Public Service Commission of Wisconsin
Direct Testimony of Jennifer Maly
Division of Energy Regulation and Analysis

Superior Water, Light and Power Company
Docket 5820-UR-116

August 24, 2022

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

A. My name is Jennifer Maly. My business address is 4822 Madison Yards Way, P.O. Box 7854, Madison, Wisconsin 53707-7854. I am employed by the Public Service Commission of Wisconsin (Commission) as a Public Utility Auditor in the Division of Energy Regulation and Analysis.

Q. Please describe your education background and experience.

A. I graduated from Upper Iowa University in 2003, receiving a Bachelor of Science degree with a major in Accounting. Prior to my position with the Commission, I worked as an Agricultural Auditor for 5 years with the Wisconsin Department of Agriculture, Trade and Consumer Protection where I primarily analyzed the financial statements of grain dealers, grain warehouses, milk contractors and vegetable contractors. After that, I worked for the Wisconsin Department of Administration as an Auditor in the State Controller's Office for 13 years. In this position, I audited state agencies for compliance with applicable statutes and policies, performed balance sheet and ledger reconciliations, reconciled tax payments and developed policy recommendations to assist with business decisions. I have been employed as a Public Utility Auditor by the Commission since 2021.

Q. Please explain the purpose of this proceeding.

A. Superior Water, Light and Power Company (applicant) filed an application on April 29, 2022 for authority to change its electric, natural gas, and water rates effective January 1, 2023. The application included financial data for the 2023 test year. The applicant requested a $2,831,000 or 3.10 percent increase for electric operations, an increase of $1,520,000 or 8.65 percent for natural gas utility operations, and a decrease of $1,078,000 or 9.55 percent for water utility operations.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Commission, and all parties in this proceeding, with a proposed income statement, average net investment rate base, and revenue requirement for the test year ending December 31, 2023 to be used as a basis for determining final rates in this docket.

Q. Are you sponsoring any exhibits with your direct testimony?

A. Yes, I am sponsoring one exhibit. Ex.-PSC-Maly-1 is entitled *Superior Water, Light and Power Company, Estimated Operating Income Statement, Net Investment Rate Base, and Estimated Revenue Requirement for the Test Year Ending December 31, 2023*.

Q. Was this exhibit prepared by you or at your direction?

A. Yes, it was.

Q. Please summarize Commission staff's estimated revenue deficiency for the applicant's electric, natural gas, and water operations.

A. Based on its audit, Commission staff estimates that the applicant requires a $2,357,000 or 2.57 percent increase in revenues for electric operations, a $1,527,000 or 7.07 percent increase for natural gas operations, and a $826,000 or 7.29 percent decrease to water operations. These calculations are based on a 10.00 percent rate of return on common equity, which will be described further in the direct testimony of Commission staff witness Justin Adams.

Q. **Please explain Schedules 1, 2, and 3 of your exhibit.**

A. Schedules 1, 2, and 3 show the applicant's filed 2023 test-year income statements and net investment rate bases for its electric, natural gas, and water utilities, respectively, compared with Commission staff's estimates.

Q. **Please explain Schedule 4 of your exhibit.**

A. Schedule 4 lists Commission staff's individual adjustments to the applicant's filed estimated income statements and net investment rate bases for the 2023 test year for the electric, natural gas, and water utilities.

Q. **Please explain the sales revenue modifications in Adjustments 1 of Schedule 4.**

A. The sales revenue modifications include Commission staff's adjustment to the electric, natural gas, and water utilities revenues for the 2023 test year.

Q. **Please continue by explaining the electric operations sales revenue modification in Adjustment 1 of Schedule 4.**

A. Electric sales revenue increased $351,229 to reflect Commission staff's forecasted kilowatt hour (kWh) usage to two EP3 customers and an increase in purchased power costs.

Q. **Please explain the natural gas sales revenue modification in Adjustment 1 of Schedule 4.**

A. Natural gas sales revenue increased $4,024,392 to reflect the updated forecast of purchased gas costs and for adjustments to the applicant's filed Act 141 present credit rates and to the large energy customer cap amount.

