GENERAL RATE FILING

DIRECT TESTIMONY

OF TIMOTHY J. MICHAELSON

August 2013

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

RIPUC Docket No.

Submitted by:

United Water Rhode Island Inc.

Q. Please state your name and business address.

A. Timothy J. Michaelson. My business address is 200 Old Hook Road, Harrington Park, New Jersey 07640.

Q. Please summarize your educational background and other qualifications.

A. I graduated from Saint Thomas Aquinas College with a Bachelor of Science Degree in Accounting in 1990 and Iona College with an MBA in Finance in 2000.

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

A. United Water Management & Services ("UWM&S"), which I joined in November of 1994. During my employment I have worked in the Corporate Accounting and Corporate Planning Departments as an Accountant, Planning Analyst, Planning Manager and Planning Director. I also worked as the Director of Finance for United Water's New Jersey Division and as Director of Finance for United Water's Regulated Segment. In May of 2009 I joined the Regulatory Business Department where I currently work as Director.

Q. Please describe your qualifications and work experience.

A. My responsibilities as Director include; managing rate filings and other regulatory issues for United Water's regulated companies as well as the preparation and presentation of testimony and exhibits in support of the Company's request for a change in rates presented before various state regulatory commissions. I manage a staff of three Regulatory professionals and prepare and deliver regulatory / finance training to employees of United Water's Regulated Segment.

Q. What regulatory agencies have you previously appeared before and presented expert witness testimony?

A. I have testified before the Connecticut Department of Public Utility Control in Dockets; 07-04-11RE01, 10-01-16, 10-03-18, 10-04-22, 10-09-08, 12-03-07 and 12-03-08, before the New York State Public Service Commission in Case 09-W-0731 and before the State of Rhode Island and Providence Plantations Public Utilities Commission in Docket 4255.

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

A. I will be sponsoring the Company's Rate Base and Depreciation Expense.

Q. Describe the approach you have taken in preparing the Company's Rate Base for the Rate Year.

A. First the Rate Base for the Test Year was developed, the elements of which are shown on the Test Year Rate Base Summary - Exhibit 4 (Michaelson), Schedule 1, Page 3 of 5. Next, each element was forecasted, starting with actual results at December 31, 2012, through the end of the proposed Rate Year in the following manner:

a. Utility Plant In Service – As shown on Exhibit 4 (Michaelson), Schedule 3, forecasted monthly Plant Additions and Retirements are added to / subtracted from each month's beginning Plant Account balance, starting with December 31, 2012 and ending at December 31, 2014. The average Plant in Service balance by Plant Account is calculated by adding each month's ending balance, starting with December 31, 2013 and ending at December 31, 2014 and dividing by 13 months and is shown on Page 13 of the Exhibit. This average Plant in Service balance of $28,149,420 is also shown on Exhibit 4 (Michaelson), Schedule 1 Page 5 of 5 and is part of the Average Rate Base calculation used for ratemaking purposes in this proceeding. A summary of Plant in Service by Plant Account is shown on Exhibit 4 (Michaelson), Schedule 2.

b. Accumulated Depreciation - Exhibit 4 (Michaelson), Schedule 3 first calculates monthly Depreciation Expense for each Plant Account by taking its prior month's Balance, adding and subtracting one-half of the current month's additions and retirements and then applying 1/12 of the annual depreciation rate for each Plant Account. The monthly Accumulated Depreciation balances are calculated by adding the current month's Depreciation Expense to, and subtracting any current month retirements from, the prior month's Accumulated Depreciation Balance. The average Accumulated Depreciation Balance is calculated by adding each month's ending balance, starting with December 31, 2013 and ending at December 31, 2014 and dividing by 13 months (as shown on Page 13 of the Exhibit).

