

GENERAL RATE FILING

**DIRECT TESTIMONY
OF GARY S. PRETTYMAN**

August 2013

Submitted to:
State of Rhode Island and Providence
Plantations Public Utilities Commission

RIPUC Docket No.

Submitted by:

United Water Rhode Island Inc.

UNITED WATER RHODE ISLAND INC.
GARY S. PRETTYMAN

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Gary S. Prettyman and I am Senior Director Regulatory Business
3 at United Water. My business address is 200 Old Hook Road, Harrington Park,
4 NJ 07640.

5

6 **Q. Please summarize your educational background and professional**
7 **experience.**

8 A. I have over thirty-four years experience in water and wastewater utility
9 management and regulatory practice including all aspects of rate increase
10 applications. I have testified before regulatory commissions on accounting
11 issues, tariff design, and company policy in numerous proceedings. The
12 details of my professional experience and educational background are shown
13 in Appendix A supplementing this testimony.

14

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

16 A. The purpose of my testimony is to support the Petitioner's request for rate
17 relief. I am sponsoring the overall revenue requirement, revenue conversion
18 factor and Federal Income Taxes on behalf of United Water Rhode Island Inc.
19 (UWRI or the Company). I am also sponsoring the structure of the rate case
20 with regard to the test year and pro forma rate year.

21

22 **Q. Have you prepared exhibits which support the Company's request?**

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1 A. Yes, I have. I am specifically responsible for Exhibit 1, Schedule 1 and Exhibit
2 3, Schedule 22. They were prepared by me or under my direct supervision.
3 Other witnesses have identified the schedules they are personally responsible
4 for, but I am responsible for any other schedules. The testimony that follows
5 will discuss each of the schedules noted above.

6

7 **Q. Please summarize the Company's request for an increase in rates.**

8 A. UWRI's pro-forma operating expenses, rate base, capitalization and rate of
9 return evidence a need for a rate increase of \$1,563,153 or 42.59%, as shown
10 on Exhibit1.

11 Since the last rate case, effective January 12, 2012, the Company
12 has experienced increases in operating expenses and has added
13 improvements to its facilities. As shown on Exhibit 1, under Present Rates,
14 UWRI would reflect a rate of return on rate base of 2.44% which is significantly
15 below what is necessary to provide safe, adequate and proper service,

16 It is important to set rates in this proceeding to properly reflect revenues,
17 expenses, rate base and capitalization on a prospective basis in order to give
18 UWRI an opportunity to achieve its authorized rate of return.

19

20 **Q. Please explain the structure of this case, including the test year.**

21 A. The structure of this case starts with the use of actual results for the 12 months
22 ended December 31, 2012 (test year). Thereafter, pro-forma adjustments are
23 made for known and measurable changes through December 31, 2014 (rate

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1 year) for revenues, expenses, rate base and capitalization. The rate year
2 represents an average rate base for the 13 months ended December 31, 2014
3 as well as increases in revenues, operating expenses, and customer growth
4 through December 31, 2014.

5
6 **Q. Should the test year (12 months ended 12/31/12) be the basis for setting**
7 **rates in this proceeding?**

8 A. No. Actual test year results will not reflect levels of expense or revenues on a
9 fully annualized basis nor will it properly reflect conditions during the time rates
10 will be in effect. Actual test year results must be annualized. After that, it is
11 proper to make known and measurable changes to revenues and expenses
12 occurring during the rate year which must then be reflected appropriately thus
13 matching the time when rates will be in effect.

14
15 **Q. Please explain Exhibit 1. Statement of Operating Income as Adjusted at**
16 **Present and Proposed Rates.**

17 A. This schedule reflects UWRI's income statement for the test year and on a pro-
18 forma basis under present and proposed rates. Column 1 indicates the actual
19 results for the test year ended 12/31/12. Annualized adjustments were made to
20 the base year reflecting changes in UWRI's operations, which are projected to
21 occur by 12/31/14 for rate base, customer growth and for operating expenses
22 on an annualized basis. The result is a pro-forma income statement that is
23 representative of UWRI's prospective financial condition as shown in Column 3.

