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	

RESPONSES TO WOODSTOCK AQUEDUCT COMPANY'S FIRST SET OF INFORMATION REQUESTS SERVED UPON THE VERMONT DEPARTMENT OF PUBLIC SERVICE

The Vermont Department of Public Service ("Department") hereby provides the following responses to Woodstock Aqueduct Company's ("WAC") First Set of Interrogatories and Requests to Product to the Vermont Department of Public Service served on the Department by WAC on August 14, 2024. The Department is serving these responses electronically through email on WAC.

GENERAL OBJECTIONS

1. The Department objects to any instructions contained in WAC's discovery requests to the extent such instructions purport to place on the Department greater requirements or reserve greater rights to WAC than are permitted by the Vermont Rules of Civil Procedure as made applicable to Vermont Public Utility Commission ("Commission") proceedings through Commission Rule 2.214(A).

2. The Department objects to any request for information or production of document(s) that is (or are) subject to attorney-client privilege, constitute work product, are protected under state or federal law or are proprietary, competitively sensitive or confidential, constitute draft and/or non-final documents and/or constitute communications containing or concerning any of the above.

3. The Department objects to the discovery requests to the extent that they (a) are overbroad or unduly burdensome; (b) are cumulative; (c) call for the production of documents not in the possession, custody, or control of the Department; (d) call for the review, compilation, or production of publicly available documents that could be obtained by the requesting party in a less burdensome manner, including on a public website; (e) call for the review, compilation and/or production of documents already in WAC possession, custody, or control; (f) are vague and/or ambiguous; (g) seek information not reasonably calculated to lead to the discovery of admissible evidence; or (h) call for the review, compilation, or production of a voluminous number of documents at great expense to the Department.

4. Each of these General Objections shall be incorporated by reference into the below-referenced objections and responses as if expressly restated therein. The Department does not hereby waive any objections, and it reserves the right to later raise any additional, available objections.

RESPONSES TO INTERROGATORIES

Q.WAC.DPS.1-1. Please refer to the Prefiled Testimony of Jireh Billings discussing (1) needed repairs to the Elm Street crossing that will require approximately $664,000, (2) annual pipe replacement needs required by DEC that will have an annual cost of $150,000, and (3) capital improvements needed to maintain adequate water pressure to continue operating WAC's fire hydrants, which are projected to require approximately $4.4 million. Does the Department agree that these capital improvements need to be made to maintain safe and adequate service?

A.WAC.DPS.1-1. My direct testimony addressed whether the proposed capital additions meet the "used and useful" criterion for inclusion in the utility's cost of service. The determination of whether these capital improvements are necessary to maintain safe and adequate service was not within the scope of my analysis.

Person(s) Responsible for Response: Sean Foley
Title of Person(s): Chief of Finance and Economics
Date: August 28, 2024

Q.WAC.DPS.1-2. Please refer to the Prefiled Testimony of Jireh Billings explaining that WAC does not have access to the capital needed to fund the investments referenced in Q.WAC.DPS.1-1 and cannot obtain additional debt to fund the projects with loans unless it increases rates to demonstrate to lenders that WAC will be able to pay the associated debt. How does the Department propose that WAC fund these projects without access to capital or debt?

A.WAC.DPS.1-2. The focus of my direct testimony was on whether the proposed capital additions by WAC meet the "used and useful" standard for inclusion in the cost of service. My analysis did not extend to evaluating the financial mechanisms or strategies that WAC might use to fund these capital projects, nor did it consider WAC's ability to access capital or debt.

To be clear, the Department's role is not to provide financing solutions for WAC but to ensure that any rate increase request is fair, justified, and adheres to regulatory principles. It is WAC's responsibility to find ways to fund its projects within the confines of the existing regulatory framework, and the Department's duty is to protect ratepayers from paying for infrastructure that is not yet providing them with service.

