STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Case No. 24-0969-TF

Tariff filing of Woodstock Aqueduct Company for a change in rates, pursuant to 30 V.S.A. § 225, effective for service rendered on or after May 16, 2024	

PREFILED DIRECT TESTIMONY OF SEAN FOLEY

ON BEHALF OF THE VERMONT DEPARTMENT OF PUBLIC SERVICE

August 7, 2024

Summary: Mr. Foley's testimony provides a detailed explanation of the Vermont Department of Public Service's (the "Department") recommendations regarding the Woodstock Aqueduct Company's ("WAC") tariff filing, which proposes a 175% increase in overall revenue. Mr. Foley recommends that the increase be limited to 41.50%

MR. FOLEY SPONSORS THE FOLLOWING EXHIBITS:

Exh. DPS-SF-1 – Revised WAC Cost of Service

Exh. DPS-SF-2 – Revised WAC Debt and Depreciation

Exh. DPS-SF-3 – DPS Excel of COS and Debt/Depreciation

Exh. DPS-SF-4 – WAC Discovery Response to Q.PSD.PET.2-2

Prefiled Direct Testimony
of
Sean Foley

Q1. Please state your full name, title, and business address.

A1. My name is Sean Foley, and I am the Chief of Finance and Economics with the Vermont Department of Public Service (the "Department").

Q2. Please describe your professional background and experience.

A2. I hold a B.A. in Physics from Saint Michael's College and a master's degree in Applied Science and Energy Science from New York University. I have been with the Department for over thirty years, serving in both the Planning, Finance, and Legal Divisions. Prior to joining the Department, I was a Senior Associate at Barakat & Chamberlin Inc. and the Director of Resource Planning at Burlington Electric Department.

Q3. Have you previously testified before the Vermont Public Utility Commission (the "Commission")?

A3. Yes, I have testified in numerous Commission proceedings, most recently in cases 22-2954-PET, 22-5085-PET and 23-5375-TF among others.

Q4. Please describe the purpose of your testimony and summarize the Department's review process.

A4. My testimony details the recommendations concerning WAC's proposed rate increase. Initially, the Department conducted a review to ensure the application met all procedural requirements. We then performed a detailed analysis, examining the utility's revenue requirements, cost of service, rate base, operating expenses, and capital expenditures. This was accompanied by the issuance of information requests during the discovery process to obtain additional information or clarification. Through extensive data collection and validation, we support a comprehensive evaluation of the rate increase request. I recommend limiting WAC's rate increase to 41.50%, with the basis of my recommendation fully detailed below.

Q5. Please summarize WAC's petition.

A5. WAC is seeking a rate change to address significant operational and capital challenges. The total amount of revenue required for the Rate Year is $936,253, excluding the debt expense needed to fund the DEC deficiency project, which is an additional $292,760. This request constitutes a 175% increase in retail revenue.

Q6. What are the major factors driving the need for a rate increase?

A6. WAC cites three primary factors necessitating the rate increase:

1. Flood Damage Repairs: The Vermont Summer 2023 flooding necessitated both immediate and long-term repairs, including financing for the Elm Street crossing reconstruction. The total additional debt costs are projected to be $70,400 annually.
2. DEC Mandates: Compliance with the Water Supply Rule requires significant investments in transmission mains replacement. The estimated cost is approximately $4,398,980, with an annual debt service of $292,759.
3. Operational Transition: The transition to municipal or professionally managed operations is expected to increase operational costs, with additional annual salaries and wages estimated at $125,000.

Q7. What specific Cost of Service adjustments are included in the rate request?

A7. The following adjustments are based on the Test Year (Calendar Year 2023) expenses:

- Salaries and Wages: Increase to $138,000 to fund a new professional manager and provide competitive wages for existing staff,
- Payroll Taxes and Employee Benefits: Adjustments corresponding to the increased salaries and wages,
- Equipment Rental: Increase of approximately $1,000 due to a new lease for a long-bed pick-up truck,
- Planned Pipe Replacement: $150,000 allocated for annual pipe replacement to address the aging and undersized distribution system,
- Flood Damage Repairs and Maintenance: Reduction of $146,000 in ongoing expenses with costs now reflected as debt expense ($8,340),

- SCADA System Replacement: $45,000 for replacing the current SCADA system necessary for remote monitoring and control of the water system,
- Professional Services: Increase of $40,000 for accounting, legal costs, and consulting fees related to the transition and compliance with regulatory requirements, and
- Department of Environmental Conservation (DEC) Deficiencies: WAC must comply with DEC mandates for system upgrades, including a $4,398,980 project to address fire flow deficiencies, necessitating an annual debt expense of approximately $292,759.

