

**STATE OF VERMONT
PUBLIC UTILITY COMMISSION**

The Village of Ludlow Electric Light)
Department's tariff filing requesting an)
overall rate increase in the amount of)
21.50%, to take effect July 1, 2025)

Case No. 25-_____

**PREFILED TESTIMONY OF

STEVEN FARMAN

ON BEHALF OF
VILLAGE OF LUDLOW ELECTRIC LIGHT DEPARTMENT**

Mr. Farman's testimony supports the calculation of Ludlow's cost of service and explains the adjustments made to test year expenses to arrive at the proposed cost of service.

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VILLAGE OF LUDLOW ELECTRIC LIGHT DEPARTMENT**

1 Q1. Please state your name, position, and business address.

2 A1. My name is Steven Farman. I am a Senior Analyst in the Planning and Support Department
3 at the Vermont Public Power Supply Authority ("VPPSA"), 5195 Waterbury-Stowe Road,
4 Waterbury Center, Vermont 05677.

5

6 Q2. Please provide a summary of your background and experience.

7 A2. My resume is attached as Exhibit LED-Farman-1.

8

9 Q3. Have you previously testified before the Public Utility Commission ("Commission" or
10 "PUC")?

11 A3. I testified in Docket No. 7915 on behalf of the Village of Lyndonville Electric Department,
12 Docket No. 8024 on behalf of Swanton Village, Inc. Electric Department and submitted pre-
13 filed testimony in Docket No. 5623 and other Green Mountain Power cases that settled before
14 hearings commenced. I have also prepared and submitted a number of tariff filings on behalf
15 of VPPSA members in recent years.

16

1 Q4. What is the purpose of your testimony?

2 A4. My testimony sets forth the Village of Ludlow Electric Light Department's ("Ludlow" or
3 "LED") cost of service ("COS") calculation and explains the known and measurable
4 adjustments made to test year expenses in arriving at that proposed COS. The primary COS
5 summary and supporting schedules included with my testimony are:

- 6 • Cost of Service Summary Exhibit LED-Farman-2
- 7 • Summary of Adjustments Exhibit LED-Farman-3
- 8 • Attachment B, Summary of Labor & Misc. Adjustments Exhibit LED-Farman-4
- 9 • Attachment C, Debt Service Summary Exhibit LED-Farman-5
- 10 • Attachment D, Comparison of Present & Proposed Rates Exhibit LED-Farman-6

11
12 I provide a complete list of my exhibits at the end of my pre-filed testimony.
13

14 Q5. Please generally describe the overall COS study and the magnitude of the rate increase
15 being requested by Ludlow in this case.

16 A5. Ludlow's COS calculation is based on a calendar 2024 test year, taking revenues and expenses
17 from LED's financial statements. There are fourteen (14) adjustments to the test year, as
18 detailed on the Summary of Adjustments, Exhibit LED-Farman-3, that bridge to the COS rate
19 year, July 1, 2025, through June 30, 2026. The test year COS was \$8,170,489. Adjustments
20 to the test year amounted to \$1,915,327 resulting in a requested rate year COS of \$10,085,816.
21 Additional rate year revenues of \$130,371, resulting from a 1.99% partial year rate increase
22 that took effect June 1 of the test year, reduced the additional revenue requirement in this case
23 to \$1,784,956. The requested increase represents a proportional increase to rates across all
24 classes of 21.50%. Exhibit LED-Farman-6, Attachment D shows the revenue at present and
25 proposed rates for the full cost of service.

26
27 The \$1,784,956 adjustment is accounted for primarily by a \$478,930 increase in power supply

1 costs, a \$228,382 increase in labor costs, a \$168,871 increase in health and benefits expense,
2 an \$856,719 adjustment to net income resulting in a rate year net income value of \$8,406 and
3 a TIER ratio of 2.0. The remainder of the increase results from a number of small adjustments
4 to other operating expenses. I discuss each adjustment in further detail below.

5
6 Q6. Please explain the \$478,930 adjustment to Purchased Power expense on line 10 of the filed
7 COS schedule, Exhibit LED-Farman-2.

