CONFIDENTIAL SUBJECT TO PROTECTIVE ORDER IN CASE 26-W-0358

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Liberty Utilities (New York Water) Corp.

Case 26-W-0358

October 1, 2026

Prepared Testimony of:

Staff Accounting Panel (SAP)

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Laurie Logue
Auditor 1

Peter Lavery
Utility Analyst 3

Sean Malpezzi
Auditor 3 (Public Utilities)

Kristee Adkins
Auditor 3 (Public Utilities)

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Q. Would the members of the Staff Accounting Panel, referred to as SAP or the Panel, please state your names, employer, and business addresses.

A. We are Kristee Adkins, Michael Augstell, Peter Lavery, Laurie Logue, Sean Malpezzi, Noelle Reilly, and Margaret Wright. We are employed by the New York State Department of Public Service, referred to as the Department. Ms. Logue and Ms. Wright's business address is 620 Erie Boulevard West Syracuse, New York 13204. The remaining members of the Panel have the business address of Three Empire State Plaza, Albany, New York 12223-1350.

Q. Ms. Adkins, what is your position at the Department?

A. I am employed as an Auditor 3 (Public Utilities) in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from the State University of New York Institute of Technology in Marcy, New York in 2002 with a Bachelor of Science degree with a dual major in Accounting and Finance. I have been employed by the Department since June 2005.

From June 2005 through August 2010, my responsibilities included working on various rate proceedings in which I examined accounts, records, documentation, policies, and procedures of regulated utilities. From August 2010 until January 2018, I worked in the Management and Operations Audit Unit, and I was responsible for the oversight of various consultant-performed management and operations audits. I served as the Department's Project Manager for the Comprehensive Management and Operations Audit of the Long Island Power Authority in Matter No. 12-00314; the Comprehensive Management and Operations Audits of Consolidated Edison Company of New York, Inc., referred to as Con Edison, and Orange and Rockland Utilities, Inc., referred to as O&R, in Case 14-M-0001; and the Comprehensive and Regular Management and Operations Audit of the Long Island Power Authority and PSEG Long Island LLC in Matter No. 16-01248. I also served as the Department's Implementation Manager for the Comprehensive Management Audit of Con Edison in Case 08-M-0152 and the Comprehensive Management Audit of

Central Hudson Gas & Electric Corporation, referred to as Central Hudson, in Case 09-M-0764. At the end of January 2018, I transferred back to an Accounting Unit within the Office of Accounting, Audits and Finance where I perform the role of a Public Utility Auditor.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for the examination of accounts, records, documentation, policies and procedures of regulated utilities to verify their compliance with the Public Service Law and the Commission's rules, regulations, and guidance.

Q. Ms. Adkins, have you previously submitted testimony in proceedings before the New York State Public Service Commission, referred to as the Commission?

A. Yes. I have submitted testimony in rate cases addressing revenue requirement, various other operating revenues, and operation and maintenance expense forecasts in Cases 05-G-1494, 18-E-0067, and 18-G-0068, regarding O&R; Cases 06-G-1332, 07-E-0523, 07-S-0794, 08-E-

0539, 09-E-0428, 09-S-0794, 09-G-0795, 19-E-0065, and 19-G-0066, regarding Con Edison; Case 23-W-0235, regarding Liberty Utilities (New York Water) Corporation; and Cases 24-E-0322 and 24-G-0323, regarding Niagara Mohawk Power Corp. d/b/a National Grid. While working in the Management and Operations Audit Unit, I submitted testimony in rate cases related to O&R's implementation efforts for the applicable recommendations identified in the Audit Report of its affiliate, Con Edison, and the associated savings in Case 11-E-0408, regarding O&R. Additionally, I submitted testimony related to Central Hudson's implementation efforts for the recommendations identified in the NorthStar Audit Report of Central Hudson and the associated savings in Cases 14-E-0318 and 14-G-0319. I have testified in Cases 07-E-0523, 07-S-1315, and 08-E-0539, Con Edison – Rates; and Case 23-W-0235, Liberty Utilities (New York Water) Corporation - Rates.

Q. Mr. Augstell, what is your position at the Department?

A. I am employed in the Office of Accounting,

Audits and Finance as a Supervisor Utility, Accounting and Finance.

A. My position and background are provided in the Staff Policy Panel.

Q. Mr. Lavery, what is your position at the Department and professional background?

A. My position and background are provided in the Staff Management and Operations Audit Panel for this proceeding.

Q. Ms. Logue, what is your position at the Department?

A. I am employed as an Auditor 1 in the Office of Accounting, Audits and Finance.

Q. Please describe your educational background and professional experience.

A. I graduated from the University of Georgia in 2001 with a Bachelor of Science in Animal Science and I graduated from the University of Alabama Birmingham in 2016 with a Master of Accounting. I have been employed by the Department since June of 2024. Prior to that I worked for a public accounting firm for three years as a staff accountant. Additionally, I worked in private industry for four and a half

years as both a Controller and Finance Director.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for the examination of accounts, records, documentation, policies and procedures of regulated utilities to verify their compliance with the Public Service Law and the Commission's rules, regulations, and guidance.

Q. Ms. Logue, have you previously submitted testimony in proceedings before the Commission?

A. Yes. I submitted testimony in Cases 24-E-0322 and 24-G-0323, regarding Niagara Mohawk Power Corp. d/b/a National Grid.

Q. Mr. Malpezzi, what is your position at the Department?

A. I am employed as an Auditor 3 (Public Utilities) in the Office of Accounting, Audits and Finance.

Q. Mr. Malpezzi, please describe your educational background and professional experience.

A. I graduated from Siena College, Loudonville, New York and have a Bachelor of Business Administration degree with an Accounting Major. I have been employed by the Department since

September of 2005. Previously, I was employed as an Auditor for the New York State Credit Union League.

Q. Please briefly describe your responsibilities with the Department.

A. I am responsible for the examination of accounts, records, documentation, policies and procedures of regulated utilities to verify their compliance with the Public Service Law and the Commission's rules, regulations, and guidance.

Q. Mr. Malpezzi, have you previously submitted testimony in proceedings before the Commission?

A. Yes, I have submitted testimony addressing revenue requirement, various other operating revenues, and operation and maintenance expense forecasts in rate cases regarding Con Edison, Case 07-E-0523; Village of Freeport, Case 06-E-0911; Plattsburgh Municipal Lighting Department, Cases 05-E-1496 and 08-E-1227; New York State Electric & Gas Corporation, or NYSEG, Cases 15-E-0283 and 15-G-0284; Rochester Gas and Electric Corporation, or RG&E, Cases 15-E-0285 and 15-G-0286; Central Hudson, Cases 17-E-0459 and 17-G-

0460, Cases 20-E-0428 and 20-G-0429, Cases 23-E-0418 and 23-G-0419; and Niagara Mohawk Power Corp. d/b/a National Grid, Cases 24-E-0322 and 24-G-0323.

Q. Ms. Reilly, what is your position at the Department and your professional background?

A. My position and background are provided in the Staff Management and Operations Audit Panel for this proceeding.

Q. Ms. Wright, what is your position at the Department and your professional background?

A. My position and background are provided in the Staff Policy Panel.

Scope of Testimony

Q. What is the scope of the Panel's testimony in these proceedings?

A. We will set forth Staff's recommended overall revenue requirements for Liberty Utilities (New York Water) Corporation, which we will refer to as Liberty NYW or the Company. In addition, we will address Liberty NYW's forecasts of certain operation and maintenance expenses, or O&M, specifically shared services; labor expense; bad debt expense; direct benefits and employee

costs; direct employee related costs; pension and other post-employment benefits (OPEBs)expense; direct other miscellaneous expense; direct materials and supplies; regulatory commission assessment; and productivity. We will also address inflation, various regulatory deferrals, taxes other than income taxes, income taxes, rate base, and certain reconciliations proposed by the Company.

Q. What is the Historic Test Year in this proceeding?

A. The Historic Test Year is the twelve-month period ended December 31, 2025.

Q. What is the Rate Year in this proceeding?

A. The Rate Year is the twelve-month period ending April 30, 2028.

Q. Will the Panel discuss any other time periods in its testimony?

A. Yes. We will refer to the Company's fiscal year, which is the period from January to December of each year.

Q. Is the Panel sponsoring any Exhibits?

A. Yes, we are sponsoring three Exhibits: Exhibit__(SAP-1), Exhibit__(SAP-2), and

Exhibit__(SAP-3).

Q. Please describe Exhibit__(SAP-1) and Exhibit__(SAP-2).

A. Exhibit__(SAP-1) is our Rate Year cost of service presentation for Service Area 1, referred to as SA1, and Exhibit__(SAP-2) is our Rate Year cost of service presentation for Service Area 2, referred to as SA2. Both consist of 12 schedules. Schedule 1 summarizes our projection of operating income, rate base and rate of return for the Rate Year ending April 30, 2028, and includes our proposed base rate increases for SA1 and SA2. Schedule 1 is supported by Schedules 2 through 12. Schedule 2 is a summary of operating expenses. Schedule 3 is a summary of amortization of regulatory deferrals. Schedule 4 is the calculation of taxes other than income tax. Schedule 5 is the computation of state income taxes. Schedule 6 is the computation of federal income taxes. Schedule 7 is a summary of rate base. Schedule 8 is a summary of the capital matrix. Schedule 9 is a listing of Staff's adjustments, which are described throughout our testimony. Schedule 10

is the calculation of the retention factor. Schedule 11 is the calculation of cash working capital. Schedule 12 is the calculation of the interest expense.

Q. Please describe Exhibit__(SAP-3).

A. Exhibit__(SAP-3) includes responses provided by the Company to Information Requests, referred to as IRs, that we have relied upon throughout our testimony. We will refer to these IR responses by the number assigned to them during the discovery process, for example, DPS-050.

Summary of Revenue Requirements

Q. Please summarize Liberty NYW's requested revenue requirements for SA1 and SA2.

A. In its initial filing on May 29, 2026, Liberty NYW requested a base revenue increase of $24,619,605, or 22 percent, for SA1 and $13,506,550, or 30 percent, for SA2. In Liberty NYW's Corrections and Updates, or C&U, filing on August 11, 2026, the Company requested a base revenue increase of $24,674,665, or 22 percent, for SA1 and $12,953,643, or 29 percent, for SA2.

Q. What service areas are included in SA1?

A. SA1 is comprised of the Beaver Dam, Cambridge,

Dykeer, Hoey-DeGraw, Kingsvale, Lynbrook, Lucas Estates, Mill Neck Estates, Mt. Ebo, New Vernon, Spring Glen, Waccabuc, West Branch Acres, Whitlock Farms, and Wild Oaks water districts.

Q. What service areas are included in SA2?

A. SA2 is comprised of the Merrick and Sea Cliff water districts.

Q. Please summarize Staff's recommendation regarding Liberty NYW's revenue requirements.

A. For SA1, we recommend a base revenue increase of $8,063,257, or $16,611,408 less than the $24,674,665 proposed by the Company. For SA2, we recommend a base revenue increase of $4,544,660, or $8,408,983 less than the $12,953,643 requested by the Company. testimony.

Q. Briefly summarize the major differences between the Company's requested base revenue increase and Staff's recommended base revenue increase for SA1.

A. The largest difference between Staff's recommended increase and the Company's requested increase are reductions to the Company's forecasted operation and maintenance expenses.

Specifically, significant reductions to shared services indirect allocations, labor expense, and pension expense. The aggregate revenue requirement impact of Staff's reductions to the Company's forecasted operation and maintenance expenses in the amount of $11,985,769 accounts for approximately 72 percent of the difference. Other major differences include the revenue requirement impact of Staff's reductions to the amortizations of regulatory deferrals in the amount of $3,124,114, return on equity in the amount of $2,597,075, taxes other than income taxes in the amount of $2,158,073, depreciation expense in the amount of $1,454,572, and rate base in the amount of $395,391. These reductions are offset by a decrease in operating revenues which results in an increase in the Company's need for revenues in the amount of $5,089,130. Schedule 9 within Exhibit__(SAP-1) lists all adjustments recommended by the various Staff panels that result in Staff's overall revenue requirement recommendation, with the exception of Staff's recommended weighted average cost of capital. Each Staff panel will

address its adjustments in its respective testimony.

Q. Briefly summarize the major differences between the Company's requested base revenue increase and Staff's recommended base revenue increase for SA2.

A. The largest difference between Staff's recommended increase and the Company's requested increase are reductions to the Company's forecasted operation and maintenance expenses. Specifically, significant reductions to shared services indirect allocations, labor expense, and pension expense. The aggregate revenue requirement impact of Staff's reductions to the Company's forecasted operation and maintenance expenses in the amount of $5,643,019 accounts for approximately 67 percent of the difference. Other major differences include the revenue requirement impact of Staff's reductions to the amortizations of regulatory deferrals in the amount of $1,651,620, return on equity in the amount of $934,657, depreciation expense in the amount of $665,366, and rate base in the amount of $49,628. These reductions are offset by a

decrease in operating revenues which results in an increase in the Company's need for revenues in the amount of $71,028 and an increase in taxes other than income taxes in the amount of $492,166. Schedule 9 within Exhibit__(SAP-2) lists all adjustments recommended by the various Staff panels that result in Staff's overall revenue requirement recommendation, with the exception of Staff's recommended weighted average cost of capital. Each Staff panel will address its adjustments in its respective testimony.

Operations and Maintenance (O&M) Expenses

Shared Services

Q. Please explain what is included in shared services.

A. Shared services include the costs allocated to Liberty NYW from its parent company Algonquin Power & Utilities Corporation, referred to as Algonquin or APUC, and its affiliates. Shared services include labor and non-labor direct and indirect costs, which the Company reflects in certain O&M expenses

Q. What entities provide shared services to Liberty

NYW?

A. As Company witness Crystal Greene describes on page 4 of her initial testimony, APUC, Liberty Utilities (Canada) Corporation, or LUCC, and Liberty Utilities Service Corporation, or LUSC, allocate costs to Liberty NYW through a shared services and corporate cost allocation model. This model categorizes shared services from the affiliates into five buckets: (1) APUC, (2) LUCO corporate/regulated services, (3) Liberty Algonquin Business Services, or LABS, (4) regional services, and (5) Water Commodity. Based on the shared services model, services are allocated based on a direct charge or a defined cost allocation methodology.

Q. What types of shared services are allocated from APUC to Liberty NYW?

A. APUC incurs and allocates strategic management costs associated with the board of directors, outside legal services, accounting services, tax planning and filings, insurance, and required auditing. Additionally, APUC allocates capital access costs including communications, investor relations, trustee fees, escrow, and transfer

agent fees. APUC also allocates financial control costs for audit and tax expenses and administrative costs related to rent, depreciation and general office expenses.

Q. Explain how shared service costs are allocated from APUC to Liberty NYW.

A. There are two types of shared service costs that APUC allocates to Liberty NYW. The first are costs for services that directly benefit Liberty NYW and, therefore, APUC directly assigns to the Company. The second are indirect shared service costs that are not directly assigned to Liberty NYW or another of APUC's subsidiaries. APUC pools these costs together and then allocates them between the regulated and unregulated subsidiaries using a corporate allocation methodology.

