

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-1318, SUB 1

In the Matter of)	JOINT TESTIMONY OF
Application by HH Water, LLC, for Authority to)	DARRUS K. COFIELD AND
Adjust and Increase Rates for Water Utility)	MICHELLE BOSWELL
Service in High Hampton Service Areas in)	PUBLIC STAFF –
Jackson County, North Carolina)	NORTH CAROLINA
)	UTILITIES COMMISSION
)	

June 7, 2024

1 **Q. Mr. Cofield, please state your name, business address, and**
2 **present position.**

3 A. My name is Darrus K. Cofield. My business address is 430 North
4 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am a
5 Public Utility Regulatory Analyst with the Accounting Division of the
6 Public Staff – North Carolina Utilities Commission (Public Staff).

7 **Q. Please state your qualifications and experience.**

8 A. My qualifications and duties are included in Appendix A.

9 **Q. Ms. Boswell, please state your name, business address, and**
10 **present position.**

11 A. My name is Michelle Boswell. My business address is 430 North
12 Salisbury Street, Dobbs Building, Raleigh, North Carolina. I am the
13 Director of the Accounting Division of the Public Staff.

14 **Q. Please state your qualifications and experience.**

15 A. My qualifications and duties are included in Appendix B.

16 **Q. What is the mission of the Public Staff?**

17 A. The Public Staff represents the concerns of the using and consuming
18 public in all public utility matters that come before the North Carolina
19 Utilities Commission (Commission). Pursuant to N.C. Gen. Stat. §
20 62-15(d), it is the Public Staff's duty and responsibility to review,
21 investigate, and make appropriate recommendations to the
22 Commission regarding the following utility matters: (1) retail rates

1 charged, service furnished, and complaints filed, regardless of retail
2 customer class; (2) applications for certificates of public convenience
3 and necessity; (3) transfers of franchises, mergers, consolidations,
4 and combinations of public utilities; and (4) contracts of public utilities
5 with affiliates or subsidiaries. The Public Staff is also responsible for
6 appearing before State and federal courts and agencies in matters
7 affecting public utility service.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of our testimony is to represent the accounting and
10 ratemaking adjustments we are recommending, as well as those
11 recommended by other Public Staff witnesses, as a result of the
12 Public Staff's investigation of the application and the amended
13 application filed by HH Water, LLC (HH Water or the Company), for
14 authority to adjust and increase rates for water utility service in
15 Jackson County on January 26, 2024, and February 2, 2024,
16 respectively.

17 **Q. Please describe the scope of your investigation into the**
18 **Company's filings.**

19 A. Our investigation included a review of the application and exhibits,
20 amended application, and records for the 12-month test year ended
21 December 31, 2022, with updates for certain items through
22 December 31, 2023, as well as an examination of the Company's

1 accounting and end-of-period adjustments to test year revenue,
2 expenses, and rate base. The Public Staff also conducted extensive
3 discovery in this matter, including reviewing and auditing information
4 provided by the Company in response to the Public Staff's written
5 and verbal data requests.

6 **Q. Please briefly describe the Public Staff's presentation of the**
7 **issues in this case.**

8 A. Each Public Staff witness will present testimony and exhibits
9 supporting his or her position and will recommend any appropriate
10 adjustments to the Company's proposed rate base and cost of
11 service for the test year. Our exhibits reflect and summarize the
12 adjustments of those Public Staff witnesses, as well as the
13 adjustments we recommend.

14 **Q. Please provide a more detailed description of the organization**
15 **of your exhibits.**

16 A. Schedule 1 of Public Staff Accounting Exhibit 1 presents the return
17 on original cost rate base under present rates, the Company's
18 proposed rates, and the Public Staff's recommended rates.

19 Schedule 2 of Public Staff Accounting Exhibit 1, along with its
20 supporting Schedule 2-1, presents the original cost rate base.

1 Schedule 3 of Public Staff Accounting Exhibit 1, along with its
2 supporting Schedule 3-1 and Schedule 3-2, presents the net
3 operating income for a return under the present rates, the Company's
4 proposed rates, and the Public's Staff's recommended rates.

5 Schedule 4 of Public Staff Accounting Exhibit 1 presents the
6 calculation of the revenue requirement.

7 Schedule 5 of Public Staff Accounting Exhibit 1 presents a summary
8 of the revenues impacts from the Public Staff's adjustments and the
9 Public Staff's recommended revenue increase.

