Attachment NWD 2-1-B

Revised Surrebuttal Testimony of Jason Mumm (Clean)

REVISED PRE-FILED SURREBUTTAL TESTIMONY

OF

JASON MUMM

January 13, 2025

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INTRODUCTION

Q. Please state your name, place of employment, and business address.

A. My name is Jason Mumm. I am a Principal of FCS, a Bowman Company, a firm specializing in water, wastewater, stormwater, solid waste, and electric utility rates and charges. My business address is 323 3rd Ave. Suite 100, Longmont, CO 80501.

Q. Have you testified in this Docket previously?

A. Yes. My direct testimony was filed on October 25, 2024. My surrebuttal testimony was filed on December 23, 2024. I am updating my surrebuttal testimony based on Portsmouth Water and Fire District's responses to Newport's Second Set of Data Requests.

Q. Has your business addressed changed since the filing of your direct testimony in this Docket?

A. Yes. The address above is current.

Q. Could you please describe the purpose of your testimony?

A. The purpose of my testimony today is to respond to the rebuttal testimony Mr. Harold Smith and Mr. Robert C. Shultz Jr., as filed on November 26, 2024.

Q. Could you please explain the structure of your testimony?

A. First, I address Mr. Smith and Mr. Schultz Jr.'s comments regarding Newport's annual funding to the Debt Service restricted account. Second, I respond to Mr. Schultz Jr. and Mr. Smith's arguments regarding the reasonableness of Newport's requests for rate year increases without justification in several expense categories. Third, I respond to Mr. Schultz Jr.'s testimony regarding Newport's incentives in negotiating their collective bargaining agreement to the benefit of its ratepayers. Fourth, I offer a proposal for an electricity and chemical rate rider in response to Mr. Smith and Mr. Schultz Jr.'s requests for more information. Fifth and finally, I provide a brief explanation of my alternative proposed rate model, with workbooks attached as JGM Schedules A-1 through A-16.

1. DEBT SERVICE RESTRICTED ACCOUNTS

Q. **Please address your concerns with Mr. Smith's and Mr. Schultz Jr.'s rebuttal testimony concerning annual contributions to the Debt Service reserve account.**

A. Both Mr. Smith and Mr. Shultz Jr. offered rebuttal testimony concerning my direct testimony on this matter. First, Mr. Smith asserts that the annual contribution to the Debt Service restricted account should "maintain a meaningful balance…to ensure that funds needed to make debt service payments are available when those payments are due, especially during periods when lower than expected revenues might limit Newport's ability to fully fund its restricted accounts." Mr. Schultz Jr.'s testimony makes a nearly identical argument. While I agree in principle that revenues can vary for water utilities and that Newport should carry reasonable reserves for such occasions, I disagree that the restricted Debt Service reserve account is the appropriate vehicle for holding those reserves. Earlier in my direct testimony, I proposed eliminating certain restricted reserves – the Chemicals and Electricity accounts - and combining them with the Revenue Reserve account that, together with the general operating account, would provide a minimum of 135 days of unrestricted working capital. These newly unrestricted reserves should be more than adequate to address normal variations in net revenues.

Second, Mr. Smith and Mr. Schultz Jr. argue that surplus balances may be necessary because Newport may need those funds to secure financing for "large capital projects…that will likely need to be funded with future borrowings." By their own testimony, however, neither Mr. Smith or Mr. Shultz Jr. are able to identify the projects or quantify the necessary debt service obligations to fund them. The notion that revenue requirements may be higher in the future is not justification for over-funding the Debt Service restricted account today. The Commission's role is to provide for the recovery for Newport's known and measurable revenue requirements, which is reasonably achieved by the reductions I proposed in my direct testimony. Those reductions pose little or no threat to Newport's ability to pay the currently anticipated debt service obligations shown in HJS D-5.

Third, Mr. Smith suggests that lowering the annual contributions as I proposed in my direct testimony would only lead to increasing the amounts later in order to secure additional debt and demonstrate sufficient debt service coverage. However, Mr. Smith provides no calculations or other supporting information to substantiate this concern. If debt service coverage is or ever has been an issue, then Newport should provide evidence to support such a claim. Furthermore, in my opinion, Newport can address this concern more appropriately by seeking approval from the Commission for increases to its revenue requirements if and when new borrowing requirements present themselves.

