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LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. U-36380

UTILITIES, INC. OF LOUISIANA, EX PARTE

2022 NOV -4 PM 2:35
LA PUBLIC SERVICE
COMMISSION

In re: 2021 Formula Rate Plan Annual Report.

DIRECT TESTIMONY OF ROBIN PENDERGRASS

ON BEHALF OF THE

LOUISIANA PUBLIC SERVICE COMMISSION

November 3, 2022

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robin Pendergrass. My business address is Louisiana Public Service Commission, Galvez Building, 12th Floor, 602 North 5th Street, Baton Rouge, Louisiana 70821.

Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed at the Louisiana Public Service Commission ("LPSC" or "Commission") as the Audit Director. My position involves the examination, review, analysis and evaluation of accounting records, reports, financial statements and other documents of a company under the jurisdiction of the LPSC, during rate cases. My review and analysis is in an effort to verify the accuracy, authenticity and/or existence of information and property in order to provide a recommendation on a company's request for a rate increase. I also handle the training and day-to-day oversight of the auditing department.

Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from Southeastern Louisiana University with a Bachelor's Degree in Accounting and a Bachelor's Degree in Management. I have also completed several NARUC courses in Utility Regulation.

Q. PLEASE PROVIDE A SUMMARY OF YOUR PROFESSIONAL EXPERIENCE.

A. I have twenty-one (21) years of accounting experience: four (4) years as the Accounting Administrator for a small service company; and seventeen (17) years as an auditor for the LPSC, five (5) of which I served as Audit Supervisor and eight (8) years as Audit Director.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS REGARDING UTILITY RATES?

A. Yes. I have previously presented testimony and/or supervised testimony in regulatory proceedings on multiple occasions before the Commission over the last seventeen (17) years.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of the Louisiana Public Service Commission Staff ("LPSC Staff").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an objective recommendation to the Commission concerning a requested rate increase by Utilities, Inc. of Louisiana ("UIL" or "the Company") in accordance with its annual Formula Rate Plan ("FRP").

Q. WHEN DID THE COMPANY SUBMIT ITS APPLICATION REQUESTING AN INCREASE IN RATES IN ACCORDANCE WITH ITS ANNUAL FORMULA RATE PLAN?

A. The Company filed its application requesting an increase in rates in accordance with its 2021 FRP on May 31, 2022.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE COMPANY IN TERMS OF ITS SERVICE TERRITORY AND THE NUMBER OF CUSTOMERS IT SERVES.

A. The Company is a for-profit public utility providing water and wastewater service to customers in the following parishes of Louisiana: Ascension, Assumption, Bienville, Calcasieu, East Baton Rouge, Evangeline, Jackson, Livingston, Madison, Morehouse, Richland, St. Landry, St. Tammany, Tangipahoa, Vermilion, Washington, West Baton Rouge, West Feliciana, and Winn. UIL currently provides services to approximately 14,518 water and 17,608 wastewater equivalent residential customers.

Q. DID YOU REVIEW THE COMPANY'S APPLICATION?

A. Yes. I reviewed the Company's request and supporting documents that were filed in support of the Company's request, as well as responses to several formal and informal data requests provided by the Company.

Q. WHAT DID THE COMPANY REQUEST IN ITS APPLICATION?

A. The Company requested an increase in water revenues of \$1,464,115 and an increase in wastewater revenues of \$475,397, for a total revenue increase of \$1,939,512. This equated to a 26.16% increase in water bills and 4.07% in wastewater bills.

Q. WHAT DID UIL PROVIDE IN SUPPORT OF ITS REQUESTED RATE INCREASE?

A. Along with its application, UIL provided financial information for the years ending December 31, 2020 and 2021, including Income Statements and Balance Sheets. UIL also provided General Ledgers, Depreciation Schedules, detailed workpapers, and responses to multiple data requests.