Q. What is a corporate allocation methodology?

A. A Corporate allocation methodology is the framework a business uses to distribute shared indirect costs. Liberty NYW's corporate allocation methodology is dictated by its Cost Allocation Manual, or the CAM, which the Company provided in response to IR DPS-036. As shown in

Table 1 of the CAM, indirect costs are assigned to a cost center, based on the type of cost. For example, certain third-party costs are designated as other professional services. These indirect costs are then allocated to subsidiaries using a multi-factor methodology.

Q. Please describe the Company's multi-factor methodology.

A. The multi-factor methodology involves allocation of indirect costs to affiliates using multiple factors, rather than relying on a single factor. For example, as shown in Table 1 of the CAM, for legal costs, the Company allocates the indirect costs using net plant, number of employees, and the total O&M, each weighted equally. Each indirect cost is then assigned to the applicable affiliate based on the affiliate's proportionate share of the relevant allocation factor.

Q. Does the Panel agree with the methodology used by Liberty NYW to allocate pooled indirect shared service costs?

A. No, we do not agree.

Q. Please explain.

A. Although we generally do not have an issue with

the use of a multi-factor methodology to allocate costs, we do have an issue with pooling indirect shared services costs solely based on the cost being assigned to cost centers rather than whether the cost actually benefits Liberty NYW's customers. As a consequence of APUC's process, some of the pooled costs allocated to Liberty NYW are not necessarily costs related to the operation of Liberty NYW but instead the result of being solely an affiliate of APUC.

Q. Does the Panel have any other concerns with the Company's methodology of allocating indirect shared service costs?

A. Yes. Public utility regulation in New York State is based on a cost-of-service model, whereby utility rates are set based on the costs utilities incur to provide service to their customers. As a general rule, this means that customers should not be responsible for costs that do not derive from safe and adequate services actually received. For the purposes of this Panel's review and resulting recommendations in this case, this means that we do not recommend the Commission allow the

Company to recover costs from its customers for services that we cannot link back to services or benefits actually provided to those customers with sufficient confidence. As a result, the indirect shared service cost allocation methodology at issue here inherently conflicts the concept of tying the Company's proposed costs back to services and benefits actually provided to customers.

Q. What type of costs does LUCC allocate to Liberty NYW?

A. LUCC allocates specific services to regulated utilities or shared services to the entire organization of APUC affiliates. For the regulated utilities, LUCC allocates costs related to the following departments: executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer services. LUCC also allocates administrative and support services through the LABS business unit.

Q. What is the LABS business unit?

A. LABS is a business unit within both LUCC and LUSC that provides services to the regulated

companies within APUC's affiliate organization. Specific examples of these services include: budgeting; forecasting; treasury functions, including cash management and short-term borrowing; development of human resource policies; selection of information systems and equipment; administration of insurance coverages and employee benefits; and internal auditing and purchasing services.

Q. Explain how shared services are allocated from LUCC to Liberty NYW.

A. According to the CAM, LUCC incurs three types of costs that are allocated. The first type of costs are costs that only benefit the power generation business Liberty Power (direct costs). The second type of costs are costs allocated to one or more of the regulated utilities that are part of the regulated services group known as Liberty Utilities (direct costs or indirect costs). Finally, the third type of costs are costs that benefit both regulated and unregulated companies (indirect costs).

Q. Explain what services LUCC provides to Liberty

Utilities.

A. As described on page 13 of the CAM, LUCC provides services to Liberty Utilities such as executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer experience.

Q. For the costs that are allocated from LUCC to Liberty Utilities, how are those costs then allocated to Liberty NYW?

A. The CAM assigns direct labor costs and direct non-labor costs directly to Liberty NYW. The indirect labor costs and indirect non-labor costs that cannot be directly attributed to an individual utility, known as system wide costs, are allocated using a utility four-factor methodology, outlined in Table 2 of the CAM.

Q. Please explain this utility four-factor methodology.

A. The utility four-factor methodology allocates costs by relative size and scope of the utilities. The four-factor methodology used by the Company uses utility net plant, total customers, non-labor expenses, and labor expenses. On page 14 of the CAM, it states the

factors are assigned an equal weight. However, Table 2 shows customer count is weighted by 40 percent, and the other factors are each weighted by 20 percent.

Q. Does the Panel have any adjustments to the direct shared services costs allocated from LUCC to Liberty NYW?

A. Yes. We have three adjustments to remove costs that are not expected to recur in the Rate Year.

Q. Please explain the first adjustment.

A. According to the Company's response DPS-397, in the Historic Test Year, the Company incurred $9,430 in site operations costs for Qualtrics LLC. In response to DPS-335, the Company provided a copy of the invoice from this vendor. However, the invoice did not provide any details to support how the charges are directly related to Liberty NYW. Since there is not enough detail to determine the nature of the charges, or if the charges are reasonable, we recommend removing the charges from the Company's Rate Year forecast. Additionally, we do not believe these charges will recur in the Rate Year.

Q. Why does the Panel believe these charges will

not recur in the Rate Year?

A. According to the Company's supplemental response to DPS-335, as of August 27, 2026, the Company has not incurred additional charges for this vendor, so it is reasonable to assume that this type of charge would not occur in the Rate Year.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces the site operations cost forecast by $6,778 for SA1 and $3,249 for SA2. We calculated these amounts by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of $9,430 and then allocated the amount between SA1 and SA2 based on the Company's allocation factors of 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Please explain your second adjustment.

A. According to DPS-397, in the Historic Test Year, the Company incurred $33,995 of site operations costs for Luth Research. In response to DPS-335, the Company provided a copy of the invoice from this vendor. The invoice referenced NY Water. However, the Panel does not believe this charge will recur in the Rate Year.

Q. Please explain why the Panel does not believe this charge will recur in the Rate Year.

A. According to the Company's supplemental response to DPS-335, as of August 27, 2026, the Company has not incurred additional charges for this vendor, so it is reasonable to assume that this type of charge would not occur in the Rate Year.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces the site operations cost forecast by $24,434 for SA1 and $11,711 for SA2. We calculated this amount by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of $33,995 and then allocated the costs between SA1 and SA2 based on the Company's allocation factors of 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Explain your third adjustment.

A. According to DPS-397, in the Historic Test Year, the Company incurred **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** for site operations costs for **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** In response to

DPS-335, the Company provided a copy of the invoice from this vendor. However, the invoice did not provide any details to support how the charges are directly related to Liberty NYW or how they benefit the Company's customers. Since there is not enough detail to determine the nature of the charges, or if the charges could be reasonably tied back to services benefiting the Company's customers, we recommend removing the charges from the Rate Year forecast. Additionally, we do not believe these charges will recur in the Rate Year.

Q. Why does the Panel believe these charges will not recur in the Rate Year?

A. According to the Company's supplemental response to DPS-335, as of August 27, 2026, the Company has not incurred additional charges for this vendor, so it is reasonable to assume that this type of charge would not occur in the Rate Year.

Q. Please quantify your adjustment to remove these costs from the Company's rate forecast.

A. The adjustment reduces the site operations cost forecast by $5,534 for SA1 and $2,652 for SA2. We calculated this amount by applying the

Company's inflation rate of 6.33 percent to the Historic Test Year amount of $7,699 and then allocated the cost between SA1 and SA2 based on the Company's allocation factors 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Does the Panel agree with the methodology that the Company uses to allocate indirect shared services system wide costs from LUCC to Liberty NYW?

A. No, for the same reasons we previously discussed related to the indirect shared services allocated from APUC to Liberty NYW, Liberty NYW ratepayers should not be responsible for paying a cost that does not derive from services received from the utility.

Q. Are there any other costs allocated from LUCC to Liberty NYW?

A. Yes, the last type of costs LUCC allocates to Liberty NYW are for costs that benefit both the regulated and unregulated subsidiary companies.

Q. Explain how these costs are allocated.

A. Similar to how costs are allocated for APUC, and as illustrated in Tables 4a and 4b of the CAM, the indirect charges that cannot be directly

assigned are allocated between the regulated and unregulated businesses by assigning the costs to a cost center. These costs are then allocated using the allocation methodology outlined in the tables previously referenced.

Q. Does the Panel agree with the use of this methodology?

A. No, as we previously explained, the Panel does not agree with costs being allocated to Liberty NYW as a result of the Company being a subsidiary regardless of whether the costs being incurred can be tied back to services benefiting Liberty NYW's customers.

Q. Explain what costs are allocated from LUSC to Liberty NYW.

A. Most of the U.S. based utility employees are employed by LUSC. LUSC's allocated costs are for employees' labor costs, such as salaries, and associated labor costs, such as benefits, and insurance. Similar to LUCC, LUSC allocates direct costs to unregulated companies, direct and indirect costs to the regulated companies, and then indirect costs that benefit both regulated and unregulated operations, known as

shared services employees.

Q. Does the Panel have any adjustments to the direct shared services costs allocated from LUSC to Liberty NYW?

A. Yes. We have four adjustments, one adjustment to remove costs that are not expected to recur in the Rate Year, two adjustments for unsupported charges and the last adjustment will remove lobbying costs.

Q. Please explain your first adjustment.

A. According to DPS-397, in the Historic Test Year, the Company incurred **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** of site operations costs for **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** In response to DPS-335, the Company provided a copy of the invoice from this vendor. However, the invoice did not provide any details to support how the charges are directly related to Liberty NYW. Since there is not enough detail to determine the nature of the charges, whether the charges are reasonable, or if the charges benefited Liberty NYW's customers, we recommend removing the

charges from the Rate Year forecast. Additionally, we do not believe these charges will recur in the Rate Year.

Q. Why does the Panel believe these charges will not be recur in the Rate Year?

A. According to the Company's supplemental response to DPS-335, as of August 27, 2026, the Company has not incurred additional charges for this vendor, so it is reasonable to assume that this type of charge would not occur in the Rate Year.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces site operations cost forecast by **BEGIN CONFIDENTIAL INFORMATION <** [redacted] > **END CONFIDENTIAL INFORMATION** for SA1 and **BEGIN CONFIDENTIAL INFORMATION <** [redacted] > **END CONFIDENTIAL INFORMATION** for SA2. We calculated this amount by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of **BEGIN CONFIDENTIAL INFORMATION <** [redacted] > **END CONFIDENTIAL INFORMATION** and then allocated the costs between SA1 and SA2 based on the Company's allocation factors of 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Please explain your second adjustment.

A. According to the response to DPS-397, in the Historic Test Year, the Company incurred **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** of materials and supplies expense for **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** In response to DPS-335, the Company provided a copy of the invoice from this vendor. However, the invoice did not provide any details to support how the charges are directly related to Liberty NYW. Since there is not enough detail to determine the nature of the charges, whether the charges are reasonable, or if the charges benefit Liberty NYW's customers, we recommend removing the charges from the Rate Year forecast.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces materials and supplies expense forecast by $31,512 for SA1 and $15,103 for SA2. We calculated this amount by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of [redacted] and

then allocated the costs between SA1 and SA2 based on the Company's allocation factors of 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Explain your third adjustment.

A. According to the response to DPS-397, in the Historic Test Year, the Company incurred **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** of materials and supplies expense for **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** in SA1 only. In response to DPS-335, the Company provided a copy of the invoice from this vendor. However, the invoice did not provide any details to support how the charges are directly related to Liberty NYW. Since there is not enough detail to determine the nature of the charges, if the charges are reasonable, or if the charges benefit Liberty NYW's customers, we recommend removing the charges from the Rate Year forecast.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces the materials and supplies expense forecast by $8,245 for SA1. We

calculated this amount by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of $7,755 for SA1.

Q. Please explain your last adjustment.

A. According to the Company's supplemental response to DPS-208, in the Historic Test Year, the Company incurred **BEGIN CONFIDENTIAL INFORMATION** < [redacted] > **END CONFIDENTIAL INFORMATION** of direct charges for McBride Consulting and Development Group. In response to DPS-334, the Company provided invoices for **BEGIN CONFIDENTIAL INFORMATION** < [redacted] > **END CONFIDENTIAL INFORMATION** According to the invoice the services provided were for * **BEGIN CONFIDENTIAL INFORMATION** < [redacted] > **END CONFIDENTIAL INFORMATION** and as such we removed these charges from the Rate Year forecast.

Q. Please explain why the Staff removed these charges.

A. According to Section 114-A of the New York State Public Service Law, utilities are prohibited from passing the costs of legislative lobbying expense into rates. Based on the description in

the invoice these charges relate to lobbying and therefore should not be reflected in rates to be recovered from customers.

Q. Please quantify your adjustment to remove these costs from the Company's Rate Year forecast.

A. The adjustment reduces the site and operations costs by **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** We calculated this amount by applying the Company's inflation rate of 6.33 percent to the Historic Test Year amount of **BEGIN CONFIDENTIAL INFORMATION** < [redacted] > **END CONFIDENTIAL INFORMATION** and then allocated the costs between SA1 and SA2 based on the Company's allocation factors of 68.4 percent for SA1 and 31.6 percent for SA2.

Q. Explain what indirect services are provided by the shared services employees at LUSC.

A. According to Table 5 in the CAM, LUSC provides services for customer care and billing; IT/Tech Support; Human Resources; Gas Control; Legal; Compliance, Regulatory & Government Relations; Environmental, Health, Safety & Security; Procurement; Operations; Engineering; Outage

Management; GIS/Mapping; Vegetation Management; Energy Procurement; Accounting & Finance; Managerial; Utility Planning and Customer Communication.

Q. How are the indirect shared services that only benefit the regulated utilities allocated?

A. LUSC allocates these indirect costs in the same way as LUCC does, using the Utility Four-Factor Methodology outlined in Table 2 of the CAM.

Q. Does the Panel agree with this methodology?

A. No, for the same reasons we have previously discussed related to the indirect shared services allocated from APUC and LUCC to Liberty NYW, Liberty NYW Ratepayers should not be responsible for paying a cost that does not derive from services or benefits received from the Company.

Q. How are the indirect shared services that benefit both regulated and unregulated operations allocated to Liberty NYW?

A. Similar to LUCC, LUSC allocates the indirect charges that cannot be directly assigned between the regulated and unregulated businesses, assigns them to a cost center, and then

allocates them per the methodology shown in Table 4A and 4B in the CAM.

Q. Does the Panel agree with the Company's methodology?

A. No, the Panel does not agree with allocating costs to Liberty NYW simply as a result of the Company being a subsidiary, regardless of whether the costs being incurred benefit Liberty NYW's customers.

Q. Did the Panel review invoices related to the services provided to Liberty NYW by APUC, LUCC and LUSC?

A. Yes, the Panel reviewed approximately 40 invoices, after several delays by the Company in providing the invoices.

Q. Please explain.

A. The Panel originally requested invoices in DPS-135 on June 18, 2026, the Company delayed multiple times in providing a sufficiently detailed response to DPS-135. The Company describes its delays in further detail in a corrected response to DPS-135, dated August 13, 2026. Substantively, as of August 3, 2026, the Company had provided a list of invoices for the

Panel to sample. The Panel originally requested invoices to support 75 of the charges. However, the Company ultimately could not provide support for some of the requested charges, as they turned out to be labor costs, which have no invoices.

Q. Do the invoices the Company ultimately provided support the allocation of indirect shared service costs to Liberty NYW?