In sum, Newport has not substantiated its request to continue over-funding the Debt Service restricted account beyond what is necessary to service Newport's existing debt. It is my opinion, therefore, that the reductions to Newport's debt service funding that I proposed in my direct testimony will appropriately balance the competing interests of providing (relatively small) relief to ratepayers and ensuring that Newport continues to have sufficient funds to meet its debt service obligations, as calculated in its existing revenue requirement.

Q. Please address your concerns regarding Mr. Shultz Jr.'s rebuttal testimony about the effect of revenue shortfalls on the funding of the Debt Service restricted account.

A. I have two concerns. First, Mr. Shultz Jr. cites Newport's response to PWFD 3-2, in which Newport claims that "Newport has experienced revenue shortfalls due to lower than expected water sales that have prevented the periodic funding of its restricted accounts." In reviewing HJS Schedule D-5, I noted only two instances when Newport transferred funds from another account due to low account balances in the Debt Service account. Those events occurred in fiscal years 2015 and 2016 and on both occasions the funds were immediately transferred back to the Capital Restricted Account from where they had come. In the fiscal year 2015 instance, the transfer did not appear to be necessary in retrospect, meaning Newport would have been able to make its debt service payment in the month in question – September – even without the transfer. In fiscal year 2016, the transfer was necessary, but the shortfall was immediately remedied within a month. The sort of revenue shortfall preventing periodic funding of the Debt Service account has, therefore, resulted in a short cash position in that account in just one month in the last ten years. Therefore, in my opinion, the Commission should reject both Mr. Smith's and Mr. Shultz Jr.'s argument that Newport should be allowed to overfund the Debt Service restricted account, and carry an oversized balance, as a hedge against something that has occurred so rarely. Moreover, as I have already testified, the proposed unrestricted funds from the combined Electricity, Chemical, Revenue Reserve, and general operating account would be more than adequate to address normal risks from revenue variations.

Second, Mr. Schultz Jr. does not agree that Newport should reduce its funding to account for interest earned. This is concerning because revenue requirements should always be reduced for non-rate revenues, and interest earnings are non-rate revenues. In HJS D-5, I note that Newport did not account for interest earnings in its forecast of the Debt Service account balance. Even still, the lowest projected balance during the four-year rate plan was $785,529 in August 2028. If one were to account for reasonable interest at four percent (4%) – citing the one-month Treasury rate for December 2024 is currently 4.46% (as of Dec. 17, 2024) – and further reduce the monthly contributions by the $200,000 per year amount I proposed in my direct testimony, I project Newport would still have over $400,000 in its Debt Service account by August 2028. My calculations are provided in JGM Schedule A-16. It is unclear whether Newport Water maintains a significant cash balance and whether it generally holds its cash reserves in interest bearing accounts. Based on the most recent account statements provided in this docket by Newport, only the Debt Service and Revenue Reserve account appear to earn interest; the others do not. To the extent that Newport holds substantial amounts of cash, it would be appropriate both for Newport to manage that money, in every account, so that it earns a reasonable rate of return, and to apply those interest earnings as non-rate revenues for the benefit of customers to reduce rates and mitigate the need for future rate increases. Per HJS Schedule A1-A, Newport only applied $20,000 in interest income as a non-rate revenue, far less than the recent interest income in the Debt Service restricted account alone.

2. MISCELLANEOUS RATE YEAR INCREASES

Q. Mr. Shultz Jr. states that your testimony describing Newport's explanations for its substantial cost increases is an "unfair characterization." Do you agree or wish to modify your testimony at this time?

A. I do not agree, but I wish to clarify my testimony. The statements in my direct testimony were fair in the context of a general base rate case, in which the Commission approves water rates that allow Newport to recover its known and measurable costs, assuming those costs are both reasonable and prudently incurred. There is no disagreement between my testimony and that of Mr. Shultz Jr. or Mr. Smith that Newport should be allowed to recover its known and measurable costs. Instead, my testimony poses legitimate questions about the reasonableness of those costs, by questioning whether Newport has sufficiently explained its many, very large rate year increases.

Q. Regarding Newport's requested increases for Salaries and Wages, do you agree that your proposal that the Commission deny rate increases tied to newly created positions will put Newport in a "catch-22" position?