Q. WHAT IS UIL'S AUTHORIZED RETURN ON EQUITY ("ROE") ACCORDING TO ITS FRP?

A. UIL's authorized ROE is 9.50% according to its FRP. The FRP also specifies a ROE ratio bandwidth of 9.00% to 10.00%, with a ROE ratio midpoint of 9.50%. For the 2021 TY, UIL is allowed to adjust up or down to the midpoint ROE. However, for TY 2022 and TY 2023, UIL is only allowed to adjust to either the top or bottom of the band.

Q. DID YOU RECOMMEND THAT THE INCREASE BE APPROVED AS REQUESTED?

A. No. I made several adjustments to the Company's cost of service that resulted in a slightly lower increase to bring the Company's ROE up to the midpoint of 9.50%. I also made an adjustment to correct allocation percentages between water and wastewater in regards to annualized

compensation and related benefits. My Report and Recommendation, attached hereto as Exhibit 1, explains my recommendation in more detail.

Q. WHAT WAS YOUR RECOMMENDATION ON THE COMPANY'S REQUESTED RATE INCREASE?

A. My adjustments necessitated a recommended increase in water of \$1,506,973 and wastewater of \$364,393, for a total increase of \$1,871,366. This equated to a 26.92% increase in water bills and 3.12% in wastewater bills.

Q. DO YOU BELIEVE STAFF'S RECOMMENDATION IS FAIR, REASONABLE AND IN THE PUBLIC INTEREST?

A. Yes, I do.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

LOUISIANA PUBLIC SERVICE COMMISSION

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UTILITIES INC. OF LOUISIANA, EX PARTE

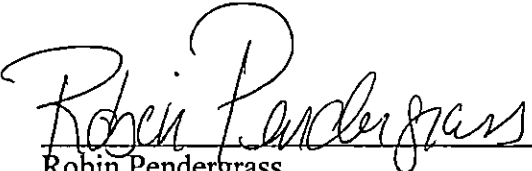
In re: 2021 Formula Rate Plan Annual Report.

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STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

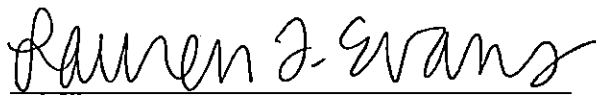
I, Robin Pendergrass, Audit Director with the Louisiana Public Service Commission, being duly sworn, do hereby state that I have prepared and reviewed the above and foregoing Testimony and that the matters contained therein are true and accurate to the best of my knowledge, information, and belief. I do adopt the same as my sworn testimony in this proceeding.


Robin Pendergrass
Audit Director
Louisiana Public Service Commission

Sworn and subscribed to before me this 4th day of November 2022.



Lauren Temento Evans
Bar No. 35576
State of Louisiana
Commission Expires at Death


Lauren Temento Evans
Bar Roll No. 35576
My Commission Expires at death.

LOUISIANA PUBLIC SERVICE COMMISSION

DOCKET NO. U-36380

UTILITIES, INC. OF LOUISIANA,
EX PARTE.

In re: 2021 Formula Rate Plan Annual Report.

STAFF REPORT AND RECOMMENDATION*Overview and Procedural History*

Utilities, Inc. of Louisiana ("UIL" or "Company") is a for-profit public utility providing water and wastewater service to customers in the following parishes of Louisiana: Ascension, Assumption, Bienville, Calcasieu, East Baton Rouge, Evangeline, Jackson, Livingston, Madison, Morehouse, Richland, St. Landry, St. Tammany, Tangipahoa, Vermilion, Washington, West Baton Rouge, West Feliciana, and Winn. UIL currently provides services to approximately 14,518 water and 17,608 wastewater equivalent residential customers. On May 31, 2022, UIL filed its Annual Report for its 2021 Test Year Formula Rate Plan ("2021 FRP Filing") pursuant to the provisions of the Commission's Order No. U-34742.¹