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1 Column 5 represents the pro-forma level of revenues and expenses as
2 requested by UWRI. The requested increase in additional revenues on an
3 annual basis is indicated on Column 4.

4
5 **Q. Please discuss Exhibit 1, Schedule 1, Line 14.**

6 A. Line 14 shows the revenue conversion factor which is utilized in this proceeding.
7 This factor is applied to the deficiency in Utility Operating Income to determine
8 the amount of additional revenues that UWRI is requesting. This factor reflects
9 all revenue related taxes in its development.

10
11 **Q. Please discuss the development of Federal Income Tax, Exhibit 3,**
12 **Schedule 22.**

13 A. In arriving at UWRI's Federal Income Tax expense, taxable income has been
14 calculated by deducting from operating revenues the following: operation and
15 maintenance expenses, book depreciation expense, taxes other than income
16 taxes, interest charges (calculated by utilizing the interest synchronization
17 method shown on line 27 at the bottom of Schedule 22), and excess tax
18 depreciation over book.

19 The statutory tax rate of 35% is then applied to taxable income. This
20 results in a pro-forma current income tax expense at present rates in the
21 amount of \$(152,784), and income tax at proposed rates in the amount of
22 \$385,767.

23 In addition the amortization of ITC is shown on Schedule 22 in the amount

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1 of \$(4,662).

2

3 **Q. Please indicate how the amount of deferred federal income taxes was**
4 **calculated.**

5 A. The deferred federal income tax expense was calculated by applying the
6 statutory federal income tax rate of 35% to the “excess of tax depreciation over
7 book” amount as reflected on Schedule 22. Tax depreciation on UWRI’s
8 construction program has also been included in this calculation. This
9 methodology is consistent with UWRI’s normalization calculations in arriving at
10 deferred income tax for its books.

11

12 **Q. Mr. Prettyman, do you believe that the Company needs to recover the**
13 **amounts included in operating expenses and rate base in order to allow**
14 **the Company a reasonable opportunity to earn a fair rate of return while**
15 **providing safe, adequate and proper service to its customers?**

16 A. Yes, I do.

17

18 **Q. Does this conclude your testimony at this time?**

19 A. Yes it does.

APPENDIX A

PROFESSIONAL QUALIFICATIONS

OF

GARY S. PRETTYMAN

UNITED WATER

GARY S. PRETTYMAN

Has over thirty-four years' experience in water and wastewater utility management and regulatory practices. This includes preparation of all aspects of rate increase application, review of testimony of all witnesses participating in the case, interface with regulatory commission staff and Public Advocate, budgeting, acquisition analysis, bill analysis, legislative review, and compliance with regulatory requirements. Has testified on accounting issues, tariff design, and company policy in numerous regulatory proceedings.

PROFESSIONAL EXPERIENCE

2012 to present

United Water, Harrington Park, New Jersey. Senior Director Regulatory Business. Responsible for preparation of rate increase application for the subsidiary companies and filing with state regulatory commissions. Also involved in other company issues including management planning, accounting and acquisitions.

2008 to July 2011

AUS Consultants, Mt. Laurel, New Jersey. Principal and Vice President. Has offered testimony as an expert witness on the subjects of revenue requirements, bill analysis, proof of revenues and tariff design, rate base, accounting, and lead/lag studies. Has also prepared original cost studies and acquisition analysis.

2004 to 2008

Prettyman Consulting, Mt Laurel, New Jersey. President and principal consultant providing rate case and other regulatory services to clients.

2001 to 2004

Elizabethtown Water Company, Westfield, New Jersey. Vice President – Rates and Regulation of Elizabethtown Water Company. Was responsible for all regulatory matters for the subsidiary companies. This includes preparation and filing of rate increase applications with the state regulatory commission, other matters filed with the commission and was liaison with regulatory organizations.

