

THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 19-57

EAST NORTHFIELD WATER COMPANY

PETITION FOR REVISION OF RATES

DIRECT PREFILED TESTIMONY OF

DAVID M. FOX, MANAGER

RAFTELIS FINANCIAL CONSULTANTS, INC.

MAY 17, 2019

1 **Q: Please state your name and business address?**

2 A: My name is David M. Fox and my business address is 20 Main Street, Suite 301, Natick,
3 MA 01760.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am a Manager of Raftelis Financial Consultants, Inc., a nation-wide consulting firm
6 specializing in water and wastewater rate and financial planning studies.

7 **Prior Experience**

8 **Q: Please describe your qualifications and experience.**

9 A: I have an undergraduate degree in Economics from Coastal Carolina University in Conway,
10 SC and a master's degree in Economics from Clemson University in Clemson, SC. After
11 graduating in 2009, I was employed by Raftelis Financial Consultants, Inc. ("Raftelis").
12 Over the course of my career, I have worked on an excess of 100 water and wastewater
13 rate and financial studies within the United States. I have also had the opportunity to work
14 on numerous financial feasibility studies in support of revenue bond issues, capital program
15 financing support, customer rate affordability analyses, utility valuations studies, and rate
16 benchmarking surveys. I currently lead Raftelis' New England efforts based out of our
17 office in Natick, MA.

18 **Q: Do you belong to any professional organizations or committees?**

1 A: Yes, I am a member of the American Water Works Association, the New England Water
2 Works Association, Massachusetts Water Works Association, and the Rhode Island Water
3 Works Association. I also sit on the Financial Management Committee of the New
4 England Water Works Association. For the American Water Works Association, I also
5 contributed to the most recent (7th edition) of the M1 Manual on rates – Principles of Water
6 Rates, Fees, and Charges.

7 **Q: Have you previously been involved in matters before state regulatory commissions**
8 **on rate related matters?**

9 A: Yes. I have submitted or prepared expert cost of service analyses in support of water rate
10 filings at the Massachusetts Department of Public Utilities (“MA DPU”), and Rhode
11 Island, New Hampshire, and Maine Public Utilities Commissions.

12 **Summary**

13 **Q: What is your role in this proceeding?**

14 A: Working with the staff of and advisers to the East Northfield Water Company (the
15 “ENWC”), I have developed new water rates based on a calendar year 2018 test year. The
16 ENWC is seeking an increase in revenues of approximately \$206,822 or about 103.76%.
17 My testimony presents a summary of the test year expenses and revenues and the proposed
18 rate year revenues with revised supporting rates. It should be noted that in order to mitigate
19 rate shock on its customers, the ENWC has elected to file for a two-step rate increase, to

1 be implemented over a two-year period, rather than recovering all additional revenue needs
2 at once.

3 **Q: Will you summarize your findings and conclusions regarding the ENWC's rates and**
4 **revenue?**

5 A: Yes.

6 • I am proposing an increase in the ENWC's total revenue of approximately \$206,822 or
7 about 103.76%.

8 • Given that the ENWC's annual payment from the Northfield Mount Hermon School
9 ("NMH") of approximately \$35,000 is no longer justifiably assessed, the remainder of
10 user charges are projected to increase greater than 103.76% after the second step
11 increase. In total, customer charges, volumetric charges, and private fire hydrant
12 charges need to increase by approximately 147%, but given the ENWC's desire to
13 implement a two-step phase-in of the rate increase, an initial annual increase of
14 approximately 73.6% will be required, followed by another annual increase of
15 approximately 42.4% in Step 2. The following summarizes the key proposed changes
16 in the ENWC's rates:

17 • The ENWC's volumetric rate for Year-Round customers will increase from \$5.64
18 per one hundred cubic feet (Ccf) to \$9.79 per Ccf in Step 1, and \$13.94 per Ccf in
19 Step 2.

- 1 • The ENWC’s volumetric rate for Seasonal Ridge customers will increase from
2 \$6.48 per one hundred cubic feet (Ccf) to \$11.25 per Ccf in Step 1, and \$16.02 per
3 Ccf in Step 2.
- 4 • The existing customer charge for a 5/8” customer, which are approximately 90%
5 of ENWC’s customers, will increase from \$87.50 per semi-annual bill to \$151.88
6 and \$216.26 per semi-annual bill, for Steps 1 and 2, respectively. Please refer to
7 my accompanying schedules for detail with regard to the rates for other meter sizes.
- 8 • Annual private fire hydrant charges will increase from \$700 to \$1,215.03 and
9 \$1,730.05, for Steps 1 and 2, respectively.
- 10 • I am not presenting any rate structural changes at this time, as revenue sufficiency is
11 the most prudent of objectives at this time for the ENWC.

12 **Content of Schedules**

13 **Q: Please describe the schedules included with your pre-filed direct testimony.**

14 A: I have included 7 main schedules. The schedules included in this filing are:

- 15 • Schedule DF 1 - This schedule presents the test year (FY 2018) along with the
16 adjustments that were used to derive the rate year revenue requirements.
- 17 • Schedule DF 2 - This schedule presents the units of service including the number of
18 meters by size, the number of private fire hydrants, and the retail water sales per class.