Q. Please provide an explanation for the water sales revenue modifications in Adjustment 1 of Schedule 4.

A. Water sales revenue increased $38,289 to reflect Commission staff's adjustments for a decrease in this historical trend for Account 461.1 Residential and Account 461.2 Commercial metered sales, adding the 5-year average for Account 465 Other Water Sales and, updating the customer count for Account 461.5 Multifamily metered sales.

Q. Please explain Adjustment 2 of Schedule 4.

A. Other operating electric revenues increased $577,520 to reflect the applicant's updated transmission lease agreement, and Commission staff's recalculation of forfeited discounts.

Q. Please explain Adjustment 3 of Schedule 4.

A. The increase in purchased gas was due to the applicant providing an update to its index pricing from January 6, 2022 to June 29, 2022 based on the Henry Hub futures prices.

Q. Please explain Adjustment 4 of Schedule 4.

A. Commission staff increased purchased power by $369,321 to reflect the implementation of the purchase power providers new rates effective July 1, 2022, which increased both energy and demand purchased power.

Q. Please explain Adjustment 5 of Schedule 4.

A. Adjustment 5 relates to the conservation escrow which is discussed in the direct testimony of Commission staff witness Mitch Horrie.

Q. Please explain Adjustment 6 of Schedule 4.

A. Commission staff decreased Account 920 (Administration and General Salaries) for the disallowance of incentive compensation based on historic Commission practice.

Q. Please explain Adjustment 7 of Schedule 4.

A. Adjustment 7 reflects the change to estimated depreciation expense which is discussed in the direct testimony of Commission staff witness Jill Rose.

Q. Please explain Adjustment 8 of Schedule 4.

A. Adjustment 8 reflects Commission staff's decreased test-year expenses related to Taxes Other Than Income Taxes. The decrease is based on Commission staff's estimate of payroll taxes.

Q. Please explain Adjustments 9 and 10 of Schedule 4.

A. Adjustment 9 and 10 reflect the impact to Deferred Income Taxes and Income Taxes resulting from Commission staff's adjustments to revenue requirement previously discussed.

Q. Please explain Adjustments 11 through 14 of Schedule 4.

A. These adjustments relate to average net investment rate base which are discussed in Ms. Rose's testimony.

Q. Please describe Schedule 5.

A. Schedule 5 shows the applicant's test-year weighted average cost of capital, ratepayer cost of capital, and times interest coverage before and after taxes, at various returns on common stock equity. The returns on common stock equity shown are 9.80 percent, 10.00 percent, 10.20 percent, and 10.40 percent, respectively. Commission staff used a point estimate for the return on common stock equity of 10.00 percent, as described by Commission staff witness Justin Adams in his direct testimony. The test-year weighted average cost of capital, assuming a 10.00 percent return on common stock equity, is 6.88 percent.

Q. Please explain Schedules 6, 7, and 8.

A. Schedules 6, 7, and 8 show the calculation of required rate of return on rate base, assuming returns on common stock equity of 9.80 percent, 10.00 percent, 10.20 percent, and 10.40 percent. The calculation reflects the Commission staff estimated test-year Ratio of 85.98 percent. Consistent with the last rate case, the applicant has not requested a current return on any of the construction work in progress. The required return on net investment rate base for the electric, natural gas, and water utilities at the Commission staff's proposed 10.00 percent return on common stock equity is 8.00 percent.

Q. Please explain Schedules 9, 10, and 11.

A. These schedules convert the required returns shown on Schedules 6, 7, and 8 to required overall and percentage changes. At the Commission staff proposed return on common stock equity of 10.00 percent, Schedule 9 shows a revenue deficiency of $2,357,000 or 2.57 percent for the electric utility; Schedule 10 shows a revenue deficiency of $1,527,000 or 7.07 percent for the natural gas utility, and Schedule 11 shows a revenue surplus of $826,000 or 7.29 percent for the water utility. A change of twenty basis points in the return on common equity would adjust the electric revenue requirement by approximately $81,000, the natural gas revenue requirement by approximately $30,000, and the water revenue requirement by approximately $63,000.

Q. Please explain Schedule 12.

A. Schedule 12 is a listing of the deferred accounts previously approved for the applicant and the associated amortization expense.