Cost of removal was also adjusted as applicable. The average Accumulated Depreciation of ($7,003,970) is also shown on Exhibit 4 (Michaelson), Schedule 1 Page 5 of 5.

c. Contributions in Aid of Construction (CIAC) – Forecasted monthly contributed mains and services were added to the prior month's CIAC balance, starting at the December 31, 2012 balance from the Balance Sheet, to determine new monthly balances for 2013 and 2014. The average CIAC of ($3,533,455) used in the Rate Base calculation sums the forecasted monthly balances from December 31, 2013 through December 31, 2014 and divides by 13. The calculations are contained in Exhibit 4 (Michaelson), Schedule 4. This Exhibit also calculates incremental monthly amortization, total monthly amortization and monthly Accumulated Amortization of CIAC balances which are also contained in Exhibit 4 (Michaelson), Schedule 3. The amortization of CIAC has been included as a reduction in calculating the annual Depreciation Expense of $600,370 in the filing.

d. Accumulated Deferred Income Taxes (ADIT) – Exhibit 4 (Michaelson), Schedule 5A is a summary of the projected Deferred MACRS, AFUDC Equity and Cost of Removal balances for 2013 and the Rate Year. Schedule 5B calculates the monthly Deferred FIT – MACRS balances by taking the difference between the Book and Tax Depreciation Expense and multiplying by the Federal Tax rate of 35%. Schedule 5C contains the calculations for Deferred FIT – AFUDC Equity and Cost of Removal.

Finally, Schedules 5D through 5H detail the Book Depreciation (from Schedule 3) and Tax Depreciation on existing assets (pre-2013) and projected 2013 and 2014 assets.

e. Unamortized Investment Tax Credit (ITC) – See Exhibit 4 (Michaelson), Schedule 9 for annual amortization and unamortized balances of investment tax credits. Monthly balances in 2013 and 2014 were calculated by deducting the current month's amortization of ($389) from the prior month's balance. The average Unamortized ITC is calculated using the 13 month method described previously for other items of rate base.

f. Materials and Supplies – For the Rate Year, the Company has included the average balance calculated for the Test Year using the 13 month averaging methodology previously discussed.

g. Cash Working Capital (CWC) – The Company is including an allowance for CWC of $287,684 calculated using the 1/8 of Operation and Maintenance expenses methodology.

h. Deferred Tank Painting – Exhibit 4 (Michaelson), Schedule 6 calculates the unamortized deferred Tank Painting balance. The Company painted two tanks in 2008 (Howland Aerator and Sherman) and completed the Boston Neck Tank in December, 2012. Unamortized balances are calculated by subtracting current month amortization (over 10 years) from the prior month's balance. The schedule also calculates the deferred tax impact on the monthly unamortized balance. An average of 13 months (projected

December 31, 2013 through projected December 31, 2014) is calculated and included in Rate Base.

i. Deferred Rate Case Expense – As described in Ms. Gil's testimony, the Company is projecting a total of $270,000 for costs related to filing a fully adjudicated rate case. In its last case, Docket 4255, the Company was granted an amortization period of 4 years for rate case expenses, however, we are anticipating that investments in the near future, most likely within the next 2 years, will create the need for the Company to file for additional rate relief. Consequently, we are requesting a 2 year amortization period for rate case expenses projected for the instant filing. Exhibit 4 (Michaelson), Schedule 7 calculates the monthly Deferred Balances from April, 2013 (when the Company started incurring costs related to filing the current Rate Case) until the estimated end of the statutory period (December, 2013). At the end of 2013, the unamortized balance from the previous case of $138,957 is added to the unamortized balance of the current case of $270,000 and that balance of $408,957 is then amortized over 2 years. A 13 month average calculation as described above was used to calculate the Rate Base impact.

j. Unfunded FAS-106 – Projected unfunded FAS-106 expenses were added to the ending December 31, 2012 balance to calculate monthly balances for 2013 and 2014. The Company first calculated the historic unfunded percentage (77.5% - shown on Exhibit 4 (Michaelson), Schedule 8A) and then applied this percentage to its expected FAS-106 expense for 2013 and 2014. One twelfth of the unfunded 2013 and 2014 expenses were added to the previous month's unfunded balance to determine the current month's balance. Finally, the Deferred Tax impact was calculated and a 13 month average of the net balance from December 2013 through December 2014 was used to determine the amount to be included in Rate Base.

Q. How was adjusted Depreciation Expense calculated on Exhibit 3, Schedule 21?

A. As described in subsection (b) above; monthly Depreciation Expense is calculated by taking the prior month's Plant Account Balance, adding/subtracting one-half of the current month's additions/retirements and then applying 1/12 of the annual depreciation rate for each Plant Account. For the Rate year, each month's expense was added to arrive at the $600,370 figure used in the case. Also, as mentioned above, the amortization of CIAC is included in the calculation.

Q. Does this conclude your direct testimony?

A. Yes it does.