- 1 • Schedule DF 3 – This schedule presents a summary of the ECWA’s current rates and
2 the proposed rates, utilizing a two-step phase-in of the required rate increase. Also
3 presented are the annual percentage increase associated with each step.
- 4 • Schedule DF 4 - This schedule presents the impact of the proposed rates and charges
5 on various types of customers.
- 6 • Schedule DF 5 - This schedule contains the proof of revenues, showing the annual
7 revenues under the existing and proposed rates. Because the rates are rounded to the
8 nearest penny, the proposed rates provide slightly different total revenues from those
9 required after the final step increase.

10 **Revenue Requirements**

11 **Q: Have you prepared a schedule that presents the proposed rate year revenue**
12 **requirements?**

13 A: Yes I have. Schedule DF 1 presents a summary of the test year revenue requirements, our
14 proposed adjustments, and the proposed rate year revenue requirements.

15 **Q: Can you discuss the adjustments presented in your Schedule DF 1?**

16 A: Yes. In general, operating expenses are projected to maintain at test year levels. Non-
17 operating expense adjustments are detailed as follows:

- 18 • The first adjustment I have assumed is an adjustment for the normalization of rate case
19 costs. Rate case costs are assumed to total \$105,000 and will be normalized over a
20 period of five years, with an annual revenue requirement of \$21,000. We will be glad

1 to update this item for actual costs as the filing reaches a conclusion. With regard to
2 the number of years utilized for normalization, the ENWC is intending to file general
3 rate increases with more frequency to maintain modest increases on its customer base.

- 4 • I also increased operating expenses under the General Office Supplies and Expenses
5 category by an additional \$18,000. In the past, the ENWC has been charged for NMH
6 staff time on an overhead percentage basis, but going forward, all staff will be tracking
7 their actual time spent on ENWC related activities, with ENWC being billed for that
8 time at the respective staff's hourly billing rate. Although we do not yet have data to
9 support this calculation, the ENWC's estimate is annual costs of approximately
10 \$30,000 which is approximately \$18,000 more than the ENWC's expense for services
11 in test year 2018. The staff have recently begun tracking their time, and we anticipate
12 updating this expense later in the filing once a reasonable amount of data may be
13 analyzed to support an annualized increase in expenses.
- 14 • The next adjustment is the federal and state income taxes. I have calculated estimated
15 federal and state income taxes based on the test year revenue. Income taxes are
16 projected to total approximately \$19,281 in the rate year.
- 17 • The final non-operating adjustment presented is the return on rate base. The ENWC's
18 cost structure is comprised of 60.5% equity and 39.5% debt with a 6% interest rate. We
19 have assumed a 10.5% return on equity, which is consistent with other fully litigated
20 cases involving small water companies and the MA DPU. Using this methodology, the
21 ENWC's expected rate year return on rate base is \$51,294.

1 **Calculated Revenues**

2 **Q: Did you analyze the water sales, and numbers of meters and fire service accounts?**

3 A: Yes. Schedule DF 2 presents the numbers of meters by size, the metered water use by
4 seasonality, and the number of private fire hydrants served.

5 **Q: Have you assumed any changes to the test year billable units?**

6 A: No. The ENWC does not expect any increase in its customer base, or resulting water
7 consumption. If anything, the ENWC anticipates further decline in water consumption as
8 has been seen in prior years, but has chosen to not make an adjustment to rate year billable
9 units.

10 **Q: Have you prepared a schedule which shows the required rates to sufficiently meet**
11 **rate year revenue requirements?**

12 A: Yes. Please refer to Schedule DF 3. As noted earlier in my testimony, the ENWC is not
13 proposing any rate structural changes at this time. As such, all rates and charges will be
14 increasing at the same percentage increase across-the-board.

15 **Q: Does the ENWC intend to implement these calculated charges immediately?**

16 A: No. As mentioned earlier in my testimony, the ENWC has decided to phase-in the fully
17 rate-year-supporting rates over a two-year period in order to mitigate the impact of rate
18 shock on its customer base. As such, I've developed rates over two steps to arrive at full
19 revenue sufficiency after the second step.

1 **Q: Have you provided a summary of the proposed rates and its impact on customers?**

2 A: Yes. Schedule DF 4 presents the impact of each step in the phase-in process to various
3 customer types. Please note that the average ENWC customer has a 5/8" meter and uses
4 approximately 26 Ccf every six months. This customer's bill is projected to increase by
5 \$172.28 with the first step increase. This amounts to a monthly increase of \$28.71, or an
6 increase of \$0.96 per day. With the second step, this same customer's bill would increase
7 by \$172.28, or \$28.71 per month, and \$0.96 per day.

8 **Q: Have you provided a revenue proof summary?**

9 A: Yes. Schedule DF 5 presents the projected revenue, by rate component, and step increase.
10 Note that the ENWC maintains a revenue deficiency for Step 1 of the phase-in, with fully
11 revenue sufficient being implemented in year 2.

12 **Conclusion**

13 **Q: Does this conclude your testimony?**

14 A: Yes it does.