A. No. Mr. Shultz Jr. argues that my proposal means that "Newport can't hire for these positions if it doesn't have funding, but since these positions have not yet been filled Newport should be denied funding." He also contends that Newport cannot "absorb" costs of new salaries or salary increases without dipping into its other operating expenses or filing a new rate case. However, Mr. Schultz Jr.'s arguments do not consider the impacts of eliminating certain restricted accounts. Those newly unrestricted funds could be used to address normal variations in net revenues as well as variations in costs, including for new hires or salary increases.

Mr. Schultz Jr.'s argument also is nonresponsive to my direct testimony. In response to COMM 1-2, Newport indicated that it was struggling to fill existing vacant positions, and I commented on this fact in my direct testimony by stating that "Newport Water demonstrated it has not even been able to fill the positions it already has authorized." The question, therefore, is truly about how many vacancies ratepayers are reasonably expected to pay for in this rate case. Are the new positions known? Yes. Are they measurable? Yes. Are they reasonable? Perhaps not, if one considers past evidence of unfilled vacancies. Newport's request to fully fund such vacancies asks the Commission to assume a vacancy rate unsupported in the Docket. I simply question whether such a request is reasonable.

I propose that the Commission approve salaries and wages for existing positions only. Alternatively, if Newport can quantify the costs of specific new positions it has included in its original application and the costs of increases salaries to make hiring more competitive, Newport could seek permission to modify its multi-year rate plan, if and when it actually fills those positions and implements those salary increases. Either approach would respond to my concerns about overburdening ratepayers with the costs of vacant positions.

Q. Do you believe Mr. Schultz Jr.'s rebuttal testimony provides sufficient justification for the rate year increases Newport proposes for Repairs and Maintenance, Main Maintenance, Service Maintenance, and Laboratory Supplies?

A. No. Mr. Shultz Jr. contends that "Newport has to deal with expenses as they currently exist" and "cannot ask for less revenue to meet current expenses based on an assumption that costs will decrease in the future," and argues that I offered no evidence to my statement that "there is a reasonable likelihood that market shifts will result in decreased supply costs of the life of the rate plan." In this instance, Mr. Shultz Jr. mischaracterizes my testimony by omission.

My testimony states that Newport's proposed increases in these costs *"inherently proposes to make permanent the historically high costs as a result of inflation in recent years*, without accounting for the likelihood that market shifts will result in decreased supply costs for the life of the rate plan." (emphasis added). Again, the question here is not whether Newport has accurately represented current costs, but whether it is a reasonable expectation for ratepayers to bear that level of cost for the entire four-year plan. Newport's proposed revenue requirements are based in large part on FY2023 results, which included the effects of the highest inflation rates the US has seen in nearly 40 years. The question I pose in my testimony is whether it is reasonable for the Commission to accept historically high prices as a permanent feature of Newport's water rates for the next four years, especially when the proposed rate year adjustments represent a twenty-five percent (25%) increase over the last audited levels.

Q. Do you believe Mr. Schultz Jr.'s rebuttal testimony offers sufficient justification for miscellaneous rate year increases under $30,000?

A. No. Mr. Shultz Jr. takes issue with my testimony regarding lack of information to support the proposed increases for expenses that did not reach the $30,000 demarcation point. First, he argues that choosing a "demarcation point" is standard practice, not only for Newport, but other regulated utilities as well. Even assuming this is true, in my opinion, the Commission should be concerned about any unexplained rate year increases. Here, Newport is proposing that these smaller expenses should increase permanently (for the next four years) by an average of approximately sixty-three percent (63%) over the normalized test year. Furthermore, Newport asks the Commission to approve those increases without any specific investigation as to their reasonableness. To my knowledge, the Commission has no practice or policy that would allow Newport to increase its rate year expenses over test year amounts without justification, simply because the increases pertain to smaller expenditures.

Second, Mr. Schultz Jr. argues that "Mr. Mumm has not offered any position of his own about why certain expenses are not justified, or what expense levels should be." Newport, however, bears the burden of proving that its requested rate increases are reasonable and prudent. It is the role of intervenors such as Portsmouth Water and Fire District to point out to the Commission where Newport has failed to carry that burden. That is what I have done in my direct testimony, where I stated that "[u]nless Newport Water provides a reasonable justification for these costs, the Commission should not allow any increase from the test year expense. Accordingly, absent specific justification for the rate year increases below the 'demarcation point' of $30,000, the Commission should approve only test year amounts for those expenses."

