Exh. JL-1T
Dockets UW-230598 and UW-240079
Witness: Jeanine Leggett

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **WASHINGTON WATER SUPPLY, INC.,** **Respondent.**	**DOCKETS UW-240079 and UW-230598 (Consolidated)**
In the Matter of the Request of **WASHINGTON WATER SUPPLY, INC.,** **To Approve Tariff Revisions Regarding a Temporary Surcharge for Recovery of Purchased Water Expenses**	

TESTIMONY OF

JEANINE LEGGETT

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Revenue Requirement, Cost of Capital, Capital Structure, and Rate Design

January 22, 2025

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LIST OF EXHIBITS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jeanine Leggett, and my business address is 621 Woodland Square Loop SE, Lacey, WA 98503. My business mailing address is P.O. Box 47250, Olympia, WA 98504-7250. My email address is Jeanine.leggett@utc.wa.gov.

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

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Telecom, Water, and Transportation Section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since April 3, 2023.

Q. Please state your qualifications to provide testimony in this proceeding.

A. I have been the lead Staff on 20 water rate cases, as well as numerous solid waste filings, transportation, bus, etc. I attended the National Association of Regulatory Utility Commissioners (NARUC) rate school training on October 16, 2023 – October 21, 2023. In addition, I have 30 years providing accounting services to various organizations.

Q. Have you testified previously before the Commission?

A. No

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope and purpose of your testimony?

A. The Commission ordered Washington Water Supply, Inc. (Washington Water or Company) to file a general rate case.[1] Instead of filing a general rate case, Washington Water filed a third surcharge to recover approximately $24,000 incurred to rehabilitate the Echo Glen well.[2] The Commission suspended the third surcharge request and consolidated the tariff request with Docket UW-230598 at its February 22, 2024, open meeting.[3] Because Washington Water did not file for general rates, Staff requested information necessary to evaluate and calculate rates for Washington Water's total company operations. My testimony will address the Company's operating expenses, rate base, and revenue requirement, and I will present Staff's recommendation regarding general rates for Washington Water Supply, Inc. While Staff presents its recommendation about the Company's general rates, Staff does not assume the burden of proof in the rate case. Washington Water supply has the burden of proof regarding its rates.

Q. Please summarize Staff's recommendations.

A. Staff recommends for the following:

(1) adjusting the Company's revenue to include ready to serve charges,

(2) removing for general rates the cost of trucked in water for the Echo Glen system,

[1] *In re Request of Washington Water Supply, Inc*, Docket UW-230598, Order 01, at ¶ 2 (Aug. 10, 2023).
[2] *In re Request of Washington Water Supply, Inc*, Docket UW-240079, Company Initial Filing (January 22, 2024). In Washington Water's first two surcharge filings, the Company requested to recover the cost of trucked in water through surcharges imposed upon Echo Glen customers. *See* Dockets UW-230598 & UW-230997.
[3] *In Re Washington Water Supply, Inc.*, Dockets UW-230589 & UW-240079, Order 01/02 Complaint and Order Suspending Tariff Revisions; Consolidating Dockets (February 22, 2024).

(3) removing contractual accounting expenses,

(4) normalizing the cost of tree removal,

(5) adjusting the Company's Depreciation Expense,

(6) adjusting revenue sensitive items such as Utility Excise Tax, Bad Debt, and Regulatory Expenses.

The adjustments I have made reduce the Company's proposed revenue requirement by $26,783, resulting in a final recommended revenue requirement of $90,657. Washington Water currently charges customers through a monthly flat rate. Staff recommends a monthly flat rate increase from the current $43.25 to $54.00 per customer per month.[4]

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits JL-2 through JL-7, listed above.

III. EXPENSE ADJUSTMENTS

Q. In general, when Staff reviews the expenses claimed by a Company in a rate case filing, what does it look for?

A. Staff looks for costs that are normal and recurring and required to provide service.

Q How does Staff evaluate whether a Company should recover a cost through rates?