8 A6. The \$478,930 adjustment on line 10 of the COS schedule represents the net difference
9 between rate year and test year purchased power and transmission by others (“TBO”) costs
10 that flow through the VPPSA CDA process, as summarized on Ms. D’Arcy’s Exhibit LED-
11 HD-VLED-1. In general, these rate year power costs were derived by adjusting the test year
12 power costs for known contract changes, updated to reflect market prices at the time of filing
13 and reflect certain other known and measurable changes. In her testimony, Ms. D’Arcy
14 discusses the changes from test year power costs in more detail. Note that certain purchased
15 power costs are classified differently or recorded in a different period by LED compared to
16 the way they are invoiced by VPPSA through the CDA billing process. These costs are
17 included as a separate line item on Exhibit LED-Farman-2, as they are not included in HD-
18 VLED-1 and are addressed below in Question 7.

19
20 Q7. Please explain the direct Purchased Power expense on line 11 of the filed COS schedule,
21 Exhibit LED-Farman-2.

22 A7. The \$339,116 direct test year power cost on line 11 of the COS schedule includes small audit
23 adjustments correcting differences in the period in which McNeil and MMWEC (Stony
24 Brook) invoices are recorded. VPPSA treats the December bills for these two units as January
25 charges and LED’s auditors require that these be adjusted into December on LED’s books,
26 creating a discrepancy between the VPPSA CDA bills and purchased power as recorded on
27 LED’s books. In addition to these timing differences, LED classifies RES costs that are

1 invoiced outside of the CDA billing process by VPPSA as purchased power on LED's books.
2 The details of these test year line items are shown on Exhibit LED-Farman-7. The \$14,774
3 adjustment to the rate year reflects the increase from the test year RES cost of \$321,075 to
4 \$335,849 for the rate year, as shown on Ms. D'Arcy's Exhibit HD-VLED-10. In her
5 testimony Ms. D'Arcy discusses the changes from test year RES costs in more detail. After
6 including the Adjustment to RES costs, the Direct Purchased Power rate year value is
7 \$353,890.

8
9 Q8. Please explain the Labor Adjustment and how it is applied to various line items in the filed
10 COS schedule, Exhibit LED-Farman-2.

11 A8. The Labor Adjustment is summarized on Exhibit LED-Farman-10A. This exhibit details the
12 test year and rate year values for functional categories of payroll expense, showing a total
13 adjustment to the test year of \$228,382. This adjustment reflects a 5% wage increase
14 applicable to non-union employees effective January 1, 2025, and an 8.1% increase for union
15 employees, also effective January 1, 2025, in accordance with the union contract. This
16 adjustment also includes a 5% increase for all employees effective January 1, 2026. The
17 current union contract is included in Exhibit LED-Farman-10B. In addition to routine wage
18 increases, the adjustment includes a new Lineman Supervisor/Safety Officer position that
19 contributes \$125,000 to the overall base wage. The detailed calculation and functional
20 breakdown is shown on Exhibit LED-Farman-10A and the adjustment to each functional
21 category is discussed individually below.

22
23 Q9. Please explain the adjustment of \$172,073 to Distribution expense on line 13 of the filed COS
24 study schedule, Exhibit LED-Farman-2.

25 A9. This adjustment reflects the \$172,073 labor adjustment for this functional category, as shown
26 on Exhibit LED-Farman-10A.

1 Q10. Please explain the adjustment of \$26,052 to Customer and Sales expense on line 14 of the
2 filed COS study schedule, Exhibit LED-Farman-2.

3 A10. This adjustment reflects the \$26,052 labor adjustment for this functional category, as shown
4 on Exhibit LED-Farman-10A.

6 Q11. Please explain the adjustment of \$199,128 to A&G expense on line 16 of the filed COS study
7 schedule, Exhibit LED-Farman-2.

8 A11. This adjustment has two components. The first is a \$30,258 increase in labor costs as shown
9 in Exhibit LED-Farman-10A.

10
11 The second component of the A&G adjustment is a \$168,871 increase in the cost of group
12 benefits including health, dental, vision, retirement and life insurance as shown in Exhibit
13 LED-Farman-13.

15 Q12. Please explain the \$90,658 adjustment to test year Depreciation Expense shown on line 22 of
16 the filed COS study schedule, Exhibit LED-Farman-2.

17 A12. This \$90,658 adjustment represents the effect of 2024 net plant additions, planned installation
18 of larger regulators in the Howard Barton Jr. substation and the pending purchase of a bucket
19 truck scheduled for mid-summer delivery. This calculation is shown on Exhibit LED-Farman-
20 11A.

22 Q13. Please explain the \$42,224 adjustment to test year Property tax shown on line 26 of the filed
23 COS study schedule, Exhibit LED-Farman-2.

