

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

IN THE MATTER OF A PROCEEDING ON MOTION
OF THE COMMISSION AS TO THE RATES, CHARGES,
RULES AND REGULATIONS OF

SUEZ WATER NEW YORK INC.

FOR WATER SERVICE

Case No. 16-W-____

TESTIMONY OF KEVIN H. DOHERTY

SUEZ Water New York Inc.
360 West Nyack Road
West Nyack, NY 10994

SUEZ WATER NEW YORK INC.
KEVIN H. DOHERTY

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

2 A. Kevin Doherty. My business address is 461 From Road, Paramus, New Jersey
3 07640.

4

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

6 A. I am employed by SUEZ Water Management and Services Inc. ("SUEZ Water")
7 as Director of Regulatory Business.

8

9 **Q. Please describe your work experience.**

10 A. Prior to joining SUEZ Water, I was employed by Citizens Communications
11 Company ("Citizens") beginning in 1989. From 1989 until 1994, I held the
12 position of Senior Capital Asset Accountant. In 1994 I joined Citizens' rate
13 department and testified in rate proceedings in the states of Ohio, Illinois,
14 Pennsylvania, Vermont and Arizona. In 2003 I joined SUEZ Water as a Senior
15 Rate Analyst and was promoted to Manager of Rates and then to Director. I
16 have filed testimony on behalf of SUEZ Water in the states of New York, New
17 Jersey, Pennsylvania, Delaware, Idaho and Arkansas.

18

19 **Q. Please summarize your educational background.**

20 A. I graduated from Pace University in 1987 with a Bachelor of Business
21 Administration degree in Accounting and have completed Pace University's
22 Masters in Business Administration program in Financial Management. I have

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1 also attended seminars and presentations that addressed accounting, rates and
2 other financial matters.

3 **Q. What is the purpose of your testimony in this proceeding?**

4 A. The purpose of my testimony is to present the comparative financial data for
5 SUEZ Water New York (“SUEZ New York” or the “Company”) in conformance
6 with the Department of Public Service Rules and Regulations, describe and
7 present the calculation of the revenue deficiency and the resulting request for
8 rate relief, and sponsor the calculation of rate base and depreciation expense for
9 the Rate Year (i.e., the twelve months ending January 31, 2018) in the
10 Company’s request for rate relief.

11
12 **Q. Please explain the Historic Test Year, Bridge Period and Rate Year used by
13 the Company in this proceeding.**

14 A. The Historic Test Year is the twelve months ended September 30, 2015 while the
15 Bridge Period is a sixteen-month period ending January 31, 2017. The Rate
16 Year is from February 1, 2017 through January 31, 2018.

17
18 **Q. What level of increase is the Company seeking in this proceeding?**

19 A. The Company is seeking additional annual revenue of \$11,586,718 for the Rate
20 Year.

21
22 **Q. What rate of return on rate base is this rate increase based upon?**

23 A. It is based on an overall rate of return of 7.24% with a return on equity of 9.30%.

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1 **Q. Please describe the role of other Company witnesses in this proceeding.**

2 A. The Company witnesses presenting direct testimony are as follows:

3 1) Christopher J. Graziano, Vice President and General Manager, will provide
4 testimony relating to the operations of the Company, the Company's efforts to
5 reduce lost water, the meter replacement program, expense control activities
6 and the major drivers of this rate request;

7 2) The Operations & Maintenance ("O&M") Panel, comprised of Timothy J.
8 Michaelson, Director-Regulatory Business, Thomas G. Lippai, Senior
9 Regulatory Specialist and David Njuguna, Manager-Regulatory Specialist will
10 present testimony in support of the Company's O&M expenses, property
11 taxes and the recovery of costs related to the Company's investment in the
12 Haverstraw Water Supply Project;

13 3) Rodolphe Bouichou, CFO Utility Operations, will provide testimony describing
14 the Company's new Management and Services methodology.