Order No. U-34742 was issued on October 30, 2018, by the Louisiana Public Service Commission ("Commission"), which approved a merger of Community Utilities of Louisiana, Inc. ("CULI") into UIL and approved the implementation of a Formula Rate Plan ("FRP") for test years ending December 31, 2018, 2019, and 2020. On May 25, 2021, UIL filed an application seeking authority from the Commission to extend and modify its FRP. Order No. U-36003 was issued on May 23, 2022, by the Commission, which approved

¹ See Order No. U-34742 dated October 30, 2018, in Docket No. U-34742, Community Utilities of Louisiana, Inc. and Utilities Inc. of Louisiana, *ex parte*, *In re: Request for Statewide Consolidation of Assets, Request for Uniform Rate Structure, Request for the Establishment of Formula Rate Plan, and Application for Adjustment in Retail Rates, as well as Reservation of Rights 10 Request Interim Rates*.

the extension of the FRP, with certain modifications, for test years ending December 31, 2021, 2022, and 2023.² The 2021 FRP Filing was published in the Commission's Official Bulletin No. 1273 dated June 10, 2022, for a twenty-five-day (25-day) intervention period. The intervention period elapsed without any intervention.

The Company's 2021 FRP Filing is based on the twelve (12) months ending December 31, 2021. In the 2021 FRP Filing, UIL reports that there should be a rate increase based upon the adjusted test year results, as UIL fell below the prescribed return on equity ("ROE") bandwidth of 9.00% for both water and wastewater. Based on the twelve-month (12-month) test year and after adjustments made pursuant to the FRP, UIL calculated an ROE of -1.75% for water and 8.00% for wastewater with the blended ROE calculated at 5.16%. If the adjusted test year earnings fall below the lower bandwidth, revenue is to be increased in order to reset rates to the midpoint ROE of 9.50%. Since the ROEs for water and wastewater were below the lower bandwidth, UIL requested a total increase in base Rider FRP Revenues of \$1,939,512, allocated as \$1,464,115 to water and \$475,397 to wastewater.

Staff has thoroughly evaluated the 2021 FRP Filing submitted by UIL, including review of the Company's application, supporting documentation for the changes in expenses and rate base from the 2020 test year, and responses to data requests issued by Staff.

Major Provisions of UIL's FRP

UIL's FRP requires that the Company file with the Commission annual reports based on the twelve-month (12-month) period ended December 31 of each test year. In accordance with its FRP, UIL must file these annual reports on or before the May 30 immediately

² See Order No. U-36003 dated May 23, 2022, in Docket No U-36003, Utilities Inc., of Louisiana, ex parte, *In re: Request for Extension of Formula Rate Plan with Modifications Thereto*.

following the close of the respective test year. Staff and any intervenors have until August 30 to review the Company's FRP filing and to propose any deficiencies or corrections. UIL then has until September 30 to review any proposed deficiencies or corrections and to file a revision to the proposed FRP rate changes, if necessary. Any FRP rate changes will become effective for bills rendered on and after the first billing cycle for the month of November of the filing year. An exception was made for the 2021 test year, due to the timing of the FRP extension docket, to allow any FRP rate changes to become effective for bills rendered on and after the first billing cycle for the month of December 2022.

The FRP specifies a ROE ratio bandwidth of 9.00% to 10.00%, with a ROE ratio midpoint of 9.50%. For the December 31, 2021 test year, if the "Calculated Return on Equity Ratio" is less than 9.00% or greater than 10.00%, Rider FRP Revenues are to be increased or decreased by the amount necessary to increase or decrease the Calculated Return on Equity to the ROE ratio midpoint. For the test years ending December 31, 2022 and 2023, the Rider FRP Revenues are to be determined using the following rules: 1) There shall be no change in the Rider FRP Revenue level in effect for the test year if the ROE is greater or equal to the Lower Band and less than or equal to the Upper Band; 2) If the ROE is less than the Lower Band, the Rider FRP Revenue level in effect for the test year shall be increased by 100% of the difference between the ROE and the Lower Band; 3) If the ROE exceeds the Upper Band, the Rider FRP Revenue level in effect for the test year shall be reduced by 100% of the difference between the ROE and the Upper Band.