Q. Do you agree with Mr. Smith's testimony that Newport has justified its various rate year increases over normalized test year amounts based on the fact that the "test year used in this filing does not accurately reflect rate year expenses"?

A. No. Mr. Smith states that using a historical test year "usually results in an accurate estimate of rate year expenses, but only when the test year accurately represents the cost associated with operating and maintaining a utility, which is not the case in this rate filing." Mr. Smith seems to suggest that the data from the test year (FY 2023) is too old to be accurate and reliable for a 2025 rate year, and this should excuse Newport from having to specifically justify each proposed rate year increase over test year amounts. It is my understanding, however, that Newport requested and the Commission agreed to allow Newport to use 2023 test year data for a 2025 rate year, even though that is outside of the usual timespan allowed for rate filings. Having received special permission to use outdated numbers, Newport cannot now point to the age of its test year information as the justification for its rate year increases, without further explanation. Newport should be required to explain for every expense category it seeks to increase over test year amounts what has changed since 2023, what is driving the cost, whether those costs are expected to be permanent or temporary due to difficult recent market conditions, and what Newport has done to mitigate them.

3. UNION CONTRACT NEGOTIATIONS

Q. Do you wish to address Mr. Shultz Jr.'s rebuttal regarding Newport's incentives in negotiating their collective bargaining agreement to the benefit of its ratepayers?

A. In my direct testimony, I stated that Newport's proposal to include a one percent salary adjustment placeholder as part of its four-year rate plan would offer "no incentive for Newport Water to negotiate in the benefit of its ratepayers because it will simply be able to pass on those costs to ratepayers without evaluation of their reasonableness." Mr. Shultz Jr. argues that the proposal includes compliance filings wherein the Commission will have the opportunity to review the reasonableness of union contracts and modify the rates as necessary. I should note that my testimony is limited to economic incentive and is not any kind of implication of Newport's record as a negotiator in these situations.

The concern here is that by asking for and receiving authorization for the one percent adjustment as proposed, Newport would establish a presumption of reasonableness for any outcome at or below that level. In my opinion, I do not think that presumption should exist prior to the negotiations. As discussed above, Mr. Shultz Jr. suggests that my approach could result in Newport absorbing salary increases at the expense of other operational needs. This is not an accurate representation of my proposed approach. My direct and surrebuttal testimonies state clearly that Newport should be allowed to recover its known, measurable, and reasonable costs. Asking for approval of increases of an amount that you know is going to change later is not consistent with these ordinary ratemaking principles.

In this particular instance, the salary increases for union employees are not known or measurable, and it remains to be seen whether they are reasonable.

4. ELECTRICITY AND CHEMICAL RATE RIDER PROPOSAL

Q. **Have you prepared a proposal for the chemical and electricity rate riders as initially discussed in your direct testimony?**

A. Yes. I prepared the calculations for the proposed rate riders in manner consistent with Portsmouth's other proposals in this case as more fully described in my alternative revenue requirement model attached as JGM Schedules A1-A16, which I will describe later in my surrebuttal testimony. JGM Schedule A-11 illustrates a proposed electricity rate rider. JGM Schedule A-12 illustrates the chemical rate rider. JGM Schedule A-13 presents the proposed revisions to Newport's volumetric rates assuming the Commission implements the rate riders as proposed in my exhibits.

Q. **Do your proposed rate riders require Newport to do anything differently with respect to its rate filing?**

A. Yes. With the electricity rate rider, Newport would need to allocate all electricity costs to Base rather than the other cost components. Newport's cost allocation approach assigns some electricity costs to Max Day, Max Hour, Metering, Billing, Services, and Fire components. By allocating all electricity costs to the Base component, the rate rider can easily be applied directly to customer usage. Secondly, there are two electricity rate riders in my proposal: one that applies to all customers – which I've called the "Joint" electricity costs – and a second that applies only to customers using the transmission and distribution system. Notably, Portsmouth is excluded from this latter rider because it does not receive any transmission and distribution cost allocations based on Newport's filing. Based on Schedule A-11, the rate riders are $0.543 per one thousand gallons for all customers, and an additional $0.023 per one thousand gallons for all transmission and distribution customers.