10 **Q. What conclusions have you reached regarding the Company's**
11 **rate increase request for HH Water, LLC?**

12 A. Based on the results of our investigation, the Company's original cost
13 rate base at December 31, 2022, with updates for certain items
14 through December 31, 2023, is \$832,918. The test year level of
15 operating revenue deductions requiring a return is \$242,484. Based
16 on the foregoing, we utilized the rate base method to evaluate the
17 Company's proposed revenue requirement.

18 The gross revenue requirement has been calculated using the
19 overall rate of return of 7.0% recommended by Public Staff
20 Regulatory Analyst Patrick Fahey. The resulting total revenue
21 requirement is \$313,424 of which \$313,419 is service revenues. The

1 Public Staff recommends that water service rates be set to reflect a
2 service revenue increase of \$226,267 based on the difference
3 between the recommended service revenue of \$313,419 and the
4 service revenue under the present rates of \$87,152.

5 **Q. Does Public Staff Accounting Exhibit I reflect the adjustments**
6 **supported by other Public Staff witnesses?**

7 A. Yes. Public Staff Accounting Exhibit I reflects the following
8 adjustments supported by other Public Staff witnesses:

9 1. The recommendation of Public Staff Utilities Engineer Shashi
10 Bhatta for the following items:

- 11 a. Plant in Service;
- 12 b. Service revenues at present rates;
- 13 c. Service revenues at Company proposed rates;
- 14 d. Maintenance and repair;
- 15 e. Contract operator;
- 16 f. Electric power/utilities;
- 17 g. Chemical expenses;
- 18 h. Testing expenses; and
- 19 i. Permit fees.

20 2. The recommendation of Public Staff Utilities Economist
21 Patrick Fahey for the overall rate of return.

1 **Q. What adjustments do you recommend?**

2 A. We recommend the following accounting and ratemaking
3 adjustments:

4 a) Accumulated depreciation and depreciation expense;

5 b) Cash working capital and average tax accrual;

6 c) Professional expenses;

7 d) Regulatory/rate case expenses;

8 e) Regulatory fee; and

9 f) State and Federal income tax.

10 **PLANT IN SERVICE**

11 **Q. Do your schedules and recommended revenue requirement**
12 **include the plant in service for which ownership has yet to be**
13 **transferred to the utility as discussed in Public Staff witness**
14 **Bhatta's testimony?**

15 A. Yes. We have included the plant in service that the Company has
16 stated it intends to transfer ownership to the utility before the close
17 of the hearing. As recommended by Public Staff witness Bhatta,
18 should the Company not transfer ownership prior to the close of the
19 hearing, we will file with the Commission supplemental exhibits
20 removing the plant in service and all related items including
21 accumulated depreciation and depreciation expense from the
22 calculation of revenue requirement.

1 **ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE**

2 **Q. Please explain your adjustment to accumulated depreciation**
3 **and depreciation expense.**

4 A. As detailed on Public Staff Accounting Exhibit I, Schedule 2-1, we
5 updated accumulated depreciation related to the adjusted plant in
6 service through December 31, 2023, based on the depreciation rates
7 and the year each plant asset was placed in service as
8 recommended by Public Staff witness Bhatta, using the half-year
9 convention methodology. Depreciation expense reflects a single
10 year's depreciation and was calculated based on the depreciation
11 rates and the adjusted plant in service cost as recommended by
12 Public Staff witness Bhatta.

13 **CASH WORKING CAPITAL AND AVERAGE TAX ACCRUALS**

14 **Q. Please describe your calculation of cash working capital and**
15 **average tax accruals.**

16 A. Cash working capital, net of average tax accruals, provides the
17 Company with the funds necessary to carry on its day-to-day
18 operations. As shown on Public Staff Accounting Exhibit I, Schedule
19 2, we included one-eighth of the total adjusted operating and
20 maintenance expenses as a measure of cash working capital.
21 Average tax accruals, calculated as one-fifth of payroll taxes plus
22 one-half of property tax, reflect the tax that the Company collects in

1 rates but does not pay to the government agency every month. Since
2 the Company has the use of this money until it is paid to the
3 government agency, this tax accrual is deducted from rate base.

4 **PROFESSIONAL EXPENSES**

5 **Q. Please explain your adjustment to professional expenses.**

6 A. We reclassified a legal invoice from professional expenses to
7 regulatory expense based upon our review of the invoice. Based on
8 our conversations with the Company, it is our understanding that the
9 Company has agreed that this legal invoice should be included as a
10 regulatory expense rather than a professional expense.