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Q.WAC.DPS.1-3. Please refer to the Prefiled Testimony of Sean Foley at Page 7.

a. Please explain why WAC should only recover interest payments.

b. How does the Department propose that WAC pay the principal on its debt?

c. What is WAC's debt to equity ratio?

d. Does the Department believe that WAC should maintain its current debt to equity ratio?

e. Please identify the Return on Equity or Rate of Return that is included in rates for the capital projects that were paid for with loans listed on Page 8 of Mr. Foley's Prefiled Testimony.

A.WAC.DPS.1-3.

a. WAC should only recover interest payments on its debt through the cost of service because these represent the cost of borrowing money, an operating expense. The principal repayment is recovered through depreciation, which ensures that the utility gradually recovers the full cost of its capital investments over time. This regulatory approach prevents double recovery, maintains consistency with principles of cost allocation, and ensures fair treatment of both investors and ratepayers.

b. See response to subpart (a).

c. In my testimony, I focused on evaluating and adjusting WAC's cost of service, rate base, and revenue requirements. Specifically, I analyzed elements such as the utility's proposed capital additions, operational expenses, and compliance with the "used and useful" standard. My testimony did not include an analysis or calculation of WAC's debt-to-equity ratio, as it was outside the scope of the financial review I conducted.

d. The Department has not taken a position on whether WAC should maintain its current debt-to-equity ratio, as my testimony did not address WAC's capital structure or financial leverage. The primary focus of my analysis was on evaluating the proposed capital additions and adjustments to WAC's cost of service, ensuring that only costs meeting the "used and useful" standard were included, a fundamental principle of utility regulation that protects ratepayers by ensuring ratepayers only pay for those capital expenditures currently in service and proven useful. Considerations regarding WAC's debt-to-equity ratio would require a broader assessment of the utility's overall financial health, risk profile, and long-term capital needs, which were beyond the scope of my testimony.

e. In my prefiled testimony, I did not calculate or include a specific Return on Equity ("ROE") or overall Rate of Return for the capital projects financed through the loans listed on Page 8. My testimony focused on adjustments to WAC's cost of service, particularly addressing whether certain costs, including those associated with debt-financed projects, meet the "used and useful" standard for inclusion in the rate base. The determination of an appropriate ROE or Rate of Return would typically involve a broader financial analysis, considering factors such as the utility's risk profile, cost of debt, and equity.

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Q.WAC.DPS.1-4. Please refer to Exhibit DPS-SF-1 (the Department's proposed cost of service) and the Prefiled Testimony of Sean Foley beginning on Page 9 (discussing depreciation). Please define what "depreciation expense" should be included in the cost of service and explain how the Department has included depreciation expense in its proposed cost of service.

A.WAC.DPS.1-4. Definition of Depreciation Expense in Cost of Service: Depreciation expense represents the allocation of the cost of a utility's capital assets over their useful lives. In the context of utility regulation, depreciation allows the utility to recover the cost of investments in infrastructure and equipment gradually over time, as these assets are used to provide service to customers. Depreciation expense is included in the cost of service to ensure that the utility can recoup its investment in capital assets in a manner that matches the period during which the assets are providing service.

Inclusion of Depreciation Expense in the Department's Proposed Cost of Service: In my testimony, the Department included depreciation expense in the proposed cost of service for the $50,457 depreciation expense from their depreciation report and the approximate depreciation amounts of $3,000 for flood recovery.

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Q.WAC.DPS.1-5. Please refer to the Prefiled Testimony of Sean Foley at Page 9, stating that, "If principal payments were used instead [of depreciation expense], rates would fluctuate based on the loan repayment schedule, leading to potential rate spikes and drops." Has the Department assessed whether the loan repayment schedules included in the cost of service are expected to fluctuate with result "spikes and drops" in WAC's rates? If so, please produce the Department assessment of this risk based on these specific loans.

A.WAC.DPS.1-5. The statement in my prefiled testimony about the potential for "rate spikes and drops" when using principal payments instead of depreciation expense was intended to illustrate a general principle in utility rate-setting, rather than an assessment specific to WAC's loan repayment schedules. The Department did not conduct a specific analysis of the loan repayment schedules included in WAC's cost of service to assess whether they would result in rate fluctuations or cause "spikes and drops" in WAC's rates over time.