A. For capital expenses, Staff looks to determine if the Company prudently decided to

[4] *See* Leggett, Exh. JL-5.

acquire an asset and whether the asset is in service and used and useful. For operating expenses, Staff looks at whether the Company prudently decided to incur an expense in the course of operating of the Company's business and whether the expenses benefit the customers of the Company.

Q. How does Staff determine whether a cost or expense was prudently incurred?

A. Staff follows established regulatory principles and considers whether the Company acted reasonably based on what the Company knew, or should have known, at the time it made the decision to incur the cost. To do so, Staff looks at, among other things, whether the expense was necessary, whether the Company considered alternatives, and whether the Company documented its decision-making process for later review.

Q. What makes an expense appropriate to include in rates?

A. For test-year expenses, Staff largely looks to whether the Company prudently incurred them. Post-test-year expenses that the Company seeks to include in rates must be known and measurable, meaning that the expense is not hypothetical and that it is quantifiable. Both test-year and post-test-year expenses must be normal and recurring in that they are not extraordinary or one-time expenses, but rather ordinary expenses that are expected to continue.

Q. Can the Commission make adjustments to the expenses claimed by a Company in a rate case filing?

A. Yes. It can remove claimed expenses from the rate calculation if they are deemed imprudent or make restating or pro forma adjustments to booked expenses in order to calculate rates.

Q. Does Staff recommend any of these types of adjustments here?

A. Yes. I will discuss the specific adjustments Staff proposes later in my testimony.

Q. What is a restating adjustment?

A. Restating adjustments adjust the booked operating results for any defects or infirmities in actual recorded results, which can distort test period earnings. Restating adjustments are also used to adjust from an as-recorded basis to a basis that the Commission accepts for determining rates. Examples of restating adjustments are adjustments to remove prior period amounts, to eliminate below-the-line items that were recorded as operating expenses in error, to adjust from book estimates to actual amounts, and to eliminate or to normalize extraordinary items recorded during the test period.[5]

Q. What is a pro forma adjustment?

A. Pro forma adjustments give effect for the test period to all known and measurable changes that are not offset by other factors. The work papers must identify dollar values and underlying reasons for each proposed pro forma adjustment.[6]

Q. With those general principles in mind, did you review the Company's revenue accounts?

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[5] WAC 480-07-530(4)(e)(i).
[6] WAC 480-07-530(4)(e)(ii).

A. Yes.

Q. What accounts did you review?

A. I reviewed Washington Water Supply's revenues from several sources: metered revenue, flat-rate, revenue, ready-to-serve revenue, and miscellaneous revenue from ancillary charges.[7]

Q. Did you note any issues when reviewing those accounts?

A. Yes. I found that the Company reported one ready-to-serve customer but did not list any revenue associated with ready-to-serve rates.

Q. What revenue should the Company have booked for that customer?

A. The tariff rate for ready-to-serve customers is $43.25, so in the test year the Company should have booked $519.00 in revenue.

Q. Did you adjust the Company's revenues to account for this issue?

A. Yes. I made a pro forma adjustment in the amount of $519.00 to the Company's revenues. This adjustment is reflected in Adjustment PF-1, on Exhibit JL-2, Schedule 1.2.

Q. Did you review the Company's general ledger?

A. Yes, I did.

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[7] Leggett, Exh. JL-3, 240079-230598-WWS-GRCWB-6-28-24 (Company Water Model).

Q. Did you notice any issues in the general ledger?

A. My review of the Company's general ledger accounts showed that the Company included the cost of the trucked-in water for the Echo Glen system in 2023.[8]

Q. Why did the Company truck in water to Echo Glen in 2023?

A. The circumstances that led to the Company trucking in water during the summer of 2023 are discussed in detail in Order 01 in Docket UW-230598 and in the testimony of Michael Young in the same docket.[9]

Q. How much did the Company book as an expense for the trucking of water to Echo Glen?

A. The Company booked $19,290 into account 7162 Purchased Water.

Q. Did that raise concerns for Staff?

A. Yes. The Commission approved a surcharge to recover that expense in Dockets UW-230997 and UW-240079. Effectively, the Company was claiming the trucking expense twice, which would render the resulting rates unfair, unjust, or unreasonable to customers.