A. No. These invoices do not support the allocation of any of the indirect shared service costs. Many of the invoices the Company provided lack sufficient detail for the Panel to even determine the nature of the invoiced costs. Additionally, the invoices we reviewed did not indicate assignments to cost centers or the allocation methodology used to allocate costs to Liberty NYW for us to even verify whether the costs were allocated consistent with the CAM. Further, as we explained previously, the CAM's methodology bases allocation of costs solely on the assignment of indirect shared services costs to generic cost centers. Therefore, based on the invoices the Company provided, it is

impossible for the Panel to ascertain whether the costs were reasonable, or to what extent said costs actually relate to providing service to and therefore benefit Liberty NYW customers.

Q. Does the Panel have any other concerns with the charges allocated to Liberty NYW?

A. Yes. We have concerns about the Company's cost allocation practices we have observed in this proceeding in light of a recent, Commission instituted focused operations audit. Specifically, on September 17, 2026, the Commission authorized issuance of a third-party auditor's report, or the Audit Report, resulting from a focused operations audit of both Liberty NYW and Liberty Utilities (St. Lawrence Gas) Corp., or Liberty SLG, in Case 25-M-0515. Staff's Management and Operations Audit Panel further explains the Audit Report in its testimony. Of particular note to this Panel, starting on page I-4 of the Audit Report, the consultant, NorthStar Consulting Group, states it found several instances where LUSC did not follow the CAM, as well as several allocated costs that lacked sufficient confirmation of

benefit to Liberty NYW and its customers. Additionally, on page I-6 of the Audit Report, NorthStar states that it found that some charges allocated from LUSC had no supporting documentation, that LUSC was allocating charges to Liberty NYW for gas services, and that LUSC charged the Company renewable tax credit services that were not applicable to Liberty NYW.

Q. What is the relevance of this information to the Panel's review?

A. NorthStar's findings corroborate the Panel's concerns that Liberty NYW's Rate Year forecast could include charges for services not received and that do not benefit Liberty NYW's ratepayers, and which should not, therefore, be reflected in Liberty NYW's rates. The manner in which the CAM pools indirect charges and uses cost centers for APUC, LUSC and LUCC to allocate these costs to the Company makes it impossible for us to determine whether there are duplicate services or functions being allocated to Liberty NYW.

Q. Please explain.

A. As discussed previously, the indirect charges are allocated based on the cost centers shown in Table 1, Table 4a, and Table 4b of the CAM. For example, charges allocated from APUC for executive and strategic management for employee labor and related administration are not directly attributable to any entity. On Table 4b, which are for charges allocated from LUCC and LUSC, the same cost center appears with the same description. Based on our review of the invoices provided by the Company and the lack of detail provided on the invoices, it is impossible for the Panel to determine if there are duplicate services being provided by APUC and LUCC/LUSC. Not only should Liberty NYW ratepayers not be responsible for pooled costs that do not benefit them, but they should also not be responsible for duplicate costs.

Q. Does the Panel think that some of the indirect shared services costs that are allocated to Liberty NYW are for services provided to Liberty NYW ratepayers?

A. Based on the information provided by the Company to support these costs, it is impossible to

ascertain which costs are for services that benefit Liberty NYW, which costs are for duplicate functions, and which costs should not be recovered through Liberty NYW's rates.

Q. Can the Panel quantify the amount of costs allocated from each of the entities to Liberty NYW?

A. In DPS-343, Staff requested that the Company provide the indirect shared services costs allocated to Liberty NYW from APUC, LUCC, and LUSC, broken down by the Company's revenue requirement O&M categories. However, when the Panel compared the breakdown the Company provided in response to DPS-343 to the amounts the Company included in its own revenue requirement forecast, provided as an attachment to DPS-320, titled "Attachment 320.6 CG-CU-6," we found that the amounts did not match.

Q. What does this inconsistency indicate to the Panel?

A. If the Company itself is unable to provide an allocation breakdown in response to DPS-343 that matches the Company's own revenue requirement forecast, the Panel also cannot confidently

conclude whether the calculation in the revenue requirement is correct or incorrect. Further, it is impossible for the Panel to ascertain whether the amounts allocated from APUC, LUCC and LUSC are valid.

Q. Does the Panel have any adjustments to the indirect shared services costs allocated to Liberty NYW as a result of these observations?

A. Yes. As we have explained so far, we cannot derive indirect shared service cost allocation amounts and details from invoices the Company has provided, the CAM's allocation methodologies do not sufficiently differentiate allocated costs, and the breakdown of allocation costs from the Company itself does not appear to be accurate. Therefore, the Company has not provided sufficient information for this Panel to assess what indirect shared service costs are allocated to Liberty NYW, let alone which indirect shared services costs allocated to Liberty NYW are for services which benefit Liberty NYW ratepayers. In addition, as we previously noted, even having the Company provide the invoices necessary for our review

took months within the limited discovery time of this proceeding. As such, we can only reasonably recommend removal of all of the indirect shared services costs to Liberty NYW from the Rate Year forecast.

Q. Please quantify your adjustments for SA1.

A. As reflected in the indirect shared service costs the Company provided that we mentioned earlier, in the Historic Test Year for SA1, indirect shared service costs allocated to Liberty NYW are as follows: $1,807,902 for labor expense; $1,463,578 for non-union incentive compensation expense; $889,780 for benefits & employee cost; $91,673 for employee related cost; $2,911 for fleet and facilities cost; $24,601 for insurance expense; $712,713 for office expense; $2,278 for pension expense; $387,889 for professional services; $108,430 for rental expense; $908,332 for site operations costs; $377,421 for other miscellaneous expense; and $685,533 for materials and supplies.

Q. Do your adjustments to these amounts account for inflation?

A. Yes, after inflating the Historic Test Year

amounts by the Company's labor inflation rate of 6.55 percent or general inflation rate of 6.33 percent of general inflation, depending on the expense, the Rate Year adjustments are $1,928,146 for labor expense; $1,560,921 for non-union incentive compensation; $946,059 for benefits & employee cost; $97,471 for employee related costs; $3,096 for fleet and facilities cost; $26,157 for insurance expense; $757,792 for office expense; $2,278 for pension expense; $412,423 for professional services; $115,288 for rental expense; $965,784 for site operations costs; $401,293 for other miscellaneous expense; and $700,186 for materials and supplies.

Q. What is the Panel's total adjustment for SA1 resulting from these amounts?

A. In aggregate, this results in a decrease of $7,916,894.

Q. Please quantify your adjustments for SA2.

A. As reflected in the Company's shared service costs in the Historic Test Year for SA2, indirect shared service costs allocated to Liberty NYW are as follows: $815,600 for labor; $675,293 for non-union incentive compensation

expense; $405,494 for benefits & employee cost; $41,774 for employee related costs; $1,327 for fleet and facilities cost; $11,211 for insurance expense; $324,801 for office expense; $1,038 for pension expense; $176,771 for professional services; $65,266 for rental expense; $546,700 for site operations costs; $172,000 for other miscellaneous expense; and $300,110 for materials and supplies.

Q. Do your adjustments to these amounts account for inflation?

A. Yes. After inflating the Historic Test Year amounts by the Company's labor inflation rate of 6.55 percent or general inflation rate of 6.33 percent, depending on the expense, the Rate Year adjustments are $869,845 for labor expense $720,207 for non-union incentive compensation expense; $431,142 for benefits & employee cost; $44,420 for employee related costs; $1,411 for fleet and facilities cost; $11,920 for insurance expense; $345,344 for office expenses; $1,038 for pension expense; $187,951 for professional services; $69,394 for rental expense; $581,279 for site operations costs; $182,879 for other

miscellaneous expense; and $319,092 for materials and supplies.

Q. What is the Panel's total adjustment for SA2 resulting from these amounts?

A. In aggregate, this results in a decrease of $3,765,923.

Q. Does the Panel have any concerns with the CAM?

A. Yes, the Company's CAM was established for APUC and has been effective since January 1, 2017, without material changes other than annual updates to cost pool percentages to date. Notably, the CAM has remained unchanged through APUC's acquisition of both Liberty SLG and Liberty NYW.

Q. Why is that a concern?

A. As we previously discussed, New York public utilities are regulated under a cost-of-service model, whereby rates are set based on the cost of service provided to customers. The CAM's cost allocation methodology contradicts this principle by pooling costs and allocating them through to APUC's subsidiaries regardless of whether such costs can be tied to specific benefits to customers of any of the affiliates.

As we have just discussed, at least regarding Liberty NYW, the Company does not appear to retain documentation that can support its allocations of shared service costs. Additionally, in the Commission-initiated focused operations audit of the Company, NorthStar Consulting Group also observed several instances in which allocated costs lacked sufficient documentation to substantiate that costs benefited ratepayers. To that end, The Order Releasing Audit Report explained that NorthStar Consulting Group, recommends the Company conduct annual internal audits, as well as an independent third-party audit, with Staff oversight, of the cost allocation methodology used in the CAM.

Q. Does the Panel have any additional concerns?

A. Yes, on August 14, 2026, APUC, LUCC, Liberty NYW, and Liberty SLG filed a joint petition in Case 26-M-0548 regarding a proposed intra-corporate reorganization of the Companies.

Q. What is the proposed reorganization?

A. The Company’s proposed reorganization involves the amalgamation of LUCC into APUC, and then re-

domiciling APUC from Canada to the US.

Q. Why is this a concern?

A. Both APUC and LUCC allocate costs to Liberty NYW. However as the CAM is currently structured, APUC allocates cost to its subsidiaries using a multi-factor methodology based on a cost center, and LUCC allocates costs using the utility four-factor methodology. Thus, it is unclear how shared service costs would be allocated to the Company following the proposed reorganization.

Q. What does the Panel recommend?

A. Given these concerns, the Panel recommends that the Commission require the Company to update its CAM to reflect a well-supported and documented allocation methodology that only allocates costs to Liberty NYW ratepayers that reflect services that support Liberty NYW's provision of service and benefit its ratepayers.

Labor Expense

Q. What is the Company's Rate Year forecast for labor expense?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and

Exhibit__(RRP-2), the Company's Rate Year forecast of labor expense is $12,757,128 for SA1 and $6,622,654 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast of labor expense is $13,937,648 for SA1 and $6,430,812 for SA2.

Q. How did the Company develop its Rate Year forecast of labor expense for SA1 and SA2?

A. Liberty NYW adjusted its Historic Test Year labor expense of $17,858,589 to reflect the backfilling of eighteen vacant positions to arrive at the Rate Year forecasted labor expense of $20,368,460.

Q. Did the Company experience employee vacancies during the Historic Test Year?

A. Yes. According to its response to DPS-025, the Company experienced vacant positions each month during the Historic Test Year.

Q. Please explain.

A. In the beginning of the Historic Test Year the Company had 160 filled positions. Throughout the Historic Test Year, the number of filled positions trended down and by the end of the

Historic Test Year the Company had 143 filled positions, or a monthly average throughout the Historic Test Year of 148 filled positions.

Q. Does the Company continue to have vacant positions during calendar year 2026?

A. Yes. The Company continues to experience vacancies during calendar year 2026. Based on the Company's attachment to its response to DPS-388, the Company had 140 full-time employees as of August 2026. Thus, it is reasonable to assume that the Company will continue to experience employee vacancies during the Rate Year.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of labor expense?

A. Yes. We recommend removing thirteen of the eighteen vacant positions the Company is requesting to backfill in the Rate Year.

Q. Why does the Panel recommend removing the costs for these positions from the Company's Rate Year labor expense forecast?

A. It is unreasonable for ratepayers to pay the cost of a vacant position for which the Company is not incurring an actual expense. The Company

has not provided support demonstrating we can reasonably expect it to backfill the 18 positions in the Rate Year.

Q. How does the Panel forecast the number of positions and associated costs for the Rate Year?

A. Our labor forecast is based on the monthly average of employees on the payroll in the Historic Test Year, including the costs associated with escalating the labor expense from the Historic Test Year through the Rate Year.

Q. Please quantify your adjustment to the Company's Rate Year forecast of labor expense.

A. Our adjustment results in a decrease to the Company's labor expense forecast for SA1 by $713,496 and SA2 by $329,206 as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Q. Does the Panel have any other adjustments to labor expense?

A. Yes. We recommend an adjustment related to retention and referral bonuses.

Q. What is the amount reflected in the Historic

Test Year for retention and referral bonuses?

A. In its response to DPS-021, the Company indicated that the Historic Test Year reflected $31,000 for referral and retention bonuses.

Q. Does the Panel agree with the inclusion of these bonuses in the Rate Year?

A. No. As the Company indicated in its response to DPS-021, these are "one-time" bonuses and there is no guarantee they will reoccur in the Rate Year.

Q. Did the Company quantify the amount of retention and referral bonuses included in its Rate Year forecast?

A. No. The Company did not specifically identify the amount of retention and referral bonuses included in its Rate Year forecast.

Q. Please quantify this adjustment.

A. We removed the Historic Test Year amounts associated with referral bonuses and retention bonuses in the amount of $31,000, net of the amount capitalized of $8,000 and the associated labor inflation in the amount of $2,000, which results in a decrease of $24,498, or $16,764 for SA1 and $7,734 for SA2.

Non-Union Incentive Compensation

Q. Please summarize Liberty NYW's request regarding compensation for its non-union employees in this rate filing.

A. Liberty NYW is requesting recovery of base pay and incentive compensation for its non-union employees. The incentive compensation included in the Rate Year is comprised of short-term and long-term incentive pay, totaling $710,299, or $486,058 for SA1 and $224,241 for SA2. Liberty NYW also included incentive compensation costs related to intercompany direct and indirect shared service employees of its affiliates. The amount of incentive compensation related to intercompany direct shared services employees totals $148,710, or $101,762 for SA1 and $46,948 for SA2. Incentive compensation for intercompany indirect shared services employees totals $2,281,128, or $1,560,921 for SA1 and $720,207 for SA2. We addressed the indirect shared service employee incentive compensation costs earlier in our testimony when discussing shared services.

Q. Please summarize the current Commission policy

regarding cost recovery for utility incentive compensation programs.

A. The Commission established its requirements for cost recovery of incentive compensation from customers in its June 17, 2011, Order Establishing Rates for Electric Service for Orange and Rockland Utilities, Inc., or O&R, in Case 10-E-0362, which we will refer to as the 2011 O&R Rate Order. In the 2011 O&R Rate Order, the Commission explained that a utility must demonstrate that its level of overall employee compensation, inclusive of incentive pay and the value of benefits, is reasonable relative to peer companies. The Commission explained that a utility should demonstrate the reasonableness of its overall compensation and that this would be best demonstrated by providing a compensation benchmarking study of similarly situated companies. However, even if the utility produces a study showing that its compensation is reasonably in line with that of its peers, the Commission stipulated that an incentive compensation program will not be deemed reasonable if it includes performance

targets that adversely affect ratepayer interests or are inconsistent with Commission policies.

Q. Is the Company currently recovering incentive compensation program costs for its non-union employees?

A. No. The Commission denied recovery of incentive compensation in the Liberty NYW Order Adopting Terms of Joint Proposal and Establishing Rate Plan, issued on August 15, 2024, referred to as the 2024 Rate Order, in Case 23-W-0235 but allowed the Company to petition the Commission to recover the cost of its incentive compensation program. In September 2024, the Company filed its Verified Petition of Liberty Utilities (New York Water) Corp. Seeking Approval of Cost Recovery and a Related Surcharge (Petition). However, the Commission denied the Petition in its May 2025 Order Denying Petition Seeking Approval of Cost Recovery and a Related Surcharge, or Order Denying Petition, because Liberty NYW failed to meet the Commission’s requirement that the Company’s incentive compensation program

supports its provision of safe and adequate service with no potential to adversely affect ratepayer interests.