My testimony focused on the broader rationale for using depreciation expense rather than principal payments in determining the cost of service. Depreciation provides a more stable and predictable method for recovering the cost of capital assets, avoiding the variability that can arise from differing loan terms and repayment schedules. The assessment of the potential for rate fluctuations based on WAC's specific loans would require a detailed analysis of each loan's terms, repayment schedules, and how they align with the utility's overall rate structure, which was beyond the scope of my testimony.

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Q.WAC.DPS.1-6. Please refer to the Prefiled Testimony of Sean Foley at Page 9 discussing how to avoid "current customers from bearing the entire burden of capital costs that will benefit future customers as well." Has the Department compared WAC's proposal to recover debt expense with the Department's preferred approach? If so, please identify the extent to which the Department believes that current WAC customers will contribute more to capital cost than future customers.

A.WAC.DPS.1-6. The statement in my prefiled testimony about avoiding "current customers from bearing the entire burden of capital costs that will benefit future customers as well" reflects a general regulatory principle aimed at ensuring fairness in the allocation of costs over time. Specifically, it supports the use of depreciation expense rather than direct debt repayment in the cost of service, so that the recovery of capital costs is spread over the useful life of the assets, aligning with the periods in which customers receive benefits.

The Department did not conduct a direct comparison between WAC's proposal to recover debt expenses and the Department's preferred approach of using depreciation to recover capital costs. Therefore, there has been no specific assessment of the extent to which the Department believes current WAC customers might contribute more to capital costs than future customers under WAC's proposed method.

However, the principle underlying the Department's preference for depreciation is to ensure that the recovery of capital costs is equitably distributed over time. Depreciation ensures that all customers who benefit from the use of an asset contribute proportionally to its cost. By contrast, recovering debt expenses directly through rates—especially if it includes principal repayments—can place a disproportionate burden on current customers, particularly if the asset has a long useful life.

If WAC's proposed approach emphasizes direct debt repayment (including principal) rather than spreading the costs through depreciation, there is a risk that current customers may indeed bear a greater share of the capital costs compared to future customers. This could result in an inequitable distribution of costs, where current ratepayers fund assets that will also benefit future customers.

To provide a specific analysis comparing the impact of WAC's proposal versus the Department's preferred approach, a detailed financial model would be required. This model would compare the cost allocation under WAC's method with the depreciation-based approach over the expected life of the assets, taking into account customer growth, asset lifespan, and the timing of capital expenditures. Such an analysis was not part of my testimony.

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Q.WAC.DPS.1-7. Please explain what capital costs current customers are bearing and at what return on equity.

A.WAC.DPS.1-7. My testimony did not specifically calculate or identify the exact capital costs that current customers are bearing, nor did it determine a specific ROE associated with those capital costs.

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Q.WAC.DPS.1-8. If WAC cannot obtain the capital needed to address DEC deficiencies, does the Department agree that WAC should discontinue water hydrant service on its network? If not, how does the Department recommend addressing the DEC deficiencies in the near term.

A.WAC.DPS.1-8. My prefiled testimony focused on assessing whether capital additions proposed by WAC meet the "Used and Useful" standard for inclusion in the cost of service, and did not address operational decisions such as the potential discontinuation of water hydrant service or the specific handling of DEC deficiencies.

However, the question of whether WAC should discontinue water hydrant service if it cannot obtain the necessary capital to address DEC deficiencies is a significant operational and regulatory issue. The Department's position on this matter would involve balancing the need to maintain public safety, which is closely tied to the availability of functional fire hydrants, against the financial constraints faced by WAC.

The Department's overall goal would be to ensure that WAC continues to provide safe and reliable service while addressing financial challenges in a manner that minimizes disruption to essential services like fire hydrants. The Department is willing to engage in broader discussions with stakeholders to find a sustainable path forward that maintains public safety and service reliability.