The FRP also establishes a hypothetical capital structure of 50% equity and 50% debt for the initial adjustment in rates and caps equity at 50% thereafter. The Calculated Return on Equity Ratio for each test year is determined as Adjusted Net Income / (Adjusted Rate

Base * Equity % of Capital Structure) with specific adjustments made to test year expenses, mainly the annualization to year-end levels as prescribed in the FRP.

The FRP also establishes a cap on UIL's corporate allocations of corporate service costs and amortizations to be included on the income statement. Allocated costs shall be capped at amounts no greater than \$2,379,711 in year 1 with a 2021 test year, \$2,558,843 in year 2 with a 2022 test year, and \$2,635,608 in year 3 with a 2023 test year, in determining UIL's earned return and measurement against the allowed return on equity.

The FRP also contains an extraordinary cost changes provision that allows UIL the opportunity to recover from, or flow back to, its ratepayers the effects of unforeseen and extraordinary costs changes that lead to rate changes that the FRP is not designed to address. UIL did not invoke the extraordinary cost changes provision during the 2021 test year.

Staff's Review of the 2021 FRP Filing

As indicated above, the 2021 FRP Filing reported that UIL earned an ROE of 5.16% based upon the 2021 adjusted test year results. As calculated by UIL, this ROE deficiency led to a requested revenue increase of \$1,939,512, allocated as \$1,464,115 to water and \$475,397 to wastewater. Based on UIL's filing and responses to data requests, Staff determined that the Company's requested revenue increase stems largely from an increase in rate base and an increase in certain operating expenses.

The Company saw a 4.49% increase in Net Plant in service, which equates to a net increase of \$4,165,030 with the water plant comprising 22% of that increase and wastewater plant comprising 78% of that increase. Rate base overall increased \$1,359,512. Additionally, UIL saw a 12.31% increase of \$1,559,398 in total book operating expenses,

with 59.57% of the increase attributable to water operations and 40.43% of the increase attributable to wastewater operations. Staff determined that specifically, *Water – Per Books Meter Reading* increased from \$117,581 to \$162,170 from TY 2020 to TY 2021, a 37.92% increase. This increase is due to invoice # 8858 dated December 31, 2020 being incorrectly booked in TY 2021, rather than being accrued in TY 2020, as well as the addition of new meters in TY 2021, which led to an increase in meter readings. *Water – Per Books Transportation* increased from \$58,747 to \$79,400 from TY 2020 to TY 2021, a 35.16% increase and *Sewer – Per Books Transportation* increased from \$77,212 to \$105,130 from TY 2020 to TY 2021, a 36.16% increase. These increases were due to the Company returning to normal transportation levels after COVID-19, as well as higher fuel costs in 2021 compared to 2020. *Water – Per Books Outside Services – Other* increased from \$423,808 to \$1,357,591 from TY 2020 to TY 2021, a 220.33% increase and *Sewer – Per Books Outside Services- Other* increased from \$543,098 to \$1,777,194 from TY 2020 to TY 2021, a 227.23% increase. These increases were primarily due to UIL consolidating multiple “shared service activity” accounts from TY 2020 into a single NARUC account in TY 2021. *Water – Per Books Taxes Other Than Income* increased from \$451,404 to \$890,976 from TY 2020 to TY 2021, a 97.38% increase, while *Sewer – Per Books Taxes Other Than Income* decreased from \$755,556 to \$573,831 from TY 2020 to TY 2021, a 24.05% decrease. This increase for water and decrease for sewer was due to a correction to the allocation of personal property tax invoices between water and sewer to appropriately assign 100% to water since they relate to water assets only. Finally, *Sewer – Per Books Purchased Power* increased from \$779,198 to \$967,576 from TY 2020 to TY 2021, a 24.18% increase. This increase was driven by provider fuel charges, demand charges, and

storm rec rider surcharges. In addition, certain accounts noticed increased usage, a portion of which was due to new aeration and new wastewater treatment plant equipment.