11 **REGULATORY/RATE CASE EXPENSES**

12 **Q. Please describe your adjustment of regulatory/rate case**
13 **expenses.**

14 A. We adjusted regulatory expenses related to this proceeding to reflect
15 the actual rate case expenses, including legal fees and accounting
16 and engineering consulting fees received and reviewed through June
17 4, 2024, and the estimated costs for notices, envelopes, and postage
18 to be incurred after the evidentiary hearing. We recommend
19 normalizing the total rate case expense and recommend amortizing
20 the total rate case expense over a period of five years, based on an
21 average of the number of years between the Company's rate case

1 filings. Additionally, we recommend that if the Company's next rate
2 case filing exceeds the five-year amortization period, starting with the
3 date on which rates become effective in the present case, the
4 Company shall record any overcollection of rate case expense,
5 beginning the first month after the five-year amortization period ends,
6 in a regulatory liability account on a monthly basis to be returned to
7 ratepayers with interest based on the weighted average cost of
8 capital, in a manner determined in the Company's next rate case.
9 Should the Company file for a rate case before the expiration of the
10 amortization period, any unrecovered rate case expense balance will
11 be added in the new rate case expense and amortized over the
12 number of years approved by the Commission in that rate case.

13 **REGULATORY FEE**

14 **Q. How have you adjusted the regulatory fee?**

15 A. In accordance with N.C.G.S. § 62-302, we applied the statutory rate
16 of 0.1475% to total operating revenues under present rates,
17 Company proposed rates, and Public Staff recommended rates,
18 respectively.

QUALIFICATIONS AND EXPERIENCE

Darrus K. Cofield

I am a graduate of Capella University, with a Master of Business Administration with a concentration in Finance, and of East Carolina University, with a Bachelor of Science Degree in Economics and Business minor.

I joined the Public Staff in January 2023, and my current duties consist of the following: (1) examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties involved in Commission proceedings; and (2) preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have worked on water and sewer contiguous extension applications, electric securitization riders, CPCN applications, electric affiliate agreements and land sales contracts, CPRE cost recovery riders, JAAR (Joint Agency Asset) riders, and electric rate case adjustments.

Prior to joining the Public Staff, I worked for the North Carolina Department of State Treasurer as a Financial Analyst for the State and Local Government Commission. I have over five years of governmental finance experience assisting municipalities, counties, school boards, and other governmental units with the financing of projects throughout the State of North Carolina. Those projects consisted of Installment Purchase Contracts, USDA Revenue Bond, Revenue Bond, State Revolving Loans, State Obligation Bonds, and several other financing instruments.

QUALIFICATIONS AND EXPERIENCE

MICHELLE BOSWELL

I graduated from North Carolina State University in 2000 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant.

As Director of the Accounting Division of the Public Staff, I am responsible for the performance, supervision, and management of the following activities: (1) the examination and analysis of testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings; and (2) the preparation and presentation to the Commission of testimony, exhibits, and other documents in those proceedings. I have been employed by the Public Staff since September 2000.

I have performed numerous audits and/or presented testimony and exhibits before the Commission regarding a wide range of electric, natural gas, and water topics. I have performed audits and/or presented testimony in multiple REPS, fuel, DSM/EE, JAAR, and CPRE cost recovery rider proceedings; 2008 Compliance Reports for North Carolina Municipal Power Agency 1, North Carolina Eastern Municipal Power Agency, GreenCo Solutions, Inc., and EnergyUnited Electric Membership Corporation; four recent Piedmont Natural Gas (Piedmont) rate cases; the 2016 rate case of Public Service Company of North Carolina; the 2012 and 2019 rate cases for Dominion Energy North Carolina (DENC, formerly Dominion North Carolina Power); the 2013, 2017, 2019, and 2023 DEP rate cases; the 2017, 2019, and 2024 DEC rate cases; multiple fuel; several Piedmont, NUI Utilities, Inc.

(NUI), and Toccoa annual gas cost reviews; the merger of Piedmont and NUI; and the merger of Piedmont and North Carolina Natural Gas, merger of CWS and Southwest, and many water and sewer rate cases.