Q8. How are the Rate Year changes incorporated into the proposed rate change?

A8. The changes result in a total Rate Year revenue requirement of approximately $1,228,284. The Hydrant Charge specifically reflects the cost to bring fire hydrants into compliance, increasing from $360 to $3,800 annually per hydrant. The Base Charge and Variable Charge for customers will approximately double to meet the overall revenue requirement.

Q9. Could you please explain the "used and useful" standard in utility regulation?

A9. The "used and useful" standard is a regulatory principle that dictates which assets and investments can be included in a utility’s rate base. This standard ensures that only assets currently providing services to customers are considered when setting rates. The goal is to protect ratepayers from bearing the costs of assets that do not yet provide tangible benefits.

Q10. How does the "used and useful" standard apply to planned capital projects for WAC?

A10. Planned capital projects not currently operational generally do not meet the "used and useful" standard, as they are not yet providing a service to customers. Consequently, the costs associated with these planned projects should not be included in the rate base until they are completed and operational. Including such projects prematurely would result in ratepayers funding assets not yet beneficial to them.

Q11. Do DEC mandates meet the "used and useful" standard if the mandated projects are not yet operational?

A11. DEC mandates require utilities to undertake upgrades to comply with regulatory requirements. However, if these mandated projects are not yet operational, their costs should not be included in the rate base. The "used and useful" standard mandates that only assets currently providing service are included in the cost of service, so DEC-mandated projects should only be included once operational.

Q12. Should the costs of new SCADA systems that are not yet operational be included in WAC's cost of service?

A12. No, the costs for new SCADA systems under development and not yet operational should not be included in WAC’s cost of service. These systems do not meet the "used and useful" standard until they are fully operational, and thus their costs should be excluded from the rate base until they are actively providing service.

Q13. What is the Elm Street River Crossing project?

A13. The Elm Street River Crossing project involves significant infrastructure work to repair and reconstruct a critical crossing damaged, likely due to flooding. This project aims to ensure the continued reliability and safety of water supply services in the area served by WAC.

Q14. Does the Elm Street River Crossing meet the "used and useful" standard?

A14. Because the Elm Street River Crossing project is not yet under construction or operational, it does not meet the "used and useful" standard. Therefore, the costs associated should not be included in the rate base until the project is completed and providing service, preventing ratepayers from being charged for a non-beneficial asset.

Q15. In summary, how should WAC apply the "used and useful" standard when setting rates?

A15. WAC should apply the "used and useful" standard by including only those assets and investments that are currently operational and providing service to customers in its rate base. Specifically:

- Planned Capital Projects: Should not be included until they are completed and operational.
- DEC Mandates: Should only be included once the mandated projects are completed and operational.
- SCADA Systems: Operational SCADA systems should be included, but new systems under development should not be included until they are fully operational.

- The Elm Street River Crossing: Should only be included once the project is completed and operational.

By adhering to this standard, WAC can ensure that its rate setting is fair and reflective of the actual services being provided to customers.

Q16. Does the Department have any comments regarding WAC's proposed cost of debt?

A16. Yes, the Department identified several errors in WAC's proposed cost of debt calculations after a thorough review.

Q17. What were the main errors found by the Department in WAC's proposed cost of debt?

A17. The main errors identified were:

- Inclusion of Principal Payments: WAC included principal payments in its estimated cost of debt, whereas only interest payments should be considered.
- Failure to Annualize Interest Payments: WAC did not annualize the estimated interest payments for two new loans with Mascoma Bank projected to exist for only seven months of the rate year.
- Incorrect Principal Balance: Discovery response A.PSD.2-2, **Exh. DPS-SF-4**, led to an increased assumed principal balance on the Mascoma Bank line of credit from $15,000 to $25,000.

Q18. What adjustments does the Department recommend based on these findings?

A18. The Department recommends a reduction of $130,512 to remove projected principal payments from the rate year calculations.

Q19. How did the Department determine the adjusted cost of debt for various loans?

A19. The Department's adjustments are summarized as follows, annualized and corrected where necessary:

Loan	**Principal**	**Monthly Payment**	**Annual Payments**	**Adjusted Annualized Interest**
Mascoma Mortgage Note	$161,904	$2,227	$26,724	$5,502
Solar Trackers Mascoma	$53,739	$1,263	$15,156	$1,605
Kubota Equipment Loan	$38,494	$1,480	$17,760	0% interest
VEDA West End Line Loan	$359,967	$2,442	$29,304	$11,334
Flood Loan Mascoma	$150,000	$695	$8,340	$9,011
VEDA Lead Line Inventory	$46,000	N/A	N/A	0% interest
VEDA PER	$33,000	N/A	N/A	0% interest
Line of Credit	$15,000	$90	$1,080	Estimated Adjusted on $25,000: $2,250.00
Accounts Payable	$50,000	N/A	N/A	
Elm Street River Crossing	$664,602	$5,155	$61,854	Removed as not used and useful: $0

Q20. What is the total adjusted cost of debt recommended by the Department?