Q. What do you recommend addressing that concern?

[8] Leggett, Exh. JL-7, UW-230598 2023 Company General Ledger Acct 7162.
[9] Young, Testimony Exh. MY-1T.

A. I recommend a restating adjustment to remove $19,290 from account 7162 Purchased Water to prevent the double recovery. My proposed adjustment is shown as Adjustment RS-1, on Exhibit JL-2, Schedule 1.1.

Q. Did your review of the general ledger disclose any other issues?

A. Yes. I noted a $7,627 dollar expense booked for "contractual accounting" services in account 7422 Outside Accounting.

Q. Were you able to discover what that expense involved?

A. No. Staff asked DR No. 5 to obtain details about the expense. In its reply, the Company stated, "There are no contracts for outside accounting."[10]

Q. Did you find that concerning?

A. Yes. As I noted above, the Commission engages in cost-of-service ratemaking, setting rates to allow companies to recover their expenses and also provide them with an opportunity to earn a reasonable return. Inherent in that form of ratemaking is that companies cannot recover expenses they did not incur without the rates becoming unfair, unjust, or unreasonable to customer.

Q. What do you recommend to remedy that concern?

[10] Leggett, Exh. JL-4, 240079-230598-WWS-Resp to Staff DRs 1-6.

A. I recommend removing $7,627 from account 7422 Outside Accounting, so that the Company does not recover for an expense it did not incur. I show this in Adjustment RS-2, on Exhibit JL-2 Schedule 1.1.

Q. Are those the only issues you found with the Company's general ledger?

A. No.

Q. What else did your review disclose?

A. My review of the Company's general ledger accounts showed that the Company included tree removal expenses totaling $5,500.[11]

Q. Why is that problematic?

A. Trees can only be removed once, and nothing offered by the Company suggests that this expense is normal or recurring at this level every year.

Q. How did you propose to remedy that concern?

A. I recommend amortizing the expense over a five-year period, which results in an annual expense of $1,100. This proposed adjustment reduces annual operating expenses by $4,400, as seen in Adjustment PF-4, on Exhibit JL-2, Schedule 1.2.

Q. Why did Staff choose a five-year amortization period?

[11] Leggett, Exh. JL-6, UW-230598 2023 Company General Ledger Acct 7135.

A. Staff chose to amortize these expenses over a five-year period because it is common practice to amortize over a longer period of time for nonrecurring expenses. A longer period of time can range from three to five years and sometimes longer if the expense is extortionary. Staff chose a five-year period because that time frame was recently approved in docket TG- 230778 for similar non-recurring expenses and the frequency of needed tree removal services is rare but not uncommon.[12]

Q. Did you review the Company's depreciation expense?

A. Yes.

Q. Do you recommend an adjustment that expense?

A. Yes.

Q. Why?

A. It is Staff practice to utilize an Excel model for water Company rate calculations. The model is based on a similar model filed by the Company, which contains a listing of Company assets and dates in service. The model uses the straight-line depreciation method and standard asset lives as prescribed by the American Water Works Association to calculate annual depreciation expense.[13] It also calculates

[12] *Re In the matter of Murrey's Disposal Company's general rate case,* Docket TG- 230778, Redacted Initial Order Rejecting Tariff Sheets, Authorizing and Requiring Compliance Filing, at 1-2 and 6:19 (November 1, 2024).
[13] Toolbox - American Water Works Association-Effective Useful Life Tool.

accumulated depreciation, and the value of the Company's rate base. The Company's depreciation expense does not match the model's output.

Q. So, what adjustment did you propose to make to the depreciation expense?

A. I recommend correcting the Company's reported depreciation expense to the figure calculated by the model. This results in a reduction to expenses of $509.91. Please refer to Adjustment PF-2, on Exhibit JL-2, Schedule 1.2.