Q. Please provide more detail about why the Commission denied Liberty NYW cost recovery for its incentive compensation program in the Order Denying Petition.

A. The Commission denied cost recovery for multiple reasons, two of which we would like to highlight.

Q. What was the first reason?

A. The Commission was not fully confident that the underlying methodology used for the Company's compensation study was sound. The assumptions underpinning the study's geographic adjustments were unlike those presented in recent studies conducted by that same consultant, and the utility peer companies were much smaller than non-utility peers comprising the blended peer group used for comparison.

Q. What was the second reason?

A. The Commission stated the Company had not demonstrated that its incentive compensation program targets supported the provision of safe

and adequate service by Liberty NYW. Liberty NYW is subject to the incentive compensation program of Algonquin. The Commission took issue with the design of Algonquin's incentive compensation program, which is focused on the performance of Algonquin and its subsidiaries. The program's focus on APUC's performance creates circumstances where Liberty NYW's customers would pay for incentive payments related to services that they were not provided or that reward performance contrary to Commission policies and ratepayers' interests.

Q. Has the Company's incentive compensation program changed since the Order Denying Petition?

A. Yes. However, the Company has not implemented recent changes to the program to address the Commission's decision in the Order Denying Petition. In response to DPS-140, Liberty NYW explained that Algonquin altered its incentive program in 2025 to consolidate the short-term incentive plan and the program's overall structure. In addition, the Company engaged a different consultant to conduct its benchmarking study in support of this rate filing.

Q. Please describe the benchmarking study the Company used to support its proposal in this rate filing.

A. As provided in Exhibit RRP-5, Liberty NYW hired the consulting firm Willis Towers Watson, or WTW, to provide information concerning the overall competitiveness of Liberty NYW employees' target total direct compensation, which includes base salary and target short- and long-term incentive pay.

Q. Was the value of benefits for Liberty NYW non-union employees considered in WTW's study?

A. No. In response to DPS-235, the Company indicated that the study did not include the value of employee benefits in the compensation analysis.

Q. What did the WTW study examine?

A. The study examined the target total direct compensation for 43 incumbent non-union employees. WTW utilized two compensation surveys for its benchmarking analysis. The 2025 WTW Energy Services Executive Compensation Survey and the 2025 WTW Energy Services Middle Management, Professional and Support

Compensation Survey. WTW compared compensation levels for Liberty NYW benchmark jobs with those for similar positions at comparable employers.

Q. Which companies did WTW use in its benchmark comparison analysis?

A. In response to DPS-234, the Company indicates that the two surveys used for WTW's benchmarking comparison included 186 companies from the energy sector.

Q. Does WTW's peer group represent a reasonable comparison to similarly situated companies?

A. Possibly. For an adequate market comparison, it is preferable to benchmark a utility's employee compensation levels against a peer group consisting of energy and general industry companies. WTW's comparison is solely focused on energy companies.

Q. Why is it important to include general industry companies in the benchmarking comparison?

A. The Company's workforce consists of energy sector-specific roles, as well as roles that are found at companies across numerous industries, such as accountants, human resource professionals, and customer service

representatives. A peer group of similarly situated companies should also reflect comparable companies that a utility competes with for employees, so it should include companies from both the energy and general industry sectors.

Q. What did WTW conclude based on its study?

A. WTW concluded that Liberty NYW's non-union employees' target total direct compensation is reasonable compared to the market.

Q. Does the WTW compensation study demonstrate that the Company's overall compensation is reasonable when compared to similarly situated companies?

A. No. Because WTW did not include the value of employee benefits in this study and excluded general industry companies from the benchmarking comparison, the Panel cannot assess how the Company's total compensation package compares to similarly situated companies.

Q. Does the Commission require a review of a utility's incentive pay plan performance targets?

A. Yes. The Commission stated in the 2011 O&R Rate Order that a utility should confirm that the

incentives will support the provision of safe and adequate service and will have no potential to adversely affect ratepayer interests or to promote results that are inconsistent with Commission policies.

Q. Please describe Liberty NYW's incentive compensation for non-union employees.

A. As previously stated, Liberty NYW is subject to Algonquin's incentive compensation program. Algonquin offers two forms of incentive-based compensation to its non-union employees. The first is the Short-Term Incentive Plan, or STIP, which is available to employees in grades 1-12. The second is the Long-Term Incentive Plan, or LTIP, available to employees in grades 10-12. Both plans include non-union management as well as executives.

Q. Please explain Algonquin's STIP.

A. Algonquin's STIP program utilizes a Corporate Parent Scorecard (Parent Scorecard) and Individual Performance Objectives to determine incentive payouts. Liberty NYW explained in response to DPS-233 that the Parent Scorecard represents enterprise-wide priorities that

support all of Algonquin's operating companies. The Individual Performance Objectives comprise localized goals and Liberty NYW key performance metrics assigned to Liberty NYW employees. STIP employee payouts are determined based on performance against both the Parent Scorecard and Individual Performance Objectives, which are weighted based on an employee's grade level. The higher an employee's grade level, the greater the emphasis on Parent Scorecard performance.

Q. Please explain the metrics comprising the Parent Scorecard.

A. In response to DPS-140, Liberty NYW indicated that depending on an employee's grade level, the Parent Scorecard represents 60 to 80 percent of the STIP payout determination. Financial metrics comprise the majority of the Parent Scorecard **BEGIN CONFIDENTIAL INFORMATION** [redacted]

[redacted] **> END CONFIDENTIAL INFORMATION** All Parent Scorecard metrics measure aggregated performance across Liberty NYW's affiliates, **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION**

Q. Please explain the Individual Performance Objectives component of the STIP.

A. Individual Performance Objectives represent 20 to 40 percent of an employee's STIP payout determination, depending on their grade level. In response to DPS-136, Liberty NYW explained that "the individual performance component links incentive outcomes to the employee's overall year-end ... performance against role responsibilities, behaviors, and operational priorities." Employees work with their managers to establish three to five goals per year, and performance against these targets is reviewed at year-end and rated on a five-point scale of achievement.

Q. Does the Panel have any concerns with the STIP?

A. Yes, we have two concerns. First, the STIP's

Parent Scorecard is primarily weighted toward financial performance, which is counter to the Commission's cost recovery requirements. **BEGIN CONFIDENTIAL INFORMATION <** [redacted] **> END CONFIDENTIAL INFORMATION** This places an overwhelming focus on financial performance. Second, using composite scores for operational metrics across affiliates means Liberty NYW operational performance has little impact on the corporate achievement of the resultant metrics. In other words, a Liberty NYW employee could receive a STIP payout when Liberty NYW-specific metrics were not achieved, but metrics specific to Liberty NYW affiliates were. Liberty NYW confirmed this observation in its response to DPS-233, stating "a payout may occur when Liberty NYW-specific metrics are not fully achieved."

Q. Did the Commission consider these program design

elements in its Order Denying Petition?

A. Yes. In its Order Denying Petition, the Commission found that Algonquin's Parent Scorecard was primarily focused on the parent company's financial performance. Additionally, the Commission expressed concerns with the Parent Scorecard's method of aggregated performance, stating that it "dilutes the performance of Liberty NYW itself and allows Liberty NYW's employees to receive incentive payouts while failing to meet operational metrics that apply to water utilities specifically. This indicates that the incentive compensation program is not designed to support the provision of safe and adequate service to Liberty NYW customers."

Q. Does the STIP for which the Company seeks recovery in this proceeding address the Commission's findings in the Order Denying Petition?

A. No. The STIP remains predominantly focused on Algonquin's financial performance and considers operational performance only at an aggregated level across numerous affiliates.

Q. Please provide an overview of the Company's LTIP program.

A. Algonquin's LTIP is a stock-based compensation plan that is available to Liberty NYW's top-level employees in grades 10-12. Participating employees receive incentives based on enterprise-wide performance that is sustained over a multi-year period against corporate financial targets.

Q. Does the Panel have any concerns with the LTIP?

A. Yes. This program focuses solely on Algonquin's financial performance. The LTIP's sole focus on corporate financial metrics conflicts with the Commission's cost recovery requirements.

Q. Does Liberty NYW's incentive compensation program, including STIP and LTIP, meet the Commission's cost recovery requirements?

A. No. The STIP and LTIP, whether viewed as distinct programs or in aggregate, fail to meet the requirements from the 2011 O&R Order. Further, Liberty NYW's incentive compensation program has not sufficiently changed in key aspects relevant to the Commission's recent denial, as we have previously explained.

Q. Does the Panel have a related adjustment?

A. Yes. We recommend the Commission deny recovery of Liberty NYW's incentive compensation costs, thus removing $486,058 for SA1 and $224,241 for SA2 from the Company's direct labor expense in the Rate Year forecast.

Q. Does the Panel recommend an adjustment to intercompany incentive compensation expenses based on your conclusions regarding the Liberty NYW direct expense for incentive compensation?

A. Yes. Liberty NYW and its affiliates are subject to the same incentive compensation program administered by their shared parent, Algonquin. As such, we recommend removing the Company's intercompany direct incentive compensation costs from labor expense, totaling $101,762 for SA1 and $46,948 for SA2, from the Rate Year forecast. We have included the removal of incentive compensation related to intercompany indirect employees with our adjustment to indirect shared services, which we previously discussed.

Q. Did the Company state any implications of denying recovery of incentive compensation?

A. Yes. On page 23 of the Company Revenue Requirement Panel's initial testimony, Liberty NYW indicated that eliminating the incentive compensation program would "significantly impede the Company's ability to attract and retain qualified employees."

Q. Does the Panel agree?

A. No. Our proposed adjustments should not impede the Company's ability to attract and retain qualified employees. As the Company noted in response to DPS-238, it did not eliminate the program when the Commission previously denied cost recovery for the non-union incentive compensation program during the current rate plan. Should the Commission adopt our adjustments, we expect the Company will continue to provide incentive compensation to its employees during the Rate Year, just at the expense of shareholders and affiliates, as the program predominantly benefits those entities.

Bad Debt Expense

Q. What is the Company's Rate Year forecast for bad debt expense?

A. As shown in Schedule 5 of Exhibit__(RRP-1) and

Exhibit__(RRP-2) to the Company's initial filing, the Company's Rate Year forecast of bad debt expense is $713,989 for SA1 and $211,593 for SA2. In the Company's C&U filing, Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2) show the Company's updated Rate Year forecast of bad debt expense is $742,151 for SA1 and $294,935 for SA2.

Q. How did the Company develop its Rate Year forecast?

A. The Company began with its Historic Test Year bad debt expense and made a normalizing adjustment to reflect a level of bad debt expense that is more representative of ongoing operations. To calculate the normalizing adjustment, the Company used a net write-off rate based on the actual Historic Test Year net write-offs, less recalls and recoveries, divided by total revenue for the same period. The Company then applied the resulting consolidated net write-off rate for SA1 and SA2 to forecasted revenues at present rates for each service area to derive a normalized level of bad debt expense. The Company's normalizing adjustment

reflects the difference between the normalized level of bad debt expense and the bad debt expense recorded in the Historic Test Year. The Company then applied inflation at a rate of 6.33 percent from the end of Historic Test Year through the Rate Year.

Q. Did the Company forecast additional bad debt expense?

A. Yes. As shown in Schedule 3 of the Company's Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company forecasted additional bad debt expense associated with the proposed rate increase by applying the net write-off rate to its requested increases for SA1 and SA2.

Q. What is the net write-off rate the Company used to forecast bad debt expense in the Rate Year?

A. In the Company's initial filing, as shown in Schedule 9 of the Company's Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company used a net write-off rate of 0.17 percent on a consolidated basis. In the Company's C&U filing, as shown in Schedule 9 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company updated their net write-off rate to 0.62 percent on a

consolidated basis.

Q. Why did the Company update their net write-off rate?

A. In response to DPS-228, the Company explained that the revenues used to calculate the net write-off rate in the Company's initial filing were inadvertently presented on a cumulative month-to-month basis, thereby overstating the total revenues. This resulted in an understated net write-off rate.

Q. Does the Panel agree with the Company calculating the net write-off rate on a consolidated basis?

A. No. The Panel recommends using the actual net write-offs and revenues of each service area to calculate separate rates as that will provide the most accurate data to forecast the Rate Year bad debt expense for SA1 and SA2.

Q. Does the Company agree that a separate net write-off rate should be calculated for SA1 and SA2?

A. In response to DPS-182, the Company stated that it did not analyze the actual bad debts for SA1 and SA2 at the time of filing but, if Staff

requested, the Company could update its method in its C&U filing. However, in response to DPS-294, in which Staff requested the Company provide separate rates based on actual bad debt expense, the Company stated that it calculated bad debt expense based upon the Company's Allowance For Doubtful Accounts (AFDA) Policy, and the Company used the same rates for both SA1 and SA2.

Q. Did the Panel calculate separate rates for SA1 and SA2?

A. Yes. In response to DPS-196, the Company provided the net write-offs, recalls and recoveries, monthly revenues, and monthly net write-off rates by service area for November 2022 through June 2026. We calculated a separate net write-off rate for SA1 and SA2 by taking the average of monthly net write-off rates for each service area for the period of the Historic Test Year.

Q. What is the net write-off rate that the Panel calculated for each service area?

A. The net write-off rates we calculated are 0.70 percent for SA1 and 0.43 percent for SA2.

Q. Does the Panel agree with the Company using the Historic Test Year data to calculate the net write-off rate rather than a multi-year average?

A. Yes. Our analysis of the Company's data provided in response to DPS-196 showed that net write-offs increased by 1,006 percent in SA1 and 743 percent in SA2 from 2023 to 2024 and then decreased by 79 percent in SA1 and 61 percent in SA2 from 2024 to 2025.

Q. Did the Company explain the significant variation in net write-offs?

A. Yes. In response to DPS-294, the Company stated that net write-offs increased from 2023 to 2024 due to the Company having activated its system generated write-off routine in its SAP software. The Company stated that prior to 2023, its collection team processed write-offs manually and there was a significant backlog of accounts that were eligible to be written off based on Company policy. Thus, the Company explained that this system's activation increased capacity for writing off this significant backlog of otherwise eligible balances in 2024. Net write-offs decreased from calendar year 2024 to 2025

after the backlog was written off, and in calendar year 2025, write-offs became representative of normal collection activities again.

Q. Are there other reasons why the Panel agrees with the Company's use of Historic Test Year data to calculate the net write-off rate rather than a multi-year average?

A. Yes. In response to DPS-196, where the Company provided separate data for each service area, the Company noted that separate data for SA1 and SA2 is unavailable prior to November 2022. Prior to that time, write-off activity was recorded and maintained in American Water Work Company, Inc.'s legacy customer information system. Liberty NYW stated that, following the Company's acquisition of these systems, the Company no longer has access to the legacy system. Given the anomaly in data for calendar years 2023 and 2024 due to an event that is not expected to recur in the Rate Year, as well as the Company's lack of access to unconsolidated data for years prior to calendar year 2023, we agree with the Company's use of the Historic

Test Year to calculate the net write-off rate.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of bad debt expense?