As a result of the ratemaking process, and with reasonable assurance by a regulatory commission of future cost recovery, utilities sometimes include allowable costs in a period other than the period in which those costs would be charged to expense by an unregulated enterprise in accordance with Generally Accepted Accounting Principles. These differences usually relate to the timing of the recognition of a cost. The result of these timing differences is the creation of deferred accounts. The Commission's policy on deferred accounts is set forth in the Commission staff's Accounting Policy Team Statement of Position 94-01 (SOP 94-1), approved by the Commission on February 23, 1995.

Q. Please discuss the applicant's Manufactured Gas Plant (MGP) amortization request.

A. The applicant is seeking Commission approval for deferral treatment of additional Manufactured Gas Plant costs of $519,969 for the period of 2023 through 2026. The applicant is also requesting that any additional costs incurred after December 31, 2021 be deferred until the applicant's next rate proceeding. While a five-year amortization period was initially established in docket 6680-UR-108, the amortization period used in subsequent rate cases has generally been four to six years to coincide with biennial filings with materiality also being a consideration. Given the applicant's amortization period is consistent with past Commission practice, the Commission may wish to consider granting the requested treatment.

Q. Do you have any other comments relating to amortization requests?

A. Yes. The applicant is seeking Commission approval to amortize the deferred COVID-19 regulatory asset authorized in docket 5-AF-105[1] and the remainder of the tax reform refunds associated with the Tax Cut and Jobs Act authorized in docket 5-AF-101[2] over

[1] Order, authorized March 24, 2020 (PSC REF # 386353); Supplemental Order – First, authorized May 14, 2020 (PSC REF # 389500); Supplemental Order – Second, authorized August 28, 2020 (PSC REF # 39608); Supplemental Order – Third, authorized December 22, 2021 (PSC REF # 427781)
[2] Order, authorized January 5, 2018 (PSC REF # 335622)

the two-year period of 2023 through 2024. As the Orders in both dockets authorized and addressed recovery of these costs, the Commission may wish to consider granting the requested treatment. The Commission may also wish to consider requiring a final true-up of the regulatory liability balances in dockets 5-AF-105 and 5-AF-101 in the applicant's next rate proceeding.

Additionally, in the Final Decision[3] in dockets 5820-TE-101, 5820-TG-101, and 5820-TW-101, the Commission authorized the applicant to use deferral accounting treatment and to implement escrow accounting treatment for the bad debt associated with its Arrears Management Program for its electric, gas, and water customers. In this proceeding the applicant is seeking Commission approval to amortize the resulting bad debt amounts over a two-year period of 2023 and 2024. Given the applicants received Commission authorization for the deferral and escrow treatment, the Commission may wish to find the amortization request to be reasonable.

Finally, in docket 5820-UR-115[4] due to an explosion at the Husky Superior Refinery (Husky), the Commission authorized and required the applicant to create a regulatory liability for water revenues, net of Account 632, Purchased Power for Pumping and Account 641, Chemicals to record revenues above the amount forecasted for Husky in that rate proceeding. Further, the regulatory liability with carrying costs at the short-term debt rate were to be returned to ratepayers in a future rate proceeding. In this proceeding, the applicant is seeking Commission approval to amortize the regulatory liability balance over a two-year period of 2023 through 2024. As the Commission previously authorized the deferral and regulatory liability, with carrying costs, the

[3] Final Decision, authorized September 29, 2021 (PSC REF # 421660)
[4] Final Decision, authorized December 20, 2018 (PSC REF # 35880)

Commission may wish to consider the amortization request reasonable. Additionally, the applicant's expectation is that Husky will return to normal operations in 2023 and is therefore requesting to end the deferral accounting treatment as of December 31, 2022. However, given the lag time for billing, the Commission may wish to consider requiring a final true-up of the Husky regulatory liability balance in the applicant's next rate proceeding.

Q. Do you have any other comments?

A. Yes. On behalf of Commission staff, I will offer a delayed exhibit marked Ex.-PSC-Data Request-Responses entitled *Commission Staff Data Request Responses* which will include the individual questions asked as well as links to the responses provided by the applicant.

Additionally, if there are several public comments received in this proceeding, I will offer a delayed exhibit titled Ex.-PSC-Public Comments.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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