Based upon Staff's evaluation of the Company's calculations, Staff recommends various disallowances and adjustments to the cost of service proposed by the Company as follows:

1. A disallowance of \$48,451 of operating expenses identified as "*Salaries and Wages - General and Administrative*" associated with an executive performance bonus;
2. A disallowance of \$3,391 of operating expenses identified as "*Pension & Other Benefits – General and Administrative*" associated with benefits related to the disallowed executive bonus;
3. A disallowance of \$2,000 of operating expenses identified as "*Miscellaneous*" associated with advertising expenses related to a campaign contribution.
4. A disallowance of \$133 of operating expenses identified as "*Miscellaneous*" associated with penalties and fines;
5. A disallowance of \$12,128 of operating expenses identified as "*Meter Reading*" associated with invoice # 8858 dated December 31, 2020 that was booked in TY 2021 rather than being accrued in TY 2020;
6. An increase of \$12,810 to "*Federal Income Taxes*" associated with Staff's adjustments to operating expenses;
7. An increase of \$5,304 to "*State Income Taxes*" associated with Staff's adjustments to operating expenses;
8. A decrease of \$200 to "*Interest on Debt*" due to a decrease in Rate Base associated with Staff's adjustments to operating expenses; and

9. An adjustment to correct UIL's allocation percentages from 43.50% (water) and 56.50% (sewer) as filed in UIL's Work Paper A to 45.19% (water) and 54.81% (sewer) per UIL's Input Schedule. This reallocation affected *Salaries & Wages*, *Pension & Other Benefits*, and *Taxes Other Than Income*.

Impact of Staff's Recommended Adjustments

Applying Staff's recommended disallowances to UIL's revised FRP model has the following effect on UIL's requested increase:

1. The proposed water adjustment goes from a requested increase of \$1,464,115 to a recommended increase of \$1,506,973.
2. The proposed wastewater adjustment goes from a requested increase of \$475,397 to a recommended increase of \$364,393.
3. The Company's requested total increase of \$1,939,511 decreases based on Staff's recommended disallowances to a revised total recommended increase of \$1,871,366.

Based upon Staff's disallowances included in this filing, UIL's 2021 Test Year ROE for water was -2.07% and for wastewater was 8.35%, with a blended ROE of 5.31%. As Staff's adjusted water ROE falls below the bandwidth of 9.00%, Staff recommends that UIL be authorized to implement an increase in its water Rider FRP Revenues of \$1,506,973 to reset rates to the midpoint ROE of 9.50%. As Staff's adjusted wastewater ROE falls below the bandwidth of 9.00%, Staff recommends that UIL be authorized to implement an increase in its wastewater Rider FRP Revenues by \$364,393 to reset rates to the midpoint ROE of 9.50%. The combined effect of Staff's recommended FRP water and wastewater increases is a total increase of \$1,871,366. Utilizing Staff's adjusted ROE, Staff computed

what the bill impact analysis would be for the average residential and commercial customer. That information is attached hereto as Staff Exhibit A-1. Staff reserves the rights to propose additional adjustments based upon UIL's responses to the outstanding issues raised by this filing.



Staff Recommended Rates

WATER			FRP ADJUSTMENT				
Rate Schedule	Class	Meter Size	Usage Charge	BFC	Average Bill	% Increase Avg Bill	
UIL Residential - Volumetric	RES	All	\$ 4.84	\$ 23.67	\$ 40.63	26.92%	
UIL Residential Irrigation - Volumetric	RES	All	\$ 4.84	\$ 23.67	\$ 73.09	26.92%	
UIL Residential - Flat Rate	RES	All		\$ -	\$ -	0.00%	
UIL Commercial - Volumetric	COM	All	\$ 5.14	\$ 97.63	\$ 252.33	26.92%	
UIL Commercial Irrigation - Volumetric	COM	All	\$ 5.14	\$ 97.63	\$ 239.22	26.92%	
UIL Commercial - Flat Rate	COM	All		\$ -	\$ -	0.00%	
TOTAL WATER						26.92%	