HH Water, LLC
Docket # W-1318 Sub 1
RETURN ON ORIGINAL COST RATE BASE
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 1

Line No.	Item	Capitalization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [3] (c)	Overall Cost Rate [7] (d)	Net Operating Income [8] (e)
<u>Present rates:</u>						
1.	Debt	50.00%	\$416,459 [2]	4.20% [1]	2.10%	\$17,491 [8]
2.	Equity	50.00%	416,459 [2]	-41.53% [6]	-20.77%	(172,947) [9]
3.	Total	<u>100.00%</u>	<u>\$832,918 [3]</u>		<u>-18.67%</u>	<u>(\$155,456) [10]</u>
<u>Company proposed rates:</u>						
4.	Debt	50.00%	\$416,459 [4]	4.20% [1]	2.10%	\$17,491 [8]
5.	Equity	50.00%	416,459 [4]	34.44% [6]	17.22%	\$143,437 [11]
6.	Total	<u>100.00%</u>	<u>\$832,918 [3]</u>		<u>19.32%</u>	<u>\$160,928 [12]</u>
<u>Public Staff recommended rates:</u>						
7.	Debt	50.00%	\$416,459 [5]	4.20% [1]	2.10%	\$17,491 [8]
8.	Equity	50.00%	416,459 [5]	9.80% [1]	4.90%	40,813 [8]
9.	Total	<u>100.00%</u>	<u>\$832,918 [3]</u>		<u>7.00%</u>	<u>\$58,304</u>

[1] Per Public Staff witness Fahey.
 [2] Column (a) x Column (b), Line 3.
 [3] Public Staff Accounting Exhibit I, Schedule 2, Line 10, Column (c)
 [4] Column(a) x Column (b), Line 6.
 [5] Column(a) x Column (b), Line 9.
 [6] Column (e) divided by Column (b).
 [7] Column (a) x Column (c).
 [8] Column (b) x Column (c).
 [9] Line 3 - Line 1, Column (e).
 [10] Public Staff Accounting Exhibit I, Schedule 3, Column (c), Line 30.
 [11] Line 6 - Line 4, Column (e).
 [12] Public Staff Accounting Exhibit I, Schedule 3, Column (e), Line 30.

HH Water, LLC
Docket No. W-1318 Sub 1
ORIGINAL COST RATE BASE
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 2

<u>Line No.</u>	<u>Item</u>	<u>Amount Per Application</u> (a)	<u>Public Staff Adjustments</u> [1] (b)	<u>Amount Per Public Staff</u> (c)
1	Plant in service	\$2,593,175	(\$1,498,334)	\$1,094,841 [2]
2	Accumulated depreciation	(337,119)	\$50,514	(\$286,606) [3]
3	Contributions in aid of construction	0	\$0	\$0
4	Accumulated amortization of CIAC	0	\$0	\$0
5	Customer advances	0	\$0	\$0
6	Net plant in service (Sum of L1 thru L 5)	<u>2,256,055</u>	<u>(1,447,821)</u>	<u>808,235</u>
7	Customer deposits	0	0	0
8	Cash working capital	32327	(7,065)	25,262 [4]
9	Average tax accruals	(579)	0	(579) [5]
10	Original cost rate base (Sum of L7 thru L9)	<u><u>\$2,287,803</u></u>	<u><u>(\$1,454,885)</u></u>	<u><u>\$832,918</u></u>

- [1] Column (c) - Column (a), unless otherwise footnoted.
[2] Public Staff Accounting Exhibit I, Schedule 2-1, Line 52, Column (a).
[3] Public Staff Accounting Exhibit I, Schedule 2-1, Line 52, Column (f).
[4] Calculated at one-eighth of operating expense.
[5] Calculated at one-fifth of payroll taxes plus one-half property tax.

HH Water, LLC
 Docket No. W-1318 Sub 1
CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE
 For The Test Year December 31, 2022