A. Yes, we have one adjustment. We recommend calculating bad debt expense by applying the Panel's net write-off percentages to the Panel's Rate Year revenue forecasts for each service area.

Q. Please explain why using the Panel's net write-off percentages and Rate Year revenue forecasts for each service area is more appropriate.

A. Calculating bad debt expense for ratemaking purposes typically involves applying the net write-off percentages to revenues. As revenues increase, it is likely that bad debt will increase as well, resulting in an increase in net write-offs. The Company's methodology only considers this direct relationship between bad debt expense and revenues for the revenue increase portion. The use of inflation to forecast bad debt expense for the Rate Year does not take into consideration the direct relationship between bad debt and revenues.

Further, there is no link between inflation and bad debt expense.

Q. Please quantify your adjustment to the Company's Rate Year forecast of bad debt expense.

A. We recommend increasing bad debt expense for SA1 by $10,974 and decreasing bad debt expense for SA2 by $110,106.

Benefits and Employee Costs

Q. What is the Company's Rate Year forecast for total benefits and employee costs?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast of total benefits and employee costs is $3,138,917 for SA1 and $1,715,554 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast of benefits and employee costs is $3,265,532 for SA1 and $1,735,187 for SA2.

Q. How did the Company develop its Rate Year forecast of direct benefits and employee costs?

A. Based on the attachments to the Company's response to DPS-320, "DPS-320.1 – RRP-CU-1," and

"DPS-320.2 – RRP-CU-2," for SA1 and SA2, respectively, the Company applied an inflation rate of 6.33 percent to its Historic Test Year amount of $1,382,125 for SA1 and $815,478 for SA2. This resulted in a direct benefits and employee costs forecast for the Rate Year of $1,469,544 and $867,057 for SA1 and SA2, respectively.

Q. What is the Company's ratio of direct benefits and employee costs to direct labor expense?

A. Again based on attachments "DPS-320.1 – RRP-CU-1," and "DPS-320.2 – RRP-CU-2," the Company's Historic Test Year direct benefits and employee costs to direct labor expense ratio is 22.72 percent and 24.04 percent for SA1 and SA2, respectively.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of direct benefits and employee costs?

A. Yes. We recommend applying the Company's Historic Test Year ratio of direct benefits and employee costs to direct labor expense to Staff's recommended direct labor expense to forecast the Rate Year direct benefits and

employee costs.

Q. Please quantify your adjustment to the Company's Rate Year forecast of direct benefits and employee costs.

A. Applying the Company's Historic Test Year ratio of direct benefits and employee costs to direct labor expense, of 22.72 percent and 24.04 percent for SA1 and SA2, results in a Rate Year forecast of direct benefits and employee costs of $1,307,933 for SA1 and $792,851 for SA2. This represents a decrease to the Company's Rate Year forecast of direct benefits and employee costs of $161,611 and $74,206 for SA1 and SA2, respectively, as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Employee Related Costs

Q. Please explain what type of costs are included in employee related costs.

A. Employee related costs include travel expenses, meals, and training.

Q. What is the Company's Rate Year forecast for employee related costs?

A. In the Company's initial filing as shown in Schedule 5 of Exhibit__(RRP-1) and

Exhibit__(RRP-2), the Company's Rate Year forecast of employee related costs, inclusive of employee related costs associated with shared services, is $508,185 for SA1 and $232,986 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast for employee related costs is $531,535 and $231,965 for SA1 and SA2, respectively.

Q. How did the Company develop its Rate Year forecast of employee related costs?

A. In the Company's response to DPS-320 the Company stated it applied an inflation rate of 6.33 percent to its Historic Test Year employee related costs of $499,915 and $218,166 for SA1 and SA2, respectively.

Q. Did the Panel request the Company provide information to support the Historic Test Year amounts related to employee related costs?

A. Yes. The Panel requested the Company provide invoices and any workpapers to support the Historic Test Year amounts for employee related costs.

Q. Did the Company provide the costs included in the employee related costs for the Historic Test Year?

A. Yes. In response to DPS-256 the Company provided data related to employee related costs, including a travel cost of $485,531.

Q Did the Panel request the Company provide support for the expense?

A. Yes. To gain a better understanding of the nature of the expense and determine whether the cost was appropriate and would recur in the Rate Year, the Panel requested the Company provide support for the expense.

Q. Did the Company provide an explanation for the expense?

A. Yes. In response to DPS-384 the Company explained that the $485,531 relates to fleet depreciation.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of employee related costs?

A. Yes. Since the Company has included transportation depreciation as part of its depreciation expense, we recommend removing the

amounts the Company had miscategorized as a travel cost but subsequently explained was fleet depreciation from the Company's Rate Year forecast. This adjustment removes a double count in the Company's Rate Year forecast related to depreciation as the Company included fleet depreciation in both depreciation expense and as a travel cost in employee related costs.

Q. Please quantify your adjustment to employee related costs.

A. We recommend reducing the Company's employee related costs to remove the transportation depreciation in the amount of $485,531, allocated $328,219 and $157,312 between SA1 and SA2, respectively. Additionally, we removed the associated inflation on this amount, which resulted in an aggregate reduction of $348,979 and $167,262 for SA1 and SA2, respectively.

Pension and Other Post-Employment Benefits Expense

Q. What is the Company's Rate Year forecast for pension expense?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year

pension expense forecast was ($20,684) for SA1 and ($9,913) for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the updated Rate Year pension expense forecast is $20,285 for SA1 and $9,359 for SA2.

Q. What is the Company's Rate Year forecast for OPEBs?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year OPEBs expense forecast was $133,617 for SA1 and $64,041 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the updated Rate Year OPEBs expense forecast is ($131,039) for SA1 and ($60,461) for SA2.

Q. How did the Company develop its Rate Year forecast of pension and OPEBs expense?

A. As stated on pages 19 and 20 of the Company Revenue Requirement Panel's initial testimony, the Company adjusted its Historic Test Year pension and OPEBs expense to align these expenses with the authorized amounts established

in the Company's last rate proceeding in Case 23-W-0235. Additionally, the Company adjusted the expenses to reflect the portion attributable to capital projects that are capitalized rather than expensed, using a capitalization rate of 25.9 percent. The Company then applied an inflation rate of 3.22 percent to arrive at its Rate Year pension and OPEBs expense forecasts. In its C&U filing, the Company updated its forecasts to more accurately reflect the amounts included in the actuary report and to remove inflation from the Rate Year forecast.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of pension and OPEBs expense?

A. Yes. We recommend two adjustments to the Company's Rate Year forecast of pension and OPEBs expense.

Q. Please explain your first adjustment to the Company's Rate Year forecast of pension and OPEBs expense.

A. We recommend updating the Company's pension and OPEBs expense to reflect more recent actuarial reports provided in response to DPS-157 and DPS-

160, as the amounts included in these reports are more reflective of the costs the Company is expected to incur in the Rate Year. Our calculation prorates the updated pension and OPEBs amounts reflected in the actuary reports for calendar years 2027 and 2028 to determine the Rate Year forecast of pension and OPEBs expense.

Q. Please explain your second adjustment to the Company's Rate Year forecast of pension and OPEBs expense.

A. In March 2017, the Financial Accounting Standards Board, or FASB, issued an Accounting Standard Update for Compensation–Retirement Benefits. Part of this update resulted in a change in accounting principles related to the capitalization of pension and OPEBs costs. Specifically, this update restricts capitalization of the net periodic pension and OPEBs costs to the service cost component. In its Order Concerning the Accounting and Ratemaking Treatment for Pensions and Post-Retirement Benefits Other Than Pensions dated December 18, 2017, issued in Case 17-M-0363,

referred to as the FASB Update Order, the Commission adopted the FASB update as it relates to not capitalizing the non-service components of pension and OPEBs costs. Consistent with the FASB Update Order, we applied the Company's labor capitalization rate of 25.9 percent to the service cost component only and expensed the entire non-service cost components.

Q. Does the Panel agree with the Company removing inflation from the Rate Year forecast?

A. Yes. The forecast for pension and OPEBs expenses should be based solely on the actuarial reports. Actuaries assess the financial consequences of risks and use mathematics, statistics, and financial theories to analyze and determine the financial impact of uncertain future events. This goes beyond just applying inflation to a certain component. Further, since our Rate Year forecast prorates the Company's calendar years 2027 and 2028 actuarial reports, we are using data specifically forecast for the Rate Year, thus adding inflation is not needed.

Q. Please quantify your adjustment to pension and

OPEBs expense.

A. We recommend decreasing SA1 and SA2 pension expense by $1,064,334 and $491,698, respectively and decreasing SA1 and SA2 OPEBs expense by $154,008 and $71,227 respectively.

Q. Are there any other adjustments?

A. As we previously discussed, we recommend an additional adjustment to the Company's Rate Year forecast of pension expense related to shared services. This adjustment decreases the Company's pension expense for SA1 and SA2 by $2,278 and $1,038, respectively. In total, our adjustments result in a Rate Year forecast for pension expense of ($1,046,327) for SA1 and ($483,377) for SA2, and OPEBs expense of ($285,046) for SA1 and ($131,688) for SA2.

Purchased Power Expense

Q. What is the Company's Rate Year forecast for purchased power expense?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast for purchased power expense was $3,659,444 for SA1 and $2,031,529 for SA2. In

the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast for purchased power expense is $3,760,395 for SA1 and $2,092,736 for SA2.

Q. How did the Company develop its Rate Year forecast?

A. The Company began with its Historic Test Year purchased power expense and applied inflation at a rate of 6.33 percent from the end of the Historic Test Year through the Rate Year. The Company then made an adjustment to the Rate Year to reflect lead pipe identification costs in SA1 only, as shown in WP 5-3 in Exhibit__(RRP-CU-1).

Q. Is Staff recommending any adjustments to the Company's Rate Year forecast of purchased power expense?

A. Yes. As discussed in the Staff Infrastructure and Operations Panel's testimony, Staff recommends reclassifying $308,333 from purchased power expense to maintenance costs expense.

Other Miscellaneous Expenses

Q. What is the Company's Rate Year forecast of total other miscellaneous expenses?

A. In the Company's initial filing as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast of total other miscellaneous expense was $1,230,607 for SA1 and $447,648 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast for total other miscellaneous expense is $1,277,803 and $495,082 for SA1 and SA2, respectively.

Q. How did the Company develop its Rate Year forecast for direct other miscellaneous expense?

A. The Company applied an inflation rate of 6.33 percent to its Historic Test Year expenses for SA1 and SA2 of $437,449 and $85,352, respectively, which results in a direct other miscellaneous expenses Rate Year forecast for direct other miscellaneous expense of $465,118 and $90,751 for SA1 and SA2, respectively.

Q. Does the Panel agree with the methodology used by the Company to develop its Rate Year forecast?

A. No. Based on a review of the direct other miscellaneous expenses for calendar years 2024

and 2025, which the Company provided in response to DPS-257, these expenses appear to fluctuate from year to year. Therefore, using the Historic Test Year expense exclusively may overstate or understate the Company's direct other miscellaneous expenses during the Rate Year.

Q. What were the expenses incurred by the Company in calendar year 2024 compared to the expenses incurred by the Company in calendar year 2025?

A. The expenses incurred in calendar year 2024 were $394,398 and $189,031, for SA1 and SA2, respectively. In calendar year 2025, the Company incurred expenses of $437,449 and $85,352, for SA1 and SA2, respectively. Thus, the expenses for SA1 increased by roughly 11 percent, while for SA2 the expenses decreased by roughly 55 percent.

Q. Does the Panel have any adjustments to direct other miscellaneous expenses?

A. Yes. The Panel recommends using the average annual direct other miscellaneous expense for calendar years 2024 and 2025, plus general inflation, to forecast the Rate Year direct

other miscellaneous expenses.

Q. Explain the Panel's rationale for using a two-year average to forecast direct other miscellaneous expenses.

A. An average of two or more years is a more accurate method of forecasting the direct other miscellaneous expenses as it lessens the impact of any anomalies that may occur in a one-year period and reduces the fluctuation in expenses incurred by the Company from year to year.

Q. Please quantify your adjustment to direct other miscellaneous expenses.

A. The Panel developed our two-year average of direct other miscellaneous expenses based on the calendar year 2024 expenses of $394,398 for SA1 and $189,031 for SA2, and the calendar year 2025 expenses of $437,449 for SA1 and $85,352 for SA2. This resulted in a two-year average of $415,924 and $137,192 for SA1 and SA2, respectively. We then inflated the two-year average by an inflation rate of 7.52 percent. The 7.52 percent inflation rate represents inflation from December 31, 2025, through April 30, 2028, based on the Gross Domestic

Product, or GDP, price deflator, which we will explain later. This results in a decrease to the Company's Rate Year forecast of other direct miscellaneous expense of $22,887 for SA1 and an increase of $55,118 for SA2, as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Q. Does the Panel have any other adjustments to other miscellaneous expense?

A. Yes. In one of the Company's workpapers supporting its C&U filing that the Company provided in response to DPS-320, "Attachment DPS 320.1 – RRP-CU-1," table "WP 5-3 RY1 Adjs by Category," the Company included expenses in the amount of $91,237 in other miscellaneous expense for chemical clean up and included the same expense in the Rate Year forecast of materials & supplies expense.

Q Did the Company clarify whether the expenses should be included in other miscellaneous expense or materials and supplies?

A. Yes. In response to DPS-369, the Company indicated the amount related to chemical clean-up should be reflected in materials and

supplies.

Q. Please explain and quantify your adjustment to other miscellaneous expense.

A. The Panel recommends the removal of $91,237 from SA1 for other miscellaneous expense to eliminate counting this expense twice.

Materials and Supplies

Q. What is the Company's Rate Year forecast of total materials and supplies?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast of total materials and supplies was $3,141,297 for SA1 and $1,468,238 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast is $3,248,182 and $1,472,414 for SA1 and SA2, respectively, for total materials and supplies.

Q. How did the Company develop its Rate Year forecast for direct materials and supplies?

A. The Company applied an inflation rate of 6.33 percent to its Historic Test Year materials and supplies for SA1 and SA2 of $1,607,611 and

$722,065, respectively. This results in a direct materials and supplies Rate Year forecast of $1,709,292 and $767,736 for SA1 and SA2, respectively.

Q. Does the Panel agree with the Company's methodology for developing its Rate Year forecast?

A. No. Based on our review of the costs incurred for materials and supplies for calendar years 2024 and 2025, which the Company provided in response to DPS-246, these expenses tend to fluctuate from year to year. Therefore, using the Historic Test Year expense may overstate or understate the amount of materials and supplies for the Rate Year.

Q. What was the amount of material and supplies costs the Company incurred in calendar year 2024 compared to what the Company incurred in calendar year 2025?

A. The Company incurred $437,821 for SA1 and $209,843 for SA2 in calendar year 2024 for material and supplies costs. For calendar year 2025, the Company incurred $1,607,611 for SA1 and $722,605 for SA2. Thus, the expenses for

SA1 increased by roughly 267 percent and the expenses for SA2 increased by roughly 244 percent.