The chemical rate rider requires fewer considerations. Newport already allocates all chemical costs to the Base component, and all chemical costs are already shared among all customer classes as "Joint" costs. The chemical rate rider is therefore determined as total chemical expenses divided by total demand, or $1.047 per one thousand gallons.

If the rate riders are put in place, then the base volumetric rates need to be reduced to avoid double-recovery of the costs. JGM Schedule A-13 demonstrates the applicable reductions.

Q. What will Newport need to do to update the rate riders each year?

A. Generally speaking, Newport will need to submit to the Commission cost verification for its electricity and chemical expenses. Additionally, Newport would need to validate or update the expected usage levels for each of its customer classes and then perform the necessary but simple calculations.

Q. Is there anything the Commission needs to do differently if it implements the rate riders as you have proposed?

A. The Commission may wish to specify the cost justification it will require of Newport in order to ensure a speedy process, bearing in mind that the review process for updates to rate riders is intended to be simplified and streamlined.

Q. Will the proposed rate riders recover the same revenue as currently proposed in Newport's rate filing?

A. Yes. The point of implementing the rate rider is not to deny Newport legitimate cost recovery, but to protect both Newport and the ratepayers as electricity and chemical costs change over time. The proposed rate riders come from the concern that the current electricity and chemical costs are historically high right now. The proposed rates would lock-in those high costs, whereas the rate riders would provide a variable cost recovery mechanism more responsive to rapidly changing costs driven by market conditions beyond Newport's control.

5. ALTERNATIVE RATE MODEL

Q. Did you prepare an alternative rate model on behalf of Portsmouth Water and Fire District?

A. Yes.

Q. Please briefly explain the differences between your alternative rate model and the most current version of Newport's rate model.

A. The key differences include removing the rate year adjustments that Newport has proposed for each instance in which Portsmouth does not believe Newport has carried its burden in proving its requested rate year increases or decreases represent known, measurable, reasonable, and prudently incurred costs. This specifically includes costs that fall below Newport's $30,000 demarcation point. In such cases, Portsmouth contends that the Commission should only grant the costs from the normalized test year. A list of the adjustments to the operating and maintenance expenses is included in JGM Schedule A-1. JGM Schedule A-2 includes the $200,000 reduction in annual funding of the Debt Service restricted account as discussed in both my direct and surrebuttal testimony. Schedule A-1 and Schedule A-2 both include a brief narrative explanation for my proposed changes in the column titled "Reason for PWFD Adjustments." JGM Schedule A-4 summarizes the revisions to Newport's requested revenue requirement for the FY2025 rate year. All adjustments are shown relative to the revised schedules sponsored in the rebuttal testimony of Mr. Smith.

Q. Did you make any other changes from Newport's rate model?

A. Only a minor one. As discussed in my surrebuttal testimony above regarding the rate riders, I changed the allocation of electricity costs to Base only. These changes can be verified in JGM Schedule A-5. Because I was working from Mr. Smith's printed schedules rather than the Microsoft Excel workbook, because the workbook has not yet been provided, I was forced to estimate several allocation factors in JGM Schedules A-14 to A-15. I believe my improvisations may result in minor variations that could be easily corrected if I were give the correct inputs.

Q. Can you summarize the effect of these changes on the FY2025 rate year?

A. The total revenue requirement is reduced by $1,025,164 per JGM Schedule A-4. This reflects a $825,164 reduction to Newport's operating and maintenance expenses, shown in JGM Schedule A-1, and a $200,000 reduction to Newport's Debt Service restricted account, shown in Schedule JGM A-2. With the exception of the electricity costs, I recalculated the unit costs for each customer class using the same allocation processes as Newport. After reallocating the remaining costs, I determined the base rate for Portsmouth would go down by $0.23 per thousand gallons, approximately 3%. The indicated rates for other classes would also decrease.

Q. Does your alternative rate model address Newport's proposed step increases?

A. Yes. My alternative rate model eliminates Newport's proposed step increases related to union contract adjustments, the costs of which are not yet known and measurable. As such, it is my opinion that Newport has not justified the reasonableness or prudence of those increases.

Q. Does this conclude your testimony?

A. Yes.