WASTEWATER			FRP ADJUSTMENT				
Rate Schedule	Class	Meter Size	Usage Charge	BFC	Average Bill	% Increase Avg Bill	
UIL Residential - Volumetric	RES	All	\$ 2.36	\$ 37.37	\$ 50.48	3.12%	
UIL Residential - Flat Rate	RES	All		\$ 49.91	\$ 49.91	3.12%	
UIL Commercial Wastewater - Volumetric	COM	5/8"	\$ 7.16	\$ 65.02	\$ 111.29	3.12%	
UIL Commercial Wastewater - Volumetric	COM	3/4"	\$ 7.16	\$ 65.02	\$ 109.67	3.12%	
UIL Commercial Wastewater - Volumetric	COM	1"	\$ 7.16	\$ 65.02	\$ 139.61	3.12%	
UIL Commercial Wastewater - Volumetric	COM	1.5"	\$ 7.16	\$ 109.47	\$ 282.99	3.12%	
UIL Commercial Wastewater - Volumetric	COM	2"	\$ 7.16	\$ 218.97	\$ 590.02	3.12%	
UIL Commercial Wastewater - Volumetric	COM	2.5"	\$ 7.16	\$ 218.97	\$ 318.04	3.12%	
UIL Commercial Wastewater - Volumetric	COM	3"	\$ 7.16	\$ 350.33	\$ 1,247.85	3.12%	
UIL Commercial Wastewater - Volumetric	COM	4"	\$ 7.16	\$ 350.33	\$ 1,876.06	3.12%	
UIL Commercial Wastewater - Volumetric	COM	6"	\$ 7.16	\$ 350.33	\$ 2,301.31	3.12%	
UIL Commercial Wastewater - Volumetric	COM	8"	\$ 7.16	\$ 350.33	\$ 2,314.04	3.12%	
UIL Commercial Wastewater - Volumetric					\$ 383.78	3.12%	
Sewer District 6 Residential	RES	All	\$ 2.36	\$ 37.37	\$ 51.94	3.12%	
Sewer District 6 Commercial	COM	5/8"	\$ 7.16	\$ 65.02	\$ 90.42	3.12%	
Sewer District 6 Commercial	COM	1"	\$ 7.16	\$ 65.02	\$ 90.42	3.12%	
Sewer District 6 Commercial	COM	1.5"	\$ 7.16	\$ 109.47	\$ 152.25	3.12%	
Sewer District 6 Commercial	COM	2"	\$ 7.16	\$ 218.97	\$ 304.52	3.12%	
Sewer District 6 Commercial Customer A	COM	All	\$ 7.16	\$ 1,418.31	\$ 2,496.02	3.12%	
Sewer District 6					\$ 58.02	3.12%	
UIL Commercial Wastewater - Flat Rate							
Base Flat Rate	COM	All		\$ 49.91	\$ 49.91	3.12%	
Customer 1	COM	All		\$ 74.86	\$ 74.86	3.12%	
Customer 2	COM	All		\$ 123.27	\$ 123.27	3.12%	
Customer 3	COM	All		\$ 132.26	\$ 132.26	3.12%	
Customer 4	COM	All		\$ 144.73	\$ 144.73	3.12%	
Customer 5	COM	All		\$ 174.68	\$ 174.68	3.12%	
Customer 6	COM	All		\$ 418.73	\$ 418.73	3.12%	
Customer 7	COM	All		\$ 668.63	\$ 668.63	3.12%	
Formulaic Flat Rate	COM	All			\$ 248.16	3.12%	
TOTAL WASTEWATER					\$ 64.93	3.12%	

**Service List for U-36380
as of 11/4/2022**

Commissioner(s)

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Mike Francis

Foster L. Campbell

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Craig Greene

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