Public Staff
 Accounting Exhibit I
 Schedule 2-1

Line No.	Item	Plant In Service [1] (a)	Year Acquired [1] (b)	Life [2] (c)	Years In Service [3] (d)	Annual Depreciation [4] (e)	Accumulated Depreciation [5] (f)
Plant in service per W-574 Sub 2 Rate Case:							
1	44,000 gallon water tank	\$9,513	1996	25	27.5	0	\$9,513
2	730 foot well	5,110	1996	25	27.5	0	5,110
3	New well behind medical center	41,047	1996	25	27.5	0	41,047
4	Galax water lines	22,044	1996	25	27.5	0	22,044
5	Phase #6 well	898	1996	25	27.5	0	898
6	Well tank Halstead Rd	18,993	1997	25	26.5	0	18,993
7	Water lines	6,525	1997	25	26.5	0	6,525
8	Water lines	2,119	1998	25	25.5	0	2,119
9	Water lines	2,729	1998	25	25.5	0	2,729
10	Water lines	14,224	1998	25	25.5	0	14,224
11	Well #5	11,654	1999	25	24.5	466	11,421
12	Water system	5,919	1999	25	24.5	237	5,801
13	Hydrofac well #8	3,500	2000	25	23.5	140	3,290
14	Hydrofac well #2	3,600	2000	25	23.5	144	3,384
15	Well drilling	8,400	2000	25	23.5	336	7,896
16	Well drilling	5,100	2000	25	23.5	204	4,794
17	Well 700 ft	9,841	2001	25	22.5	394	8,857
18	Well	5,494	2001	25	22.5	220	4,945
19	Water lines	11,148	2001	25	22.5	446	10,033
20	Water station	10,000	2002	25	21.5	400	8,600
21	Water lines	6,792	2002	25	21.5	272	5,841
22	Water lines	6,500	2002	25	21.5	260	5,590
23	Water lines	27,656	2002	25	21.5	1,106	23,784
24	Water lines	14,539	2004	25	19.5	582	11,340
25	Total plant in service per W-574 Sub 2 proceeding (Sum of L1 thru L24):	\$253,345				5,206	238,778
26	Chemical pump Replace Well #5 (Envirolink W/P)	2,512	[2] 2022	[2] 5	1.5	502	754
27	New Meters (Envirolink W/P)	2,963	[2] 2022	[2] 15	1.5	198	296
28	New Transmission & Distribution Mains (Envirolink W/P)	8,480	[2] 2022	[2] 17	1.5	499	748
29	Organization	295	[2] 2022	[2] 0	1.5	0	0
30	Structures & Improvements	[2]	[2] 2022	[2] 25	1.5	0	0
	a Well 7 Pump Replacement	244	[2] 2022	[2] 7	1.5	35	52
	b Well 7 Pump Replacement	776	[2] 2022	[2] 7	1.5	111	166
	c Well 5 Drilling	98	[2] 2022	[2] 10	1.5	10	15
	d LC Testing	1,208	[2] 2022	[2] 5	1.5	242	363
	e LC Testing	4,402	[2] 2022	[2] 5	1.5	880	1,321

HH Water, LLC
Docket No. W-1318 Sub 1
CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 2-1

Line No.	Item	Plant In Service [1] (a)	Year Acquired [1] (b)	Life [2] (c)	Years In Service [3] (d)	Annual Depreciation [4] (e)	Accumulated Depreciation [5] (f)
38	Chlorine Pump	2,441	2022	5	1.5	488	732
39	Con X parts	4,227	2022	10	1.5	423	634
40	Subtotal Reclassified Plant in Service (Line 38 + 39)	<u>6,668</u>				<u>911</u>	<u>1,366</u>
41	Organization	0	2023	0	0.5	0	0
42	Structures & Improvements	6,643	2023	25	0.5	266	133
43	Wells and Springs	0	2023	10	0.5	0	0
44	Land and Land Rights	0	2023	0	0.5	0	0
45	Collecting & impounding reservoirs Engineer design water storage	0	2023	25	0.5	0	0
46	Communications equipment SCADA	0	2023	15	0.5	0	0
47	Transmission and distribution mains	0	2023	0	0.5	0	0
	a Wade Road WM, Profit, Overhead	58,072	2023	50	0.5	1,161	581
	b Wade Road wWM, Profit, Overhead	44,988	2023	50	0.5	900	450
	c Vinci and Warriner Services, Profit, Overhead	2,951	2023	35	0.5	84	42
48	Well # 8	0	2024	0	0.5	0	0
49	Well #11 Mitten Lane Construction and Connection	0	2024	0	0.5	0	0
50	Well #14 Construction and Connection	0	2024	0	0.5	0	0
51	Subtotal Post Test year additions (Sum of Lines 41 thru 50)	<u>112,654</u>				<u>2,411</u>	<u>1,206</u>
52	Total plant in service (L25 + L37 + L40 + L51)	<u>\$1,094,841</u>				<u>\$38,698</u>	<u>\$286,606</u>

[1] Information approved per last rate case in Docket W-574 Sub 2.
 [2] Provided by Public Staff Engineer Bhatta.
 [3] Calculated based on year placed in service using half year convention through 12/31/2023.
 [4] Column (a) divided by Column (c), unless fully depreciated.
 [5] Column (d) multiplied by Column (e), unless fully depreciated.