Q. Does the Panel recommend any adjustments to direct materials and supplies?

A. Yes. The Panel recommends using the average annual direct materials and supplies expense for calendar years 2024 and 2025, plus general inflation, to forecast the Rate Year direct materials and supplies.

Q. Explain the Panel's rationale for using a two-year average to forecast direct materials and supplies.

A. Due to the significant disparity between the direct material and supplies costs between calendar years 2024 and 2025, an average of two or more years is a more accurate method of forecasting the direct materials and supplies as it lessens the impact of any anomalies that may occur in a one-year period and reduces the fluctuation in expenses the Company incurred from year to year.

Q. Please quantify your adjustment to direct materials and supplies expense.

A. The Panel developed its two-year average based on the calendar year 2024 materials and supplies of $437,821 and $209,843, for SA1 and SA2, respectively and the calendar year 2025 direct materials and supplies of $1,607,611 and $722,605 for SA1 and SA2, respectively. This results in a two-year average of $1,022,716 and $465,964 for SA1 and SA2, respectively. We then inflated the two-year average amounts by an inflation rate of 7.52 percent. The 7.52 percent inflation rate represents inflation from December 31, 2025, through April 30, 2028, based on the GDP deflator. This results in a decrease to the Company's Rate Year forecast of materials and supplies of $621,890 for SA1 and a decrease of $272,310 for SA2, as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Regulatory Commission Assessment

Q. What is the regulatory commission assessment?

A. In accordance with Section 18-a of the New York State Public Service Law, the Department assesses utilities under its jurisdiction an annual fee referred to as the General Assessment that is used to support the costs of the

Department.

Q. How are the regulatory assessment fees calculated by the Department?

A. First, the Department calculates a General Assessment rate by dividing the total New York State regulatory costs by the total intrastate utility revenues. This rate is then applied to the intrastate revenues of the utility to arrive at the General Assessment. There are three letters sent to utilities each year that determine the regulatory assessment fees. The rates in the Initial Assessment letter, sent in February, are based on the enacted state budget of the prior year, as well as the two-year prior revenues of the utility. The Revised Assessment letter, sent in the month of August, provides an updated executive budget and revenues. The Final Assessment letter, sent in mid-October, includes an actual budget and updated revenues. The Final Assessment is the actual amount owed by the utility for the year and reconciles any amount paid to date to determine if the utility overpaid or has a balance due.

Q. What is the Company’s regulatory commission

assessment forecast for the Rate Year?

A. In the Company's initial filing, as shown in Schedules 5 and 7 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year regulatory commission assessment forecast was $8,886 classified as O&M expense and $303,706 classified as Taxes Other Than Income for SA1, and $3,792 classified as O&M expense and $178,633 classified as Taxes Other Than Income for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company reclassified the portion of regulatory commission assessment initially included in Taxes Other Than Income to O&M expense, which resulted in an updated Rate Year regulatory commission assessment forecast of $352,716 for SA1 and $161,444 for SA2.

Q. Does the Panel agree with reclassifying the regulatory commission assessment from Taxes Other Than Income to an O&M expense?

A. Yes. The regulatory commission assessment is an expense, rather than a tax, and therefore should be classified as an expense.

Q. Does the Panel have any adjustments to the

Company's Rate Year forecast of regulatory commission assessment?

A. Yes, we recommend one adjustment.

Q. Please explain your adjustment.

A. We recommend using the latest known regulatory commission assessment cost that the Department of Public Service provided to the Company. This cost is reflected in a Statement of Revised Assessment dated August 10, 2026, that the Company provided in response to DPS-304 to forecast the regulatory commission assessment.

Q. Please quantify your adjustment.

A. We recommend decreasing the Company's regulatory commission assessment forecast for SA1 by $44,909 and for SA2 by $19,241.

Productivity

Q. What is a productivity adjustment?

A. It is an adjustment to account for unquantifiable and unidentified efficiencies and cost savings during the Rate Year.

Q. Did the Company reflect a productivity adjustment in its filing for SA1 or SA2?

A. No. In its response to DPS-026, the Company indicated that it does not currently have, nor

does it plan to implement, any formal productivity programs specifically intended to reduce workforce levels, change crew sizes, or generate quantified cost savings. The Company routinely evaluates staffing and work practices as part of normal operations to ensure safe, reliable, and efficient service. Any efficiencies achieved through these ongoing management practices are reflected in the Company's Historical Test Year costs included in this rate filing.

Q. Did the Company list, quantify, or provide support for efficiencies achieved through the ongoing management practices that are reflected in the Company's rate filing?

A. No. In response to DPS-172, the Company indicated that the Company has no specific studies, reports, or quantifications regarding efficiencies achieved through ongoing management practices during the historical test year. The Company does not have a written policy manual or other formal policy documentation addressing the routine evaluation of staffing and work practices referenced in the request.

Q. Does the Panel agree with the Company's exclusion of a productivity adjustment?

A. No. First, the Company is misinterpreting the purpose of the productivity adjustment. The productivity adjustment is not meant to capture unquantifiable and unidentified efficiencies and cost savings retrospectively for the Historic Test Year. Instead, the productivity adjustment is meant to capture unquantifiable and unidentified efficiencies and cost savings prospectively in the Rate Year. Further, it is unreasonable to assume the Company would not achieve any efficiencies and cost savings during the Rate Year.

Q. What is the Commission's general policy on productivity?

A. The Commission has a long-standing policy of imputing a productivity adjustment to capture unquantifiable and unidentified efficiencies and cost savings that could be realized in the Rate Year. By its nature, the productivity adjustment recognizes the impossibility of specifying all the efficiencies and cost savings in advance.

Q. How is the productivity adjustment typically calculated?

A. Typically, labor and benefits are used as a proxy to calculate the productivity adjustment. Thus, the productivity adjustment is calculated by taking a percentage, generally one percent to two percent of labor expense, employee benefits, pension and OPEBs expense, and the associated payroll taxes.

Q. Are the unquantifiable and unidentified efficiencies and cost savings expected to be achieved through any one program or cost?

A. No. As articulated in various Commission Orders, including the October 3, 1996, Opinion and Order Concerning Revenue Requirement and Rate Design in Case 95-G-1034, the Commission has indicated the productivity adjustment is not intended to capture savings associated with a particular program.

Q. Does the Panel recommend any adjustments?

A. Yes. We recommend imputing a one percent productivity adjustment.

Q. Please quantify your recommended productivity adjustment.

A. To calculate the adjustment, we multiplied our forecasted Rate Year labor expense, benefits and employee costs, pension and OPEBs expense, and payroll taxes by one percent. This results in an adjustment of $109,097 to SA1, and $53,761 to SA2, as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Inflation

Q. How did the Company calculate its general inflation factor?

A. As stated on page 18 of the initial testimony of the Revenue Requirement Panel, the Company derived its general inflation rate based on the Federal Reserve Bank of Philadelphia (March 6, 2026) and the Federal Open Market Committee's March 2026 Projections (March 18, 15 2026).

Q. What is the general inflation rate that the Company reflected in its filing for the twelve months ended December 31, 2025, through April 30, 2028?

A. In Company's initial filing as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2) the Company reflected a general inflation rate of 6.33 percent. In the Company's C&U filing, as

shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2) the Company reflects a general inflation rate of 6.33 percent.

Q. Does the Panel agree with the Company's general inflation factor?

A. No. The Commission has historically adopted a general inflation rate based on using the weighted average of the GDP price deflator as published by the United States Bureau of Economic Analysis.

Q. What is the GDP price deflator?

A. The GDP price deflator is an economic measure that tracks the overall change in prices for all domestically produced goods and services in an economy.

Q. Did the Panel calculate its recommended general inflation rate based on the GDP price deflator?

A. Yes. The Panel used the GDP price deflator to calculate an inflation rate of 7.52 percent.

Q. What cost components did the Panel apply its general inflation rate to?

A. The Panel applied our general inflation rate to the following cost components: chemicals; communications; customer related costs; employee

related costs; fleet and facilities; insurance; office expenses; professional services; purchased power; purchased water; rental expenses; site operations costs; other miscellaneous expenses; maintenance costs; and materials and supplies. Inflation adjustments to these items are shown in a separate column on Schedule 2 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Regulatory Deferrals and Amortizations

Rate Case Expense

Q. What is the Company's forecast of rate case expense for the Rate Year?

A. As shown on tables labelled "WP 2-11-3-XX" in the attachments to the Company's response to DPS-320, "Attachment DPS-320.1 – RRP-CU-1" and "Attachment DPS-320.2 – RRP-CU-2," the Company forecasts a rate case expense of $1,693,170, which the Company allocated 68.4 percent to SA1 and 31.6 percent to SA2, resulting in rate case expense of $1,158,596 and $534,575 for SA1 and SA2, respectively. The Company proposes amortizing the costs over a three-year period, or $386,199 and $178,191 annually for SA1 and

SA2, respectively.

Q. Does the Panel agree with the Company's proposal to amortize the rate case expense over a three-year period?

A. Yes.

Q. What costs are included in the Company's forecasted rate case expense?

A. The Company included estimated legal costs related to this proceeding of $650,000; consultant costs associated with the development of its sales and revenue forecast of $118,564; consultant costs associated with the development of the Company's proposed return on equity and capital structure of $144,017; consultant costs associated with the development of the Company's allocated cost of service study of $162,957; consultant costs associated with the development of the Company's rate design and bill impacts of $132,212; consultant costs associated with the development of the Company's revenue requirement of $114,000; consultant costs associated with the development of the Company's depreciation study of $97,420; consultant costs associated with the development of the Company's water

conservation testimony of $20,000; consultant costs associated with the development of the Company's compensation study of $69,000; communication costs of $175,000; and travel costs of $10,000.

Q. Are there any additional consultant costs included in rate case expense?

A. Yes. In response to DPS-340, the Company indicated that it engaged Charles River Associates, referred to as CRA, to develop the Company's affordability testimony at a not-to-exceed cost of $95,000 that the Company states it inadvertently omitted from its C&U filing.

Q. How does this additional cost impact the Company's forecast of rate case expense for the Rate Year?

A. This additional cost increases the Company's rate case expense from $1,693,170 to $1,788,170, or $1,223,602 to SA1 and $564,568 to SA2. Based on a three-year amortization, the annual amount amortized would be $407,867 for SA1, and $188,189 for SA2.

Q. Does the Panel agree with the Company reflecting these additional costs?

A. Yes.

Q. What has the Company incurred to date for rate case expense?

A. In response to DPS-133, the Company indicated that it has incurred $317,615 as of May 31, 2026, which was the most recent update provided to Staff before preparation of this testimony.

Q. Does the Panel have any adjustments to the Company's forecasted rate case expense?

A. Yes. We recommend an adjustment to reflect the not-to-exceed costs authorized in the contracts with the consulting firms hired to perform work for the Company related to this rate proceeding.

Q. Please explain.

A. In response to DPS-340, the Company indicated that it estimated additional internal labor hours based on its historical experience for work related to Gannett Fleming performing the depreciation study, as well as CRA performing the sales and revenues forecast; return on equity and capital structure analysis; allocated cost of service study; and rate design and bill impacts analysis. However, the Company did not amend the contracts with the consulting firms

for these additional estimated internal labor hours.

Q. Does the Panel have any other concerns with reflecting the not-to-exceed costs authorized in the contracts with the consulting firms?

A. Yes. The current Liberty NYW rate filing contains numerous deficiencies as addressed by the Staff Policy Panel. Thus, the Panel does not find it reasonable for the Company to recover the additional costs above the not-to-exceed amounts identified in the contracts.

Q. Please quantify your adjustment.

A. This adjustment decreases rate case expense by $320,250 from $1,788,170 to $1,467,920, which amortized over three years, results in an annual amortization of $334,821 for SA1 and $154,486 for SA2.

Q. Please summarize the Panel’s overall rate case expense.

A. In aggregate, our adjustments decrease the Company’s requested rate case expense from $1,788,170 to $1,467,920, or a reduction of $320,250, amortized over three years, or annual amortization of $334,821 for SA1 and $154,486

for SA2, as reflected in Schedule 3 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Q. Does the Panel have any recommendations regarding the amortization of rate case expense?

A. Yes. While the Panel agrees with the Company regarding the amortization period, if the Company does not file for new rates to go into effect by May 1, 2030, the Panel recommends that the Company be required to defer the annual amortization of $334,821 and $154,486 for SA1 and SA2, respectively, for ratepayer benefits. This accounting treatment not only protects ratepayers but prevents Liberty NYW from over recovering rate case expense.

Aqueous Film-Forming Foam Multi-District Litigation Settlement

Q. What does the Aqueous Film-Forming Foam Multi-District Litigation Settlement Deferral represent?

A. Liberty NYW has been actively participating in an Aqueous Film-Forming Foam multi-district litigation, referred to as AFFF MDL, related to claims of per- and polyfluoroalkyl substances, referred as PFAS, from firefighting foams

contributing to groundwater contamination. The AFFF MDL proceeding addresses the questions about the toxicity of PFAS, particularly perfluorooctanoic acid, referred to as PFOA, and perfluorooctane sulfonic acid, referred to as PFOS, impacting human health. In July 2023, the first settlements from 3M Company and DuPont were approved. Compensation is structured in two phases with disbursement of funds starting in 2025 and future settlement proceeds are expected through 2033.

Q. Has the Company filed a petition with the Commission regarding the disposition of these funds?

A. Yes. On April 27, 2026, the Company filed a petition with the Commission, under Case 26-W-0282, seeking authorization to defer the net settlement funds received to date from 3M Company and DuPont, in the amount of $4,580,376, as a regulatory liability for future disposition to customers by the Commission.

Q. What is the status of the Company’s petition?

A. The petition is currently pending with Commission.

Q. Does the Company make any proposal in this proceeding regarding the settlement proceeds?

A. Yes. The Company proposes amortizing the settlement proceeds received to date for the benefit of customers, as part of this proceeding, over a three-year period to mitigate the customer bill impacts. In addition, the Company expects to receive additional compensation from defendants involved in the AFFF MDL as claims are submitted and finalized through 2033. The Company proposes to record any future funds resulting from that proceeding as a regulatory liability to be used to moderate future rate increases due to the timing of those funds being received.

Q. Does the Panel agree with the Company's proposal to pass back the AFFF MDL Settlement proceeds to customers?

A. Yes, the Panel agrees with the Company's proposal to pass back the AFFF MDL settlement proceeds to customers to mitigate customer bill impacts resulting from this proceeding.

Q. Does the Panel agree with the Company's proposal to amortize the deferral over a three-year

period?

A. No. We do not agree with a three-year amortization for a one-year rate plan that is currently proposed. Our recommendations concern a single Rate Year. Accordingly, for a one-year rate plan, we recommend the Commission require that the Company pass back the entire proceeds received to date to mitigate the customer bill impacts in the Rate Year.

Q. Explain how the Company reflected the current AFFF MDL Settlement proceeds in its filing.

A. As shown on the tables labelled "WP 2-11-16" in the attachments to the Company's response to DPS-320, "Attachment DPS-320.1 – RRP-CU-1" and "Attachment DPS-320.2 – RRP-CU-2," the Company updated the funds received to date from $4,580,376 to $6,442,388. The Company allocated these funds based on a system-specific allocation factor of 69.4 percent to SA1 and 30.6 percent to SA2, or $4,471,871 and $1,970,518 to SA1 and SA2, respectively. The Company amortized these amounts over a three-year period resulting in an annual amortization of $1,469,457 and $678,006 for SA1 and SA2,

respectively.