1996 to 2001

AUS Consultants, Mt. Laurel, New Jersey. Vice President responsible primarily for water and wastewater regulatory matters pertaining to rate cases. This includes: preparing all accounting exhibits and supporting testimony, preparing the petition for filing, conducting and/or assisting in settlement negotiations, bill analysis, proof of revenues and tariff design, lead/lag studies and various regulatory and financial matters.

1979 to 1996

American Water Works Company, Inc./New Jersey-American Water Company. Was employed as Director of Rates and Revenue responsible for the preparation of rate increase applications for the subsidiary water companies. Responsible for development of the company's budget function, participated in acquisition of water and/or sewer companies and prepared special projects as required. Was also Assistant Treasurer of subsidiary companies for six years.

Assistant Director of Rates and Revenue. In addition to preparing financial and economic aspects of the rate increase applications, assisted Director in the management, supervision, development, and daily operations of the department and related staff.

Business Manager for local operating office responsible for the supervision and management of all daily business-related operations of the company.

Revenue Requirement Specialist for American Water Works Service Company. Prepared and supported in testimony financial and economic aspects of the rate increase applications for operating water companies in several states.

Rate Analyst I and II. Prepared financial and economic aspects of rate increase applications for the appropriate witness in the case.

1977 to 1979

Computer Sciences Corporation. Was employed as a Staff Accountant in the Defense System Division. Developed and implemented controls for the division property system and conducted capital budget analysis, property system reconciliation, depreciation schedule, and participated in special projects.

TESTIMONY

I presented testimony to and have been cross-examined before the following regulatory authorities:

Connecticut Department of Public Utility Control
Delaware Public Service Commission
Florida Public Service Commission
Indiana Utility Regulatory Commission
New Jersey Board of Public Utilities
New York Public Service Commission
North Carolina Utilities Commission (submitted only)
State Corporation Commission of Virginia
Public Service Commission of West Virginia (submitted only)

LIST OF CLIENTS SERVED

Adelphia Sewer Company	Mountaineer Gas Company
Adelphia Water Company	New Jersey-American Water Company
American Anglian	Papetti Hygrade (Michael Foods, Inc)
Andover Utility Company	Public Water Supply Company
Applied Wastewater Management, Inc.	Rolling Hills Sewer Company
Aqua Utilities Florida	Borough of South River
Aqua New Jersey	Sussex Shores Water Company
Aqua North Carolina	Thames Water Holdings, Inc.
Bridgeport Hydraulic Company	Trenton Water Works
Connecticut Natural Gas Company	Tidewater Utilities, Inc.
Consumers New Jersey Water Company	United Water Arlington Hills Sewerage Co.
Delaware Assoc. of Alternative Energy Providers	United Water Great George
Elizabethtown Water Company	United Water Indiana
Equitable Gas Company	United Water Mid-Atlantic Utilities
Gulf & Southern Resources, LLC	United Water Owego
Borough of Hamburg	United Water Princeton Meadows
Kansas City Power and Light	United Water Toms River
KH Beacon Hill Sewer, Inc.	United Water Virginia
Long Neck Water Company	United Water West Milford
Mount Holly Water Company	Wildwood Water Utility

While employed with American Water Works Company, I participated in over 75 rate proceedings in New Jersey, New York and Connecticut.

PERSONAL

Education:

1976 - Rowan University - B.A. Business Administration/Accounting

Professional Affiliations:

National Association of Water Companies –

Associate Member National Regulatory Committee

Current Secretary New Jersey Chapter

Past Chairman New Jersey Chapter

Past Chairman Scholarship Committee New Jersey Chapter

Past Member of Regulatory Committee New Jersey Chapter

Past Member National

Past Member of Small Water Companies Committee – National

New Jersey Utilities Association - Past Chairman Rates and Regulation Committee

Current Member Rates and Regulation Committee