HH Water, LLC
Docket No. W-1318 Sub 1
NET OPERATING INCOME FOR A RETURN
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 3
Page 1 of 2

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Line No.	Item	Present Rates		Present Rate		Company Proposed Rates		Public Staff Recommended Rates	
		Amount Per Company Application	Public Staff Adjustments [1]	Amount Per Public Staff [2]	Net Company Increase [10]	Operations After Rate Increase [11]	Net Public Staff Increase [14]	Operations After Rate Increase [15]	
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Operating Revenues:									
1	Service revenues	\$82,971	\$4,181	\$87,152 [3]	\$359,699	\$446,851 [3]	\$226,267	313,419 [16]	
2	Miscellaneous revenues	5	0	5	0	5	\$0	5	
3	Uncollectibles	0	\$0	0	0	0	\$0	0	
4	Total operating revenues (Sum Line 1 thru Line 3)	<u>82,976</u>	<u>4,181</u>	<u>87,157</u>	<u>359,699</u>	<u>446,856</u>	<u>226,267</u>	<u>313,424</u>	
Operating and Maintenance Expenses:									
5	Administrative & Office Expenses	282	(0)	282	0	282	0	282	
6	Professional Expenses	2,802	(2,802) [4]	0	0	0	0	0	
7	Maintenance & Repair expenses	102,808	(31,840) [3]	70,968	0	70,968	0	70,968	
8	Contract Operator	81,241	(27) [3]	81,214	0	81,214	0	81,214	
9	Electric power/Utilities	34,098	(20) [3]	34,078	0	34,078	0	34,078	
10	Insurance expense	0	0	0	0	0	0	0	
11	Chemical expense	3,150	0 [3]	3,150	0	3,150	0	3,150	
12	Testing expenses	13,015	(8,581) [3]	4,434	0	4,434	0	4,434	
13	Permit Fees	295	780 [3]	1,075	0	1,075	0	1,075	
14	Regulatory expenses	20,925	(14,029)	6,896 [5]	0	6,896	0	6,896	
15	Total operating and maintenance expenses (Sum Line 5 thru Line 14)	<u>258,616</u>	<u>(56,518)</u>	<u>202,098</u>	<u>0</u>	<u>202,098</u>	<u>0</u>	<u>202,098</u>	
16									
17	Depreciation and Taxes:								
18	Depreciation expense	110,304	(71,606)	38,698 [6]	0	38,698	0	38,698	
19	Amortization expense - CIAC	0	0	0	0	0	0	0	
20	Property taxes	1,158	0	1,158	0	1,158	0	1,158	
21	Payroll taxes	0	0	0	0	0	0	0	
22	Other taxes	530	0	530	0	530	0	530	
23	Regulatory fee	840	(711)	129 [7]	531	659 [7]	334	462 [7]	
24	State income tax	3,639	(3,639)	0 [8]	4,656	4,656 [12]	1,325	1,325 [17]	
25	Federal income tax	29,799	(29,799)	0 [9]	38,129	38,129 [13]	10,849	10,849 [18]	
26	Total depreciation and taxes (Sum of Line 18 thru Line 25)	<u>146,270</u>	<u>(105,755)</u>	<u>40,515</u>	<u>43,315</u>	<u>83,830</u>	<u>12,507</u>	<u>53,022</u>	
27									
28	Total operating revenue deductions (Line 15 + Line 26)	<u>404,886</u>	<u>(162,273)</u>	<u>242,612</u>	<u>43,315</u>	<u>285,927</u>	<u>12,507</u>	<u>255,120</u>	
29									
30	Net operating income for return (Line 4- Line 28)	<u>(\$321,910)</u>	<u>\$166,454</u>	<u>(\$155,456)</u>	<u>\$316,384</u>	<u>\$160,928</u>	<u>\$213,760</u>	<u>\$58,304</u>	

HH Water, LLC
Docket No. W-1318, Su b 1
FOOTNOTES TO SCHEDULE 3
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 3
Page 2 of 2