Q. Does the Panel agree with the Company's updated amounts for the AFFF MDL Settlement?

A. No. In the Company's initial and supplemental responses to DPS-132, the Company received additional settlement proceeds, inclusive of interest accrued, in the amounts of $933,672 on June 8, 2026, and $1,033,019 on August 14, 2026. Thus, the total settlement funds received to date, inclusive of interest accrued, are $6,547,067 or an increase of $1,966,691 from the $4,580,376 reflected in the Company's initial filing.

Q. Did the Company propose to allocate a portion of these settlement funds to any other water systems it operates?

A. Yes. On page 15 of the Company's Corrections and Updates Panel Testimony, the Company proposes to allocate a portion of the settlement funds to Arbor Hills and Painted Apron for which it has been appointed the temporary operator. The correct amount attributed to Arbor Hills is $88,520 and to Painted Apron is $12,814. Thus, the total remaining settlement funds

attributable to Liberty NYW are $6,445,733, which are allocated by the system-specific allocation factor of 69.4 percent and 30.6 percent to SA1 and SA2, respectively, or $4,473,983 to SA1 and $1,971,750 to SA2.

Q. Please quantify the Panel's recommendations to modify the amortization period from a three-year amortization to a one-year amortization?

A. Based on a one-year amortization, the AFFF MDL Settlement amortization expense will be $4,473,983 for SA1, or an increase of $3,004,526 from the Company's proposed amount of $1,467,457, and $1,971,750 for SA2, or an increase of $1,293,744 from the Company's proposed amount of $678,006.

Pension Settlement Gain (SA2 Only)

Q. What does the SA2 Pension Settlement Gain represent?

A. As shown in the Company's response to DPS-344, the Company's SA2 pension settlement gain includes a net settlement gain realized in calendar year 2023 in the amount of $235,011, and a net settlement gain realized in calendar year 2025 in the amount of $168,160, for a total

settlement gain of $403,171. These settlement gains are the result of provisions in the Company's pension plan that allow eligible employees to withdraw their pension as a lump-sum payment. Settlement gains and losses arising from these payments are recognized and accounted for in accordance with FASB Statement No. 88.

Q. Please explain what FASB Statement No. 88 is.

A. FASB Statement No. 88 establishes standards for an employer's accounting for the settlement of defined benefit pension obligations. This statement describes the methodology to determine the amount to be recognized in earnings when a pension obligation is settled.

Q. Define settlement in the context of a defined benefit pension plan.

A. Settlement in the context of a defined benefit pension plan is an irrevocable action that relieves the employer of primary responsibility for an obligation, and eliminates significant risks related to the obligation and the assets used to effectuate the settlement. When a company makes a lump-sum pension payment to an

employee, the lump-sum payment constitutes a settlement of the company's pension obligation for that participant.

Q. How does the Commission's Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pension, issued on September 7, 1993, referred to as the Pension Policy Statement, treat settlement gains and losses recognized under FASB Statement No. 88?

A. The Commission's Pension Policy Statement has several main provisions dealing with the settlement of pension and OPEBs plan benefits. These provisions require utilities to: 1) Notify the Director of the Office of Accounting, Audits and Finance, or OAAF, within thirty days of the completion of such transactions, 2) defer all gains from settlements on the utility's books for future Commission disposition, and 3) file a petition with the Commission if they wish to defer a loss for future rate recognition.

Q. Did the Company notify the Director of OAAF of the transactions that resulted in settlement

gains in calendar years 2023 and 2025?

A. The Director of OAAF received notification regarding the transactions that resulted in a net settlement gain of $235,011 in calendar year 2023, but received no such notification for the transactions that resulted in a net settlement gain of $168,160 in calendar year 2025.

Q. Why does the Commission require a separate petition to be filed in order to defer a loss for future rate recognition but not a gain?

A. The Pension and Policy Statement notes that the asymmetric treatment of gains and losses arising from pension settlements is appropriate because utilities have no incentive to defer gains since shareholders would be the primary beneficiaries of such transactions. On the other hand, the Commission stated that a company that incurs a loss in a settlement transaction should be required to demonstrate how the transaction is in the ratepayers' interest in order to recover the cost from ratepayers.

Q. What does the Company propose in this proceeding regarding the SA2 pension settlement gain?

A. The Company proposes to amortize the total gain

for 2023 and 2025 of $403,171 over a three-year period for the benefit of ratepayers in the amount of $134,390 per year.

Q. Does the Pension and Policy Statement require a specific amortization period to be used for gains and losses arising from pension settlement transactions?

A. No. The Pension and Policy Statement does not require a specific amortization period for pension settlement transactions that are recognized under FASB Statement No. 88.

Q. Does the Panel agree with the Company's proposal to amortize the deferral over a three-year period?

A. No. We do not agree with a three-year amortization for a one-year rate plan. Our recommendations concern a single Rate Year. In a one-year rate plan, we recommend the Company pass back the entire amount of the gain to mitigate the customer bill impacts in the Rate Year.

Q. Can you quantify the Panel's recommendation to modify the amortization period from a three-year amortization to a one-year amortization?

A. Based on a one-year amortization, the SA2 pension settlement gain amortization expense will be $403,171 in the Rate Year, or an increase of $268,781 from the Company's proposed amount of $134,390.

Negative Revenue Adjustment

Q. What does the negative revenue adjustment, or NRA, deferral represent?

A. In the 2024 Customer Service Performance Report filed in Case 25-M-0003 on June 12, 2025, the Company failed to achieve a target related to a customer satisfaction survey metric resulting in the Company incurring an NRA of 2.5 basis points, which is equal to $86,427.

Q. What is the Company proposing regarding the NRA deferral?

A. As shown on the table "WP 2-11-11" in the attachments to the Company's response to DPS-320, "Attachment DPS-320.1 – RRP-CU-1," and on table "WP 2-11-21" of "Attachment DPS-320.2 – RRP-CU-2," the Company proposes to amortize the NRA over a three-year period, or an annual amortization of $19,475 for SA1 and $9,334 for SA2.

Q. Does the Panel agree with the Company's proposal?

A. No. In our testimony, we are addressing a single Rate Year. To mitigate the customer bill impacts in a one-year rate plan, we recommend the NRA to be passed back to customers in its entirety during the Rate Year.

Q. Please quantify your adjustment.

A. Based on a one-year amortization, we recommend an amount of $58,425 for SA1, or an increase of $38,950 from the Company's proposed amortization of $19,475, and $28,002 for SA2, or an increase of $18,668 from the Company's proposed amortization of $9,334.

Property Tax Settlement

Q. What does the property tax settlement deferral represent?

A. In response to DPS-347, the Company states that the property tax settlement deferral represents the interest accrued from May 2022 through March 2024 in the amount of $67,293 associated with a prior property tax settlement.

Q. What is the Company proposing in regard to the property tax settlement deferral?

A. As shown on table "WP 2-11-19" in the attachment to the Company's response to DPS-320, "Attachment DPS-320.1 – RRP-CU-1," and on table "WP 2-11-20" of "Attachment DPS-320.2 – RRP-CU-2," the Company allocated $1,225 to SA1 and $66,068 to SA2, based on the property in which the refund was awarded. The Company proposes to amortize the costs over a three-year period, or $408 and $22,023 annually for SA1 and SA2, respectively.

Q. Does the Panel agree with the Company's proposal?

A. Yes, we agree with the Company's proposal to pass back the accrued interest associated with the property tax settlement proceeds to customers. However, to mitigate the customer bill impacts in the Rate Year, we recommend the accrued interest be passed back to customers in its entirety during the Rate Year.

Q. Please quantify your adjustment.

A. Based on a one-year amortization, the amortization of the property tax settlement deferral would be $1,225 for SA1, or an increase of $817 from the Company's proposed amortization

of $408, and $66,068 for SA2, or an increase of $44,045 from the Company's proposed amortization of $22,023.

Tank Painting (SA1 Only)

Q. Please explain the Company's proposed tank painting deferral.

A. As shown on table "WP 2-11" of the attachment to the Company's response to DPS-320, "Attachment DPS-320.1 – RRP-CU-1," and on "WP 2-11-8" of "Attachment DPS-320.1 – RRP-CU-1," the Company proposes a regulatory deferral of $1,800,838 to paint the exterior of a water storage tank in SA1, with a proposed 25-year amortization, which results in a Rate Year amortization of $72,034.

Q. Does the Panel agree with the Company's proposal?

A. No. In response to DPS-386, the Company provided an estimate for the tank painting materials and labor in the amount of $1,256,130.

Q. What is the Panel's recommendation based on the Company's response?

A. The Panel recommends adjusting the tank painting deferral to reflect the estimate provided by the Company in the amount of $1,256,130.

Q. Please quantify your adjustment to the tank painting deferral.

A. The Panel's recommendation is a Rate Year amortization of $50,245, which represents a decrease of $21,789 from the Company's request.

Taxes Other Than Income Taxes

Payroll Taxes

Q. What is the Company's Rate Year forecast for payroll taxes?

A. In the Company's initial filing, as shown in Schedule 5 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast of payroll taxes was $1,006,546 for SA1 and $578,985 for SA2. In the Company's C&U filing, as shown in Schedule 5 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast is $1,385,362 and $743,956 for SA1 and SA2, respectively, for payroll taxes.

Q. How did the Company develop its Rate Year forecast of payroll taxes?

A. The Company applied its labor inflation rate of 6.65 percent to its Historic Test Year payroll taxes to develop its Rate Year forecast.

Q. Does the Panel have any adjustments to the Company's Rate Year forecast of payroll taxes?

A. Yes. We recommend adjusting the Company's Rate Year forecast of payroll taxes to reflect Staff's adjustments to labor expense, since payroll taxes are based on the amount of labor expenses.

Q. Please explain how the Panel calculated its adjustment?

A. The Panel calculated its adjustment by developing a labor expense to payroll tax ratio based on the Company's Historic Test Year labor expenses of $11,992,970 and $5,865,619 for SA1 and SA2, respectively, and payroll taxes of $1,298,968 and $697,561, for SA1 and SA2, respectively. This resulted in a labor expense to payroll tax ratio of 10.83 percent for SA1 and 11.89 percent for SA2. The Panel then applied these ratios to our total labor adjustments of $4,219,327 for SA1 and $1,926,992 for SA2.

Q. Please quantify your adjustment to the Company's Rate Year forecast of payroll taxes.

A. We recommend decreasing SA1 and SA2 payroll

taxes by $456,953 and $229,119, respectively, as reflected in Schedule 9 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Property Taxes

Q. What is the Company's Rate Year forecast for property taxes?

A. In the Company's initial filing as shown in Schedule 7 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast for property taxes was $34,243,719 for SA1 and $15,672,661 for SA2. In the Company's C&U filing, as shown in Schedule 7 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast for property taxes is $34,241,786 and $15,684,864 for SA1 and SA2, respectively.

Q. Please explain how the Company forecasted its property taxes for the Rate Year.

A. The Company developed a ratio of property tax expense to the average net plant balance in the Historic Test Year for SA1 and SA2. It then applied the respective ratio to the Rate Year projected net plant balance to arrive at its property tax forecasts for the Rate Year of

$34,241,786 for SA1 and $15,684,864 for SA2.

Q. Does the Panel agree with the methodology the Company uses to forecast property taxes for the Rate Year?

A. No, we do not. Although the assessed values of the Company's plant assets are impacted by increases in net plant, there are other factors that affect property taxes, including the applicable municipal tax rates. Additionally, Liberty NYW can seek applicable functional and economic obsolescence from the New York State Office of Real Property Tax Services.

Q. Does historical data for SA1 support the Company's methodology for forecasting property taxes?

A. No. For SA1, as reported in the Company's 2025 Annual Report filed with the Commission, the net plant balances for calendar years 2023, 2024, and 2025 were $432,663,568, $468,004,338, and $503,542,978, or an overall increase of 16.4 percent from calendar year 2023 to 2025. However, in the Company's supplemental response to DPS-186 and response to DPS-242, the Company indicated that it paid property taxes of

$30,125,804, $30,574,659, and $31,010,102 in each of the calendar years 2023, 2024, and 2025, or an increase of only 2.9 percent from calendar year 2023 to 2025.

Q. Does historical data for SA2 support the Company's methodology for forecasting property taxes?

A. No. For SA2, as reported in the Company's 2025 Annual Report filed with the Commission, the net plant balances for calendar years 2023, 2024, and 2025 were $168,624,824, $192,313,478, and $197,798,467, respectively, or an overall increase of 17.3 percent from calendar year 2023 to 2025. However, in its supplemental response to DPS-186 and response to DPS-242, the Company indicated it paid property taxes of $13,297,073, $14,143,345, and $14,333,094 in each of the calendar years 2023, 2024, and 2025, or only an increase of 7.8 percent. These trends clearly show that future property taxes cannot be reasonably forecasted solely by the ratio of net plant to property taxes.

Q. What methodology does the Panel recommend be used to forecast the Company's Rate Year

property taxes?

A. The Panel proposes to use a three-year average annual growth rate.

Q. Please explain how the Panel developed its three-year average annual growth rate for SA1 and SA2.

A. The Panel compared the Company's property taxes for calendar years 2022 through 2025 for SA1 and for SA2, including both Merrick District and Sea Cliff District in SA2. Based on this information, the Panel developed an average three-year annual growth rate of 2.0 percent for SA1, 5.9 percent for SA2 – Merrick District, and 6.4 percent for SA2 – Sea Cliff District. Then, the Panel applied the three-year average annual growth rates to the Company's Historic Test Year property taxes to forecast the property taxes for calendar year 2026. The Panel applied the same growth rates to forecast the property tax expenses for calendar years 2027 and 2028.

Q. What is your forecast of property tax expense in the Rate Year?

A. Based on prorating our forecasted property taxes for 2027 and 2028, our methodology results in a

forecasted Rate Year property tax expense of $32,545,263 for SA1, $12,778,372 for SA2 – Merrick District, and $3,626,979 for SA2 - Sea Cliff District, or a combined total SA2 property tax of $16,405,351. This results in a decrease the Company's Rate Year forecast for property taxes of $1,696,523 for SA1 and an increase of $720,487 for SA2.

Income Taxes

State Income Taxes

Q. What state corporate income tax rate did the Company reflect in its rate filing?

A. As shown in Schedule 9 of the Company's Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's Rate Year state income tax rate is 8.45 percent. This rate includes the New York State corporate income tax rate of 6.5 percent and the metropolitan transportation business tax, referred to as the MTA tax, of 1.95 percent.

Q. Does the Panel have any concerns about the state corporate income tax rate the Company reflected in its rate filing?

A. Yes. The state corporate income tax rate

increased to 7.25 percent for businesses with income over $5.0 million as part of the New York State Fiscal Year 2022 Executive Budget. As part of the New York State Fiscal Year 2027 Enacted Executive Budget, New York extended the tax rate of 7.25 percent through 2029.

Q. Does this extension of the state corporate income tax rate impact the MTA tax rate?

A. Yes. The MTA tax rate is 30.0 percent of the corporate state income tax rate, or 2.18 percent, resulting in an overall state corporate income tax rate of 9.42 percent for businesses with income over $5.0 million.