15 4) Paula L. McEvoy, Director of Engineering for the New York Division, will
16 present testimony supporting the Company's capital projects including
17 important Water Treatment projects, the Automated Meter Infrastructure
18 program, and other capital expenditures;

19 5) Caryl D. Jersey, Senior Regulatory Specialist, will present testimony
20 supporting the Company's revenue and associated adjustments;

21 6) Donald J. Distanto, Director of Engineering and Master Planning, will discuss
22 the Company's proposed conservation rates;

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- 1 7) Paul R. Herbert, President of Gannett Fleming Valuation and Rate
2 Consultants LLC, will offer testimony on the Company's cost of service study
3 and rate design;
- 4 8) John J. Spanos, Senior Vice President of Gannett Fleming Valuation and
5 Rate Consultants LLC, who prepared the Company's Depreciation Study and
6 proposed new depreciation rates, will present testimony in support of the
7 Depreciation Study;
- 8 9) Pauline M. Ahern of Sussex Economic Advisors LLC will present testimony on
9 the Company's return on equity request and overall cost of capital; and
- 10 10) David Wathen of Willis Towers Watson will present testimony supporting the
11 Company's short-term at risk compensation plan design.

12

13 **Q. Please describe the exhibits you are presenting in this case.**

14 A. The first exhibit is KHD-1 which includes the following schedules:

- 15 1) Schedule 1, shows the Company's Comparative Balance Sheets at the
16 indicated dates from 2012 through 2015;
- 17 2) Schedule 2, shows Comparative Income Statements for the years ended
18 September 30, 2012 through the Historic Test Year;
- 19 3) Schedule 3 provides a Comparative Statement of Retained Earnings for the
20 years ended September 30, 2012 through September 30, 2015;
- 21 4) Schedule 4 is a two-page schedule showing the Comparative Statement of
22 O&M Expenses for the years indicated on the exhibit;

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1 5) Schedule 5 entitled "Comparative Statement of Operating Taxes Other Than
2 Income Taxes" is a one-page schedule that shows the Taxes Other than
3 Income recorded on the books for the indicated years; and

4 6) Schedule 6 provides Comparative Statement of Water Revenues for the 12
5 months ended March 31, 2010 through March 31, 2013.
6

7 **Q. Have you prepared an exhibit that indicates the pro forma operating**
8 **income for the Company at existing and proposed rates?**

9 A. Yes. I have prepared Exhibit KHD-2, Schedule 1, pages 1 and 2, which show the
10 operating income statement, rate base, rate of return and revenue deficiency
11 supporting the need for rate relief. The detail of the adjustments shown on this
12 schedule may be found in the testimony and exhibits of the Company witnesses
13 named earlier in my testimony.
14

15 **Q. Please explain the results shown on Exhibit KHD-2, Schedule 1.**

16 A. Exhibit KHD-2, Schedule 1 shows that under existing rates the Company's
17 expected rate of return for: 1) the Historic Test Year as Adjusted is 5.85%; 2) the
18 Bridge Period is 5.56%; and 3) the Rate Year is 4.96%. As a result, the
19 Company is requesting an increase in annual operating revenues of \$11,586,718
20 to achieve its requested rate of return of 7.24%.
21

22 **Q. Please describe the exhibits you have prepared in support of the**
23 **Company's rate base.**

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1 A. I have prepared Exhibit KHD-3, Schedule 1, which shows the rate base of the
2 Company at the end of the Historic Test Year. I have also prepared schedules in
3 support of the plant in service and accumulated depreciation as well as cash
4 working capital, designated as Exhibit KHD-3, Schedule 2 and Exhibit KHD-3,
5 Schedule 3, respectively. Exhibit KHD-3, Schedule 2, reflects the plant additions
6 and retirements from January 1, 2015 to September 30, 2015 which is the end of
7 the Historic Test Year.

8 I have also prepared Exhibit KHD-4, Schedule 1, which shows the
9 Company's rate base at the end of the Bridge Period, and schedules in support
10 of the plant in service and accumulated depreciation as well as cash working
11 capital, designated as Exhibit KHD-4, Schedule 2 and Exhibit KHD-4, Schedule
12 3, respectively. Exhibit KHD-4, Schedule 2, reflects the plant additions and
13 retirements from October 1, 2015 to January 31, 2017, the end of the Bridge
14 Period.

15 Exhibit KHD-5, Schedule 1, reflects the Company's average rate base in
16 the Rate Year covering the period February 1, 2017 through January 31, 2018,
17 which incorporates the level of capital additions detailed by Company witness
18 McEvoy. Exhibit KHD-5, Schedules 2 and 3, support the plant in service and
19 cash working capital allowance requested by the Company in the Rate Year.