- [1] Column (c) minus Column (a), unless otherwise footnoted.
- [2] Column (a) plus Column (b), unless otherwise footnoted.
- [3] Provided by Public Staff Engineer Bhatta.
- [4] Reclassified to correct the Company's mistake.
- [5] Public Staff Accounting Exhibit I Schedule 3-1, Column (c) Line 6
- [6] Public Staff Accounting Exhibit I Schedule 2-1, Column (e) Line 52
- [7] Line 4 multiplied by .1475%.
- [8] Public Staff Accounting Exhibit I, Schedule 3-2, Column (a), Line 12.
- [9] Public Staff Accounting Exhibit I, Schedule 3-2, Column (a), Line 14.
- [10] Column (e) minus Column (c), unless otherwise footnoted.
- [11] Column (c) plus Column (d), unless otherwise footnoted.
- [12] Public Staff Accounting Exhibit I, Schedule 3-2, Column (b), Line 12.
- [13] Public Staff Accounting Exhibit I, Schedule 3-2, Column (b), Line 14.
- [14] Column (g) minus Column (c), unless otherwise footnoted.
- [15] Column (c) plus Column (f), unless otherwise footnoted.
- [16] Revenue requirement as calculated by the Public Staff.
- [17] Public Staff Accounting Exhibit I, Schedule 3-2, Column (c), Line 12.
- [18] Public Staff Accounting Exhibit I, Schedule 3-2, Column (c), Line 14.

HH Water, LLC
Docket No. W-1318, Su b 1
ADJUSTMENT TO REGULATORY EXPENSE
For The Test Year Ended December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 3-1

<u>Line No.</u>	<u>Item</u>	<u>Actual Amounts</u> [1] (a)	<u>Adjustments</u> (b)	<u>Total Amount</u> [3] (c)
1.	Consulting fees	\$11,588	\$0	\$11,588
2.	Legal fees	22,507	0	22,507
3.	Miscellaneous costs (mailing customer notices, filing fee)	<u> </u>	<u>386</u> [2]	<u>386</u>
4.	Total Regulatory Expenses (Sum of Lines 1 -3)			34,482
5.	Amortization Period			<u>5</u> [4]
6.	Regulatory Expense per Public Staff (Line 4 / Line 5)			6,896
7.	Regulatory Expense per Company			20,925 [5]
8.	Adjustment to Regulatory Expense (Line 6 - Line 7)			<u><u>(14,029)</u></u>

[1] Per examination of the Company's financial records.

[2] Based on estimated mailing notice, postage cost times customer counts times 2.

[3] Column (a) + Column (b), unless otherwise noted.

[4] Public Staff recommended amortization period to realize the time gap between the last franchise application and the current proceeding.

[5] Public Staff Accounting Exhibit I, Schedule 3.

HH Water, LLC
Docket No. W-1318 Sub 1
CALCULATION OF INCOME TAXES
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 3-2

Line No.	Item	Present Rates [1] (a)	Company Proposed Rates [2] (b)	Public Staff Recommended Rates [3] (c)
1	Operating revenue	\$87,157	\$446,856	\$313,424
	Operating revenue deductions:			
2	Total O&M expenses	202,098	202,098	202,098
3	Depreciation expense	38,698	38,698	38,698
4	Amortization expense	0	0	0
5	Property taxes	1,158	1,158	1,158
6	Payroll taxes	0	0	0
7	Other taxes	530	530	530
8	Regulatory fee	129	659	462
9	Interest expense	17,491	17,491	17,491
10	Total deductions (Sum of L2 thru L9)	<u>260,103</u>	<u>260,634</u>	<u>260,437</u>
11	Taxable income (L1 - L10)	<u>(172,947)</u>	<u>186,222</u>	<u>52,987</u>
12	State income tax (L11 x 2.50%)	<u>0</u>	<u>4,656</u>	<u>1,325</u>
13	Federal taxable income (L11 - L12)	<u>(172,947)</u>	<u>181,566</u>	<u>51,662</u>
14	Federal income tax (L13 x 21.00%)	<u>0</u>	<u>38,129</u>	<u>10,849</u>
15	Net amount (L13 - L14)	<u>(172,947)</u>	<u>143,437</u>	<u>40,813</u>
16	Add: interest expense	<u>17,491</u>	<u>17,491</u>	<u>17,491</u>
17	Net income for return (L15 + L16)	<u><u>(\$155,456)</u></u>	<u><u>\$160,928</u></u>	<u><u>\$58,304</u></u>

[1] Public Staff Accounting Exhibit I, Schedule 3, Column (c), unless footnoted otherwise.
[2] Public Staff Accounting Exhibit I, Schedule 3, Column (e), unless footnoted otherwise.
[3] Public Staff Accounting Exhibit I, Schedule 3, Column (g), unless footnoted otherwise.