Q. Given these concerns, does the Panel recommend any adjustments to the state corporate income tax rate for the Rate Year?

A. No, not at this time.

Q. Please explain. In response to DPS-382, Liberty NYW states it does not meet the $5.0 million threshold for the 7.25 percent tax rate, since the Company has a significant net operating loss carryforward that would limit its New York business income for some considerable time into the future.

Q. What does the Panel recommend?

A. The Panel recommends that the Company provide additional information in its rebuttal testimony related to the net operating loss carryforward that would lower its New York business income for future periods, including the derivation of the net operating loss, the amount of the net operating loss, whether the net operating loss is associated with its regulated or unregulated businesses, and how Liberty NYW should record the loss and the associated tax benefits for ratemaking purposes.

Q. Did the Panel prepare a schedule reflecting the Rate Year forecast of state income tax expense for each service area?

A. Yes. Based on the overall corporate state income tax rate of 8.45 percent, Schedule 5 of Exhibit__(SAP-1) and Exhibit__(SAP-2) present our calculation of Rate Year New York State income tax expense for SA1 and SA2.

Federal Income Taxes

Q. Did the Panel prepare a schedule showing the Rate Year forecast of federal income tax expense for each service area?

A. Yes. Schedule 6 of Exhibit__(SAP-1) and Exhibit__(SAP-2) present our calculation of Rate Year federal income tax expense for SA1 and SA2.

Rate Base

Plant In Service

Q. Is the Panel recommending any adjustments to the Company's Rate Year forecast for plant-in-service?

A. Yes. We are reducing the Company's plant-in-service forecast by $7,689,064 for SA1 and $2,320,387 for SA2 to account for the adjustments discussed in the Staff Infrastructure and Operations Panel.

Accumulated Reserve for Depreciation

Q. Is the Panel recommending any adjustments to the Company's Rate Year forecast of the accumulated reserve for depreciation?

A. Yes. We are reducing the Company's accumulated reserve for depreciation forecast by $232,568 for SA1 and $256,293 for SA2 to account for the adjustments discussed in the Staff Infrastructure and Operations Panel.

Advances in Aid of Construction

Q. What is the Company's forecast for advances in

aid of construction, referred to as AIAC?

A. In the Company's initial filing, as shown in Schedule 2 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast for AIAC was ($293,150) for SA1 ($140,504) for SA2. In the Company's C&U filing, as shown in Schedule 2 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the Company's updated Rate Year forecast for AIAC is ($296,739) for SA1 and ($136,915) for SA2.

Q. Is the Panel recommending any adjustments to the Company's Rate Year forecast for advances in aid of construction, referred to as AIAC?

A. Yes. As shown in its response to DPS-302, the Company determined that the balances recorded in AIAC of ($293,150) for SA1 and ($140,504) for SA2 relate to accrued sick bank balances. These balances were inadvertently reflected in rate base when Liberty Utilities Co. purchased the regulated New York Water from American Water Work Company, Inc. in January 2022. As these AIAC balances should not be included in Liberty NYW's rate base, the Panel is recommending the AIAC balances for SA1 and SA2 be removed. This

results in increases to rate base of $296,739 for SA1 and $136,915 for SA2.

Working Capital: Prepayments

Q. What are the Company's prepayment amounts included in working capital for the Rate Year?

A. In the Company's initial filing as shown in Schedule 2 of Exhibit__(RRP-1) and Exhibit__(RRP-2), the Company's Rate Year forecast of prepayments was $1,641,151 for SA1 and $671,706 for SA2. In the Company's C&U filing, as shown in Schedule 2 of Exhibit__(RRP-CU-1) and Exhibit__(RRP-CU-2), the updated Rate Year forecast of prepayments is $3,371,840 for SA1 and $1,113,210 for SA2. The Company updated the prepayment balances to reflect a 13-month average balance, covering the period December 2024 through December 2025, as its Rate Year forecast.

Q. Does the Panel agree with the Company using a 13-month average to forecast the Rate Year?

A. No. We recommend using a 13-point average, consisting of half of the first month and half of the thirteenth month, and the full months in between and dividing the sum by 12, for the

average balance, instead of a 13-month average.

Q. Has the Commission generally adopted the practice of using a 13-point average to forecast most of the items included in rate base?

A. Yes. The Commission has generally adopted the practice of using the 13-point average for most rate base items and reiterated such ratemaking practice on page 22 of the Order Establishing Rates, issued August 14, 2019, in Case 18-G-0730.

Q. Does the Panel recommend excluding any costs from the 13-point average?

A. Yes. We recommend excluding costs from the amounts for "P Card Clearing" and "Billable Clearing" from the calculation of the 13-point average.

Q. Why does the Panel recommend excluding these amounts from the calculation of the 13-point average?

A. In response to DPS-219, the Company stated the account "Billable Clearing" is related to an invoice that was billed to a contractor for water main damages that may be uncollectible. Therefore, this represents an outstanding

account receivable balance rather than a prepayment. Regarding the amounts for "P Card Clearing," the Company stated the account is used to enter employee expense reports as prepaid, and when the credit card statement is paid the account balance is cleared. Therefore, this account represents reimbursements to employees for travel expenses rather than prepayments for future goods or services.

Q. Does the Company agree with excluding the amounts associated with the "P Card Clearing" and "Billable Clearing from the calculation?"

A. Yes, in response to DPS-317 the Company agreed these amounts should be excluded.

Q. Please quantify your adjustment to prepayments.

A. Excluding the amounts for "P Card Clearing" and "Billable Clearing," and calculating prepayments using a 13-point average, results in an increase of $217,762 for SA1 and a decrease of $18,297 for SA2.

Accumulated Deferred Income Taxes

Q. Does the Panel have any adjustments to the accumulated deferred income tax, referred to as ADIT?

A. Yes. The Panel is adjusting ADIT to reflect the impact of the adjustments addressed in the testimony of the Staff Infrastructure and Operations Panel to the Company's forecasted plant-in-service.

Q. Please quantify your adjustments.

A. Our adjustment decreases the Company's forecasted ADIT for SA1 of ($14,383,340) by $553,915, resulting in ADIT of ($13,829,425). Our adjustment decreases the Company's forecasted ADIT for SA2 of ($8,261,927) by $76,335, resulting in ADIT of ($8,185,592).

Unamortized Balances of Regulatory Deferrals

Q. Does the Panel have any adjustments to the unamortized balances of the regulatory deferrals reflected in rate base?

A. Yes. We have adjustments to the following unamortized balances: rate case expense, AFFF MDL settlement deferral, pension and OPEB settlement gain, NRA deferral, property tax settlement deferral, and the tank painting deferral.

Q. Please explain your adjustment to the unamortized balance of rate case expense.

A. Our recommended adjustments to the Company's rate case expense deferral result in unamortized balances of $1,068,710 for SA1 and $493,102 for SA2, compared to the Company's unamortized balances of $1,171,067 and $568,767 for SA1 and SA2, respectively. These adjustments decrease the unamortized rate case expense reflected in rate base by $102,357 for SA1 and $75,666 for SA2, as shown in Schedule 7 of Exhibit__(SAP-1) and Exhibit__(SAP-2).

Q. Please explain your adjustment to the unamortized balance of AFFF MDL settlement deferral.

A. Our recommended adjustments to the Company's AFFF MDL settlement deferral result from the absence of unamortized balances for AFFF MDL Settlement Deferral in rate base for SA1 and SA2, as we recommend passing the settlement funds received to date back in their entirety in the Rate Year, which we discussed earlier. Therefore, we are removing the Company's unamortized balance of $3,704,664 for SA1 as shown in Schedule 7 of Exhibit__(SAP-1) and the Company's unamortized balance of $1,616,530 for

SA2 as shown in Schedule 7 of Exhibit__(SAP-2).

Q. Please explain your adjustments to unamortized balances related to pension and OPEBs.

A. Pension and OPEBs expenses represent deferred compensation that is earned by employees today, but paid out at a future date. Because these expenses do not represent actual cash payments, the Commission's Pension Policy Statement states that the variances resulting from pension and OPEB reconciliations should not be included in rate base. Instead, cash flows from pension and OPEB expenses are tracked in an internal reserve that records carrying costs on debit balances outside of rate base. As such, we are removing the unamortized balance of the SA2 pension settlement gain from rate base in the Rate Year, which increases rate base by $333,006.

Q. Please explain your adjustment to the unamortized balance relating to the NRA.

A. As the Panel recommends passing back the entire NRA in the Rate Year, there would be no unamortized balances associated with the NRA in rate base for SA1 and SA2. Therefore, the Panel is removing the Company's unamortized balance of

$48,257 for SA1 as shown in Schedule 7 of Exhibit__(SAP-1), and the Company's unamortized balance of $23,219 for SA2 as shown in Schedule 7 of Exhibit__(SAP-2).

Q. Please explain your adjustment to the unamortized balance property tax settlement deferral.

A. Since the Panel recommends passing back the entire property tax settlement in the Rate Year, there would be no unamortized balances associated with the property tax settlement deferral in rate base for SA1 and SA2. Therefore, the Panel is removing the Company's unamortized balance of $1,012 for SA1 as shown in Schedule 7 of Exhibit__(SAP-1), and the Company's unamortized balance of $54,570 for SA2 as shown in Schedule 7 of Exhibit__(SAP-2).

Q. Please explain your adjustment to the unamortized balance of the tank painting deferral.

A. Our recommended adjustment to the Company's tank painting deferral results in an unamortized balance of $841,867 for SA1 compared to the Company's unamortized balance of $1,115,763 for

SA1. This adjustment decreases the unamortized tank painting deferral reflected in rate base by $273,896 for SA1, as shown in Schedule 7 of Exhibit__(SAP-1).

Reconciliations

Property Tax Reconciliation

Q. Is the Company currently authorized to use a deferral reconciliation mechanism for property taxes?

A. Yes. Under the 2024 Rate Order, which adopted a Joint Proposal and implemented a three-year rate plan, the Commission authorized the Company to defer 90 percent of the difference between its actual property taxes and the amounts reflected in the rate plan.

Q. Did the Company request to continue this reconciliation as part of its rate filing?

A. Yes.

Q. Does the Panel support continuing the Company's existing property tax reconciliation as proposed by the Company?

A. No. The Panel does not support the reconciliation for a one-year rate plan.

Q. Please explain.

A. The Panel is making recommendations for setting rates for a single Rate Year, as compared to the three-year term of the rate plan adopted in the 2024 Rate Order. In addition, the Panel anticipates that any material changes to latest known bills will be updated through the Brief on Exception phase of this proceeding. These factors reduce the Company's risk in forecasting property tax expense for the Rate Year. And the Company should bear the risk in the same manner as with other cost-of-service elements not subject to reconciliation. As a result, there is no need for a property tax reconciliation for the single Rate Year.

Medical Cost Balancing Account

Q. Did the Company propose a reconciliation for healthcare costs?

A. Yes. As discussed on pages 22 to 24 of the initial testimony of the Company's Regulatory Panel, the Company proposes to implement a medical cost balancing account to track the difference between the healthcare expenses adopted in rates and the actual healthcare expenses the Company incurred.

Q. Please describe the Company's proposed reconciliation.

A. The Company proposes to record 85 percent of the difference between the healthcare expenses adopted in rates and the actual healthcare expenses the Company incurs in the medical cost balancing account as either a debit or a credit depending on if the actual costs incurred exceed, or are less than, the amounts adopted in rates. Fifteen percent of the difference between the healthcare expenses adopted in rates and the actual health care expenses incurred by the Company would remain at risk to the Company's shareholders. The medical cost balancing account would either provide for a balance to be collected by the Company or to be refunded to customers.

Q. What is the Commission's long-standing practice regarding forecasting health care expenses?

A. The Commission's long-standing practice is to escalate health care costs by the general inflation rate, as measured by the GDP price deflator. The Commission established this policy in Commission Opinion No. 84-27 Case

28695, Rochester Telephone Corporation (issued October 12, 1984) and reaffirmed in numerous Commission decisions stated at page 13:"The treatment of medical insurance costs as one factor in a large pool of expenses subject to inflation should produce a reasonable result, because some items will increase at a rate greater than inflation and others at a lower rate."

Q. Does the GDP price deflator reflect increases in health care costs?

A. Yes. As previously discussed, the GDP price deflator measures inflation in the prices of goods and services including health care costs. Thus, changes in the GDP price deflator reflect changes in health care costs.

Q. Do all of the cost components of the GDP price deflator escalate at the same rate?

A. No. As discussed on pages 42-43 of the Commission's March 25, 2008, Order Establishing Rates for Electric Service in Case 07-E-0523, the Companies are expected to manage the cost increases in the entire inflation pool covered by the GDP price deflator, rather than

predicting changes in health care costs separately from the other cost components in its general inflation pool.

Q. Why is it unreasonable to use a health care cost reconciliation as proposed by the Company?

A. In the June 26, 2014, Order Establishing Rates in Case 13-W-0295, the Commission explained that the generic inflation rate is an average of inflationary and deflationary changes in the prices of all the various goods and services in the pool of costs to which inflation is applied. Some costs in the generic inflation pool are expected to increase at a greater rate than the general inflation rate while others are not. If medical expenses are expected to increase at a higher rate than general inflation, it does not justify creating a reconciliation solely for one expense included in the pool.

Q. What does the Panel recommend regarding the Company's proposal for a healthcare cost reconciliation?

A. We recommend the Company's proposed healthcare reconciliation not be implemented based on the Commission's standard practice of escalating

medical expenses by the GDP price deflator.

Water Conservation Program

Q. What is the Company's current budget for this program?

A. In the 2024 Rate Order, the Commission established a three-year budget of $1,120,363, or $365,502, $373,324 and $351,537 for the twelve months ending March 31, 2025, 2026, and 2027, respectively.

Q. How much has the Company spent on this program to date?

A. In the initial testimony of Kimberly Dragoo, the Company states it spent $17,225 for the twelve months ended March 31, 2025, and $52,959 for the twelve months ended March 31, 2026. Further, the Company forecasts spending $250,000 for the twelve months ending March 31, 2027.

Q. How did the Company develop its forecast for the twelve months ending March 31, 2027?

A. In response to DPS-289, the Company indicated that it anticipates a fully subscribed low-income program (non-peak), strong participation in the Peak Program and reductions in outreach in education.

Q. Does the Panel have any concerns regarding the actual spending compared to the amounts authorized by the Commission for the water conservation program?

A. Yes. In aggregate, for two years of the program, or the 24 months ending March 31, 2026, the Company only spent $70,184 out of an authorized budget of $738,826. Further, based on the Company's historical spending for those periods, we do not believe the Company's forecasted spending for the twelve months ending March 31, 2027, to be reliable.

Q. Does the Panel have any recommendations going forward regarding this program?

A. Yes. The 2024 Rate Order stipulates that any underspent water conservation funds at the end of the three-year rate plan must be available for dispersal in the Company's next rate proceeding. As previously indicated, the Company only spent an aggregate amount of $70,184 for those years out of an authorized rate allowance of $738,826. With such an insignificant amount spent on the water conservation program, the Panel recommends that

unspent funds from the program be deferred for the future benefit of customers.

Q. Does this conclude the Panel's testimony at this time?

A. Yes.