20

21 **Q. Please describe Exhibit KHD-3, Schedule 1 in more detail.**

22 A. As previously noted, Exhibit KHD-3 presents rate base for the Historic Test Year
23 ended September 30, 2015. Schedule 1 provides this information in summary

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1 fashion with relevant details provided in Schedules 2 and 3, as well as in the rate
2 base workpapers. Exhibit KHD-3, Schedule 1, Line 1, reflects the Company's
3 plant in service balance as of September 30, 2015. The construction work in
4 progress ("CWIP") that is not subject to AFUDC (i.e., Non-Interest Bearing CWIP)
5 is shown on Line 2. On Line 3 is the balance of plant held for future use that has
6 been allowed in prior proceedings and the balance of accumulated depreciation
7 is shown on Line 5. The unamortized balance of the Company's investment in
8 the Haverstraw Water Supply Project shown net of tax is on Line 7. Prepaid
9 Property Taxes and Other Prepayments, shown on Lines 8 and 10, are included
10 in rate base recognizing prepayments as an investment by the Company. Both
11 prepaid property taxes and other prepayments are shown at their balances at the
12 end of the Historic Test Year.

13 Exhibit KHD-3, Schedule 3, supports the cash working capital balance
14 shown on Line 9. The methodology used is the same as in prior rate cases.
15 The unamortized balance of deferred tank painting shown on Line 11 is shown
16 net of any tax benefit, the Company's materials and supplies balance is shown
17 on Line 12 and the unamortized balance of deferred AFUDC Equity Gross Up is
18 included on Line 13. Accumulated deferred income taxes, reflecting the
19 includible balances at September 30, 2015, are shown on Line 14 and customer
20 advances for construction are on Line 15.

21 A rate base deduction for customer deposits is shown on Line 16 and a
22 deduction for a deferred regulatory liability related to the Company's exemption
23 from New York State income taxes is reflected on Line 17.

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1 **Q. Please describe Exhibit KHD-4, Schedule 1 in more detail.**

2 A. As previously noted, Exhibit KHD-4, Schedule 1 presents rate base for the end of
3 the Bridge Period, i.e., January 31, 2017.

4 Line 1 on Exhibit KHD-4 shows the plant in service balance at January 31,
5 2017. The forecasted plant additions and retirements sponsored by Witness
6 McEvoy were incorporated by month into the plant balances based on the
7 forecasted in-service dates also sponsored by Witness McEvoy. Similarly, plant
8 depreciation and retirements were incorporated into the accumulated
9 depreciation balance by month for the Bridge Period. The accumulated
10 depreciation balance is shown on Line 5 of Exhibit KHD-4. Schedule 2 of Exhibit
11 KHD-4 provides detail of the aforementioned items and also shows the currently
12 approved depreciation rates that were used to calculate the depreciation
13 expense for the Bridge Period.

14 Line 2 of Schedule 1 shows the Non-Interest Bearing CWIP balance. The
15 Historic Test Year balance was increased using an estimated rate of inflation of
16 2.575% based on calculations found in the Exhibits of the O&M Panel. Line 3 of
17 Schedule 1 shows the plant held for future use and Line 4 reflects the total plant
18 in service. Line 6 is Net Utility Plant (Line 4 – Line 5). Line 7 of Schedule 1
19 reflects the unamortized balance of the Company's investment in the Haverstraw
20 Water Supply Project on a net of tax basis. Line 8 of Schedule 1 shows prepaid
21 property taxes. This balance was determined by applying an escalation factor of
22 0.25% to the Historic Test Year balance. The escalation factor for prepaid
23 property taxes is the same as the percentage increase used by the Company

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1 O&M Panel in projecting the property tax expense. Line 10 shows other
2 prepayments. The Historic Test Year balance was increased using an estimated
3 rate of inflation of 2.575%.

4 Schedule 3 of Exhibit KHD-4 supports the cash working capital balance
5 shown on Line 9. Line 11 of Schedule 1 shows the unamortized balance of
6 deferred tank painting costs. These costs reflect the prior unamortized balance
7 of previous tank paintings, and also include estimated costs for the planned tank
8 paintings at the Rosman Road Tank in Theills, the Deforest Filter Wash Plant
9 and the Clausland Tank during the Bridge Period. Witness McEvoy discusses
10 these planned tank paintings in her direct testimony.