HH Water, LLC
Docket No. W-1318 Sub 1
CALCULATION OF REVENUE REQUIREMENT
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 4

Line No.	<u>Item</u>	Rate Base Method [1] (a)	Retention Factor (b)	Revenue Requirement [3] (c)	Operating Ratio Method [1] (d)	Retention Factor (e)	Revenue Requirement [4] (f)
Operating revenue deductions:							
1.	Total O&M and G&A expense	\$202,098			\$202,098		
2.	Depreciation expense	38,698			38,698		
3.	Amortization expense	0			0		
4.	Property taxes	1,158			1,158		
5.	Payroll taxes	0			0		
6.	Other taxes	530			530		
7.	Regulatory fee	0			0		
8.	Total operating revenue deductions (Sum of L1 to L7)	<u>242,484</u>	0.998525	\$242,842	<u>\$242,484</u>	0.998525	\$242,842
Net operating income for return:							
9.	Debt service return	17,491 [2]	0.998525	17,517			
10.	Equity return:	40,813 [2]	0.769114	53,065	16,974 [5]	0.769114	22,069
11.	Total Revenue requirement under each method (L8 + L9 + L10)			<u>\$313,424</u>			<u>\$264,911</u>
12.	Total Revenue Requirement recommended (the higher of Line 11)						<u>\$313,424</u>

[1] Public Staff Accounting Exhibit I, Schedule 3, unless otherwise footnoted.

[2] Public Staff Accounting Exhibit I, Schedule 1, Column (e), Line 7, Line 8.

[3] Column (a) divided by Column (b).

[4] Column (d) divided by Column (e).

[5] Operating revenue deductions (excluding taxes and regulatory fee) times Public Staff recommended overall rate of return.

HH Water, LLC
Docket No. W-1318, Sub 1
CALCULATION OF GROSS REVENUE
IMPACT OF PUBLIC STAFF ADJUSTMENTS
For The Test Year December 31, 2022

Public Staff
Accounting Exhibit I
Schedule 5

Line No.	Item	HH Water
1	Proposed increase / (decrease) in total revenues per Company	\$486,633
2	<u>Difference in calculation of revenue requirement based on Company amounts:</u>	
3	Adjustment for Change in Capital Structure to 50% debt and 50% equity	0
4	Adjustment for debt cost rate to 4.60%	(4,582)
5	Adjustment for return on equity to 9.80%	0
6	Adjustment to Plant in service	(126,970)
7	Adjustment to accumulated depreciation	4,281
8	Adjustment to contribution in aid of construction	0
9	Adjustment to accumulated amortization of CIAC	0
10	Adjustments to Customer Advances	0
11	Adjustments to Customer Deposits	0
12	Adjustments to Cash Working Capital	(599)
13	Adjustments to Average Tax Accrual	0
14	Adjustments to Service Revenues	(4,181)
15	Adjustments to Uncollectibles	0
16	Adjustments to Misc. Revenues	0
17	Adjustments for Return	0
18	Adjustments to Difference of Return	0
19	Adjustments to Regulatory Fee	0
20	Adjustments for Change in Regulatory Fee Rate	(0)
21	Adjustments to Removal of Gross Receipts Tax	0
22	Adjustment Change in SIT Rate	0
23	Adjustments to Professional Services	(2,806)
24	Adjustment for Maintenance & Repair Expense	(31,887)
25	Adjustment for Contractor Operator	(27)
26	Adjustment for Electric/Power Utilities	(20)
27	Adjustment for Insurance Expense	0
28	Adjustment for Chemical Expense	0
29	Adjustment for Testing Expense	(8,594)
30	Adjustment for Permit Fees	781
31	Adjustment for Regulatory Expenses	(14,049)
32	Adjustment to Depreciation Expense	(71,711)
33	Adjustment to Administrative & Office Expense	(0)
34	Adjustment to Amortization of CIAC	0
35	Adjustments to Property Taxes	0
36	Adjustment to Other taxes	0
37	Adjustment for Payroll Taxes	0
38	Revenue impact of Public Staff adjustments	(260,365)
39	Recommended increase / (decrease) per Public Staff	(\$260,365)
40	Amount of total revenue increase calculated by the Public Staff (L1 + L39)	\$226,268

CERTIFICATE OF SERVICE

I certify that I have served a copy of the foregoing on all parties of record or their attorneys, or both, in accordance with Commission Rule R1-39, by United States mail, postage prepaid, first class; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 7th day of June, 2024.

Electronically submitted
/s/ James Bernier, Jr.
Staff Attorney