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Q.WAC.DPS.1-9. What Rate of Return or Return on Equity does the Department believe is needed for WAC to attract sufficient capital to pursue the capital investment discussion in Mr. Billings' testimony?

A.WAC.DPS.1-9. My prefiled testimony did not specifically address or propose a Rate of Return ("ROR") or ROE for WAC. The focus of my analysis was on evaluating WAC's cost of service, particularly ensuring that capital additions included in the rate base meet the "Used and Useful" standard. Determining the appropriate ROR or ROE needed for WAC to attract sufficient capital for the capital investments discussed in Mr. Billings' testimony involves a complex analysis of several factors, including WAC's risk profile, capital structure, financial health, and market conditions. To determine the exact ROE that would enable WAC to attract sufficient capital, a detailed financial analysis would be necessary, taking into account the factors mentioned above. Since this was not within the scope of my testimony, I do not offer a specific ROE recommendation.

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Q.WAC.DPS.1-10. Please identify what the Department believes to be WAC's proposed weighted average cost of capital ("WACC").

A.WAC.DPS.1-10. My prefiled testimony did not specifically calculate or identify WAC's proposed WACC. The WACC is a key financial metric that represents the average rate of return WAC needs to pay to its debt holders and equity investors to finance its assets. It combines the cost of debt (interest rates on loans) and the cost of equity (return required by shareholders), weighted by the proportion of debt and equity in the company's capital structure. If WAC's proposed WACC has been provided or discussed elsewhere in the rate case filings or in WAC's financial documents, that would be the source to reference for an exact figure. However, since my testimony did not address WACC directly, I do not have a specific WACC value for WAC.

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Q.WAC.DPS.1-11. Please refer to the Prefiled Testimony of Sean Foley at Page 4 discussing the "used and useful" standard. Please identify WAC's "rate base" for purposes of this rate proceeding or identify all capital assets and their associated value for purposes of establishing WAC's rate base.

A.WAC.DPS.1-11. In my prefiled testimony, I discussed the application of the "Used and Useful" standard to determine which capital assets should be included in WAC's rate base. However, my testimony did not specifically calculate or provide a detailed listing of WAC's rate base or identify all capital assets and their associated values for this rate proceeding.

The "rate base" represents the total value of a utility's capital assets that are deemed "Used and Useful" and thus eligible for inclusion in the cost of service. These assets typically include infrastructure such as pipelines, treatment facilities, and other equipment necessary for the utility's operations.

Since my testimony focused on the principle of the "Used and Useful" standard rather than the detailed calculation of the rate base, I do not have a specific list or valuation of WAC's capital assets included in this proceeding. For precise information on WAC's rate base, including the specific assets and their associated values, I would refer to WAC's financial filings, or asset schedules.

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Q.WAC.DPS.1-12. Please explain whether the Department believes the Commission has the authority to deviate from traditional ratemaking principles in order to ensure continued, adequate, and safe service?

A.WAC.DPS.1-12. The Department acknowledges that the Commission has the authority to deviate from traditional ratemaking principles; however, any deviation would need to be well-justified, grounded in evidence, and consistent with the Commission's overarching mandate to protect the public interest and ensure the utility's ongoing viability.

In regulatory proceedings, the burden of proof lies with the utility to justify its request. If the utility is seeking a departure from traditional ratemaking principles, it is essential that said utility explicitly make this request and provide a clear, well-supported rationale for why such a departure is necessary. It is my opinion that WAC did not provide enough evidence to justify such a departure from traditional ratemaking principles, which were established to ensure ratepayers are protected from unnecessary or unbeneficial spending. Put another way, these ratemaking principles ensure utilities cannot spend ratepayer dollars without demonstrating capital expenditures are currently in use and proving to be useful.

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DATED at Montpelier, Vermont this 28th day of August 2024.

VERMONT DEPARTMENT OF PUBLIC SERVICE

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