A20. The Department’s total adjusted cost of debt is $29,702, reflecting a reduction of $130,515.

Q21. What is depreciation in the context of utility rate setting?

A21. Depreciation is the method by which a utility allocates the cost of a tangible asset over its useful life. It represents the gradual reduction in value of the asset due to wear and tear, aging, or obsolescence.

Q22. Why is depreciation used to set the cost of service instead of principal payments on loans?

A22. Depreciation is used to set the cost of service for several reasons. First, it aligns with the accounting principle of matching expenses with the revenue they help generate. By spreading the cost of an asset over its useful life, depreciation ensures that the cost is matched with the period in which the asset provides utility service to customers. Second, using depreciation ensures consistency and comparability in financial reporting and rate setting. This standardized approach provides a clear and predictable method for recovering the costs of capital investments. Third, depreciation helps stabilize rates over time. If principal payments were used instead, rates would fluctuate based on the loan repayment schedule, leading to potential rate spikes and drops. Fourth, depreciation separates the asset's cost recovery from the specific terms of financing. This avoids the complications and variability associated with different loan structures, interest rates, and repayment schedules. Finally, depreciation ensures that all customers benefiting from the use of the asset over its lifetime contribute to its cost. This prevents current customers from bearing the entire burden of capital costs that will benefit future customers as well.

Q23. How does depreciation impact the utility's cost of service?

A23. Depreciation impacts the utility's cost of service by providing a systematic way to recover the capital costs of assets. It is included as an expense in the utility's cost of service calculation, thereby influencing the rates charged to customers. Depreciation spreads the cost evenly over the asset's useful life, ensuring fair and predictable recovery of investment.

Q24. What are the principal payments on loans and why are they not used to set the cost of service?

A25. Principal payments on loans are the amounts paid to reduce the outstanding balance of a loan. They are not used to set the cost of service for several reasons. First, while principal payments reduce the debt, they do not represent the cost of using the asset. Interest payments are the cost of borrowing money, which is a separate financial expense. Second, using principal payments would result in inconsistent and potentially large variations in cost recovery depending on the loan's repayment schedule, leading to volatile rates. Third, principal payments do not align with the useful life of the asset. Depreciation, on the other hand, spreads the cost in accordance with the asset's lifespan, providing a more accurate reflection of cost over time.

Q26. Did WAC include all relevant depreciation expenses in their rate increase request?

A26. No, WAC did not include a $50,457 depreciation expense from their depreciation report, nor the approximate depreciation amounts of $3,000 for flood recovery.

Q27. Should these costs be included in WAC's cost of service?

A27. Yes, these depreciation expenses should be included in WAC's cost of service. Including full depreciation expenses ensures accurate reflection of capital asset costs, providing a precise picture of WAC's financial needs. Depreciation allows recovery of capital investments over asset lifetimes. Omitting these amounts risks under-recovery, impacting financial stability and system maintenance. Including all depreciation expenses ensures regulatory consistency and fairness, aligning with standard practices.

Q28. What additional adjustments do you propose to make to WAC's cost of service as filed?

A28. I recommend adjustments based on 5-year averages for various operating expenses, as is customary when expenses are uncertain. I reviewed 5-year totals to identify trends and adjusted rate year estimates for accounts like miscellaneous repair, maintenance, utility expenses, and office supplies. Professional Services were adjusted to average routine services, with an additional $40,000 included for expected increased costs during transition. Overall, adjustments result in a $32,574 decrease.

Q29. What is the total amount of adjustment that the Department is recommending?

A29. We recommend reducing the total cost of service to $631,400. This combines a reduction of the DEC Deficiency Fund (allocated to hydrants) from $2,229,760 to $0 and all other cost of service items from $935,524 to $491,745. This represents a 41.50% increase, recommended for application to WAC's existing rates.

Q30. Does this conclude your direct testimony?

A30. Yes, it does.

Affidavit of Sean Foley

I, Sean Foley, do hereby swear and affirm under the penalty of law that the information provided in my testimony filed on behalf of the Vermont Department of Public Service on August 7, 2024 is true and accurate to the best of my knowledge and belief, and that I have personal knowledge of, and am able to testify as to, the validity of the information contained in my testimony. I understand that if the above statement is false, I may be subject to sanctions by the Commission pursuant to 30 V.S.A. § 30.

Date: August 7, 2024 By: /s/ Sean Foley