of Service Study	$ 82,480	$ 82,480	$ 82,480	
7	Customer Class Load Study	$ 79,500	$ 79,500	$ 79,500	
8	Intervenors	$ 40,000	$ -	$ -	
9	Mailing Notifications/Postcards to customers	$ 40,000	$ 40,000	$ 40,000	
10	Miscellaneous & Other Cost	$ 9,000	$ 9,000	$ 9,000	
11	**Total estimated rate case expense**	$ 360,980	$ 320,980	$ 320,980	
12	**Total rate case expenses to be amortized**	$ 423,205	$ 383,205	$ 383,205	
13	**Approved Intervenor Funding (Order No. 35265 related to Eagle Water acquisition)**	**$ 29,640**	$ 29,640	$ 29,640	
14	**Deferred Idaho State Tax Credit & Federal Employee Retention Credit**	**$ (47,000)**	$ (47,000)	$ (47,000)	
15	**Adjusted rate case expenses to be amortized**	$ 405,845	$ 365,845	$ 365,845	
16	**Test Year Annual Deferred Rate Case Amortization Expense**	**$ 202,923**	$ 182,923	$ 91,461	4 year amortization
17	Historic Test year expense	$ 51,960	$ 51,960	$ 51,960	
18	Less: Historic Test Year Intervenor funding expense	$ 22,092	$ 22,092	$ 22,092	
19	Historic Test year expense - Amortization of deferred rate case expenses (Case No. SUZ-W-20-02)	$ 29,868	$ 29,868	$ 29,868	
20	**12 months ended December 31, 2022 Account 92000 (excludes test year intervenor funding expense)**	**$ 29,868**	$ 29,868	$ 29,868	
21	**Adjustment**	**$ 173,055**	$ 153,055	$ 61,593	
			$ (20,000)	**$ (91,461)**	

Exhibit No. 121
Case No. VEO-W-22-02
J. Terry, Staff
02/15/23

CERTIFICATE OF SERVICE

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

PRESTON N CARTER
MORGAN GOODIN
GIVENS PURSLEY LLP
PO BOX 2720
BOISE ID 83701-2720
E-MAIL: prestoncarter@givenspursley.com
morgangoodin@givenspursley.com
stephaniew@givenspursley.com

DAVID NJUGUNA
MGR-REGULATORY BUSINESS
VEOLIA WATER M&S INC
461 FROM ROAD STE 400
PARAMUA NJ 07052
E-MAIL: David.njuguna@veolia.com

LORNA K. JORGENSEN
MEG WADDEL
ADA COUNTY PROSECUTING ATTORNEY'S
OFFICE / CIVIL DIVISION
200 W. FRONT STREET, ROOM 3191
BOISE, ID 83702
E-MAIL: civilpafiles@adacounty.id.gov

SHARON M. ULLMAN, PRO SE
5991 E. BLACK GOLD STREET
BOISE, ID 83716
E-MAIL: sharonu2013@gmail.com

JIM SWIER
MICRON TECHNOLOGY, INC.
8000 SOUTH FEDERAL WAY
BOISE, ID 83707
E-MAIL: jswier@micron.co

AUSTIN RUESCHHOFF
THORVALD A. NELSON
AUSTIN W. JENSEN
HOLLAND & HART, LLP
555 17TH STREET SUITE 3200
DENVER, CO 80202
E-MAIL: darueschhoff@hollandhart.com
tnelson@hollandhart.com
awjensen@hollandhart.com
aclee@hollandhart.com
kdspriggs@hollandhart.com

MARY R. GRANT
DEPUTY CITY ATTORNEY
BOISE CITY ATTORNEY'S OFFICE
105 N. CAPITOL BLVD.
PO BOX 500
BOISE, ID 83701-0500
E-MAIL: mrgrant@cityofboise.org
boisecityattorney@cityofboise.org

Jo Nelson
SECRETARY