11 Line 12 of Schedule 1 represents the Company's unamortized rate case
12 expense for this proceeding. The amount is shown net of tax. Line 13 of
13 Schedule 1 shows the balance of materials and supplies. The Historic Test Year
14 balance was projected using an estimated rate of inflation of 2.575%. The
15 unamortized balance of deferred AFUDC Equity Gross Up is included on Line 14.
16 Line 15 of Schedule 1 shows accumulated deferred income taxes. This balance
17 was determined starting with the amounts recorded at September 30, 2015, the
18 end of the Historic Test Year. Additional federal deferred taxes were calculated
19 for the Bridge Period based upon the differences between book and tax
20 depreciation related to the plant additions. Line 16 of Schedule 1 shows the
21 balance of customer advances for construction. This balance was determined by
22 starting with the recorded balance at September 30, 2015 and incorporating the
23 projected increases and refunds by month for the Bridge Period.

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1 A rate base deduction for customer deposits is shown on Line 17. The
2 Historic Test Year balance was projected using an estimated rate of inflation of
3 2.575%. A deduction for a deferred regulatory liability related to the Company's
4 exemption from New York State income taxes is reflected on Line 18. This
5 amount was calculated starting with the balance at September 30, 2015 and
6 adding the estimated increase in the balance from September 30, 2015 to the
7 end of the Bridge Period, i.e., January 31, 2017.

8
9 **Q. Please explain Exhibit KHD-5.**

10 A. Schedule 1, Line 1 of Exhibit KHD-5 shows the thirteen-month average balance
11 for plant in service for the Rate Year ending January 31, 2018. The forecasted
12 plant additions and retirements sponsored by Witness McEvoy were incorporated
13 by month into the plant balances based on the forecasted in-service dates also
14 sponsored by Witness McEvoy. Similarly, plant depreciation and retirements
15 were incorporated into the accumulated depreciation balance by month for the
16 Rate Year. The thirteen-month average for accumulated depreciation is shown
17 on Schedule 1, Line 5 of Exhibit KHD-5. Schedule 2 provides detail of the
18 aforementioned items and also shows the depreciation rates being proposed by
19 Company Witness Spanos that were used to calculate the depreciation expense
20 for the Rate Year.

21 Schedule 1, Line 2 shows the average non-interest bearing CWIP
22 balances. The Bridge Period balance was projected into the Rate Year using an
23 estimated rate of inflation of 2.3% based on calculations found in the exhibits of

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1 the O&M Panel. Line 3 of Schedule 1 shows the plant held for future use and
2 Line 4 reflects the total plant in service. Line 6 is Net Utility Plant (Line 4 – Line
3 5). Line 7 of Schedule 1 reflects the unamortized balance of the Company's
4 investment in the Haverstraw Water Supply Project on a net of tax basis.
5 Line 8 of Schedule 1 shows prepaid property taxes. This balance was
6 determined by applying an escalation factor of 12.57% to the Bridge Period
7 balance. The escalation factor for prepaid property taxes is the same as the
8 percentage increase used by the Company's O&M Panel in projecting the
9 property tax expense. Line 10 shows other prepayments. The Historic Test Year
10 balance was increased using an estimated rate of inflation of 2.3%.

11 Schedule 3 of Exhibit KHD-5 supports the cash working capital balance
12 shown on Line 9. Line 11 of Schedule 1 shows the unamortized balance of
13 deferred tank painting costs. These costs reflect the prior unamortized balance
14 of previous tank paintings and also include estimated costs for the planned
15 painting of the Post Road Standpipe during the Rate Year. Witness McEvoy
16 discusses this planned tank painting in her direct testimony. Line 12 of Schedule
17 1 represents the Company's unamortized rate case expense for this proceeding.
18 The amount is shown net of tax. Line 13 of Schedule 1 shows the balance of
19 materials and supplies. The Bridge Period balance was projected using an
20 estimated rate of inflation of 2.3%. The unamortized balance of deferred AFUDC
21 Equity Gross Up is included on Line 14. Schedule 1, Line 15 shows accumulated
22 deferred income taxes. Starting with the balance projected at the end of the

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1 Bridge Period, additional federal deferred taxes were calculated for the Rate
2 Year based upon the differences between book and tax depreciation.

3 Schedule 1, Line 16 shows the thirteen-month average for customer
4 advances for construction. These balances were determined by starting with the
5 projected balance at the end of the Bridge Period and incorporating the projected
6 increases and refunds by month for the Rate Year.

7 A rate base deduction for customer deposits is shown on Line 17. The
8 Bridge Period balance was projected using an estimated rate of inflation of 2.3%.
9 A deduction for a deferred regulatory liability related to the Company's exemption
10 from New York State income taxes is reflected on Line 18.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.

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