Q. Do these proposed adjustments necessitate other adjustments?

A. Yes. They require an adjustment to the Company's revenue sensitive items.

Q. Please describe revenue sensitive items.

A. Revenue sensitive items are expenses that change with changes in gross revenue.

Q. Why do Staff's proposed adjustments require an adjustment to the Company's revenue sensitive items?

A. Increasing a Company's gross revenue without a corresponding increase in tax-in-gross amounts would result in the Company not recovering the amount of taxes or fees it must pay.

Q. What revenue sensitive items are affected?

A. In this case, the revenue sensitive items are Bad Debt, Commission Regulatory Fees, and Utility Excise Taxes.

Q. What adjustment do you propose to these items?

A. Based on my recommended revenue requirement, I recommend adjusting (increasing) these expenses as follows (with associated exhibit references):

Bad Debt expense	$453.19	PF-3 JL-2 Schedule 1.1
Commission Regulatory Fees	$199.96	PF-2 JL-2 Schedule 1.1
Utility Excises Taxes	$4,391.14	PF-6 JL-2 Schedule 1.1

IV. RATE BASE AND CAPITAL STRUCTURE

Q. Did you review the Company's rate base?

A. I did.

Q. Do you recommend any adjustments to the Company's Rate Base?

A. Yes.

Q. Why, and what are those recommended adjustments?

A. In my review, I utilized the Water Excel model commonly used by Staff and Companies to compute Utility Plant in Service, Accumulated Depreciation, Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC. I discovered two things. First, the Company had not amortized any of its recorded CIAC, so I recommend adjusting the CIAC amount to reduce it by $40. Second, based on the model, which uses straight-line depreciation, the Company's accumulated depreciation is inaccurate. Based on the in-service dates provided by the Company, the accumulated depreciation amount filed by the Company should be reduced by $3,602.

Q. What effects do these recommended adjustments have on rate base?

A. The net effect is a $3,562 reduction in rate base, to $73,622.

Q. Does the Company's rate base include the well rehabilitation costs incurred for the Echo Glen system in the summer of 2023?

A. Yes, it does, as well as remaining un-depreciated amounts of plant in service, for all of Washington Water Supply, since the Company's last rate increase became effective January 1, 2001.

Q. Did you make any changes to the Company's proposed capital structure?

A. No. The Company proposed using a hypothetical capital structure of 60 percent equity and 40 percent debt, with a 12 percent return on equity. Because the Company does not currently hold any debt, I believe it is appropriate to use a hypothetical capital structure to minimize risk. The Commission commonly uses hypothetical capital structures when there is more than 60 percent equity.

Q. Do you believe a 12 percent return on equity is appropriate in this case?

A. Yes. Although the Commission currently has an open docket to review return on equity calculations for water companies,[14] Staff has traditionally allowed 12

[14] Docket UW-240733, opened October 1, 2024.

percent return on equity as an incentive for smaller companies (less than two million dollars in annual revenue.) to invest in their water systems to maintain service that meets quality and quantity standards established by the Department of Health.

V. RECOMMENDATIONS AND CONCLUSION

Q. How do Staff's proposed adjustments impact the Company's revenue requirement?

A. My proposed adjustments result in a $26,783 reduction in expenses, which, in conjunction with Staff's rate base and cost of capital calculation, results in a revised revenue requirement of $90,637. I identify this revenue requirement in Exhibit JL-2 Schedule 1.1.

VI. RATE DESIGN

Q. Did Staff use its proposed revenue requirement to generate proposed rates for the Company?

A. Yes.

Q. How did you do that?

A. The Company's current rates involve billing all customers using flat rates. I used the Company's current customer count per customer class[15] and Staff's proposed revenue requirement to generate a monthly flat rate.

Q. What does Staff propose as a monthly flat rate given those inputs?

A. Staff recommends a monthly flat rate increase from the current $43.25 to $54.00 per customer per month.[16]

Q. Does this conclude your testimony?

A. Yes.

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[15] Washington Water Supply, Inc. only has one customer class.
[16] Leggett, Exh. JL-5, UW-230598 Staff Rate Design Worksheet.