24 A13. This \$42,224 adjustment results from a significant increase in the State's valuation of LED
25 assets for the 2025/2026 tax year. Since the new tax rates are not yet known, LED has applied
26 current test year rates to the new valuation data to calculated rate year property taxes. This

1 calculation is shown on Exhibit LED-Farman-11A.

2
3 Q14. Please explain the \$8,925 adjustment to the Weatherization tax shown on line 27 of the filed
4 COS study schedule of Exhibit LED-Farman-2.

5 A14. This adjustment is calculated as 0.5% of the overall revenue increase to the retail cost of
6 service shown on line 60 of the filed COS study schedule, Exhibit LED-Farman-2.

7
8 Q15. Please explain the \$20,822 adjustment to the Payroll tax shown on line 28 of the filed COS
9 schedule.

10 A15. This adjustment is calculated by applying the test year average payroll tax rate to the overall
11 payroll expense adjustment reflected in the case. This calculation is shown on Exhibit LED-
12 Farman-10A.

13
14 Q16. Please explain the \$9,371 adjustment to the Gross Revenue tax shown on line 30 of the filed
15 COS study schedule, Exhibit LED-Farman-2.

16 A16. This adjustment is calculated as 0.525% of the overall revenue increase to the retail cost of
17 service shown on line 60 of the filed COS study schedule, Exhibit LED-Farman-2.

18
19 Q17. Please summarize LED's Long-Term Bonds and related interest expense.

20 A17. LED's existing long-term bonds are summarized on page 1 of Attachment C, Exhibit LED-
21 Farman-5. There is one existing note with an outstanding balance of \$118,996 as of December
22 31, 2024, and a second note with a December 31, 2024, balance of \$98,540. Rate year
23 principal and interest payments for the outstanding debt are \$60,153 and \$8,406 respectively,
24 based on established amortization schedules. Exhibit LED-Farman-12 reproduces the
25 December 2022 through December 2026 portion of the monthly schedules for principal and
26 interest payments on these notes on a monthly basis, thus supporting the rate year principal

1 and interest values reflected on Attachment C, Exhibit LED-Farman-5.

2
3 Q18. Please explain the adjustment to Long-Term Interest expense shown on line 37 of the filed
4 COS study schedule, Exhibit LED-Farman-2.

5 A18. This adjustment is calculated as the difference between test year and rate year long-term
6 interest costs as summarized on Attachment C, Exhibit LED-Farman-5 of the filing
7 documents. As indicated on Attachment C, Exhibit LED-Farman-5, rate year interest expense
8 is \$8,406, resulting in a -\$662 adjustment from test year interest expense levels of \$9,068.

9
10 Q19. Please explain the adjustment to Net Income shown on line 40 of the filed COS study
11 schedule, Exhibit LED-Farman-2.

12 A19. LED is requesting an \$856,719 adjustment to the test year net loss of -\$848,312 which would
13 adjust rate year net income to \$8,406, resulting in a TIER ratio of 2.0. .

14
15 Q20. Please provide the COS schedule, Exhibit LED-Farman-2 in live formula, native excel format.

16 A20. Exhibit LED-Farman-15 provides the entire COS model in live formula, native excel format;
17 this includes the “live” version of Exhibit LED-Farman-2 as well as many of other key
18 exhibits that are also embedded in the electronic model. Those exhibits that are not embedded
19 in the COS model are being filed in live, excel format as well.

20
21 Q21. Please provide LED’s projected capital expenditures.

22 A21. Exhibit LED-Farman-14 provides LED’s projected capital expenses for the 2025-2027
23 period.

24
25 Q22. Does this conclude your testimony?

1 A22. Yes it does.

EXHIBIT LIST

Exhibit LED-Farman-1	Resume of Steven Farman
Exhibit LED-Farman-2	Cost of Service Summary
Exhibit LED-Farman-3	Summary of Adjustments
Exhibit LED-Farman-4	Attachment B, Summary of Labor & Misc. Adjustments
Exhibit LED-Farman-5	Attachment C, Debt Service Summary, Reserve Calculation
Exhibit LED-Farman-6	Attachment D, Comparison of Present & Proposed Rates
Exhibit LED-Farman-7	Purchased Power Classification
Exhibit LED-Farman-8	Reserved
Exhibit LED-Farman-9	Reserved
Exhibit LED-Farman-10A	Labor Adjustment Summary
Exhibit LED-Farman-10B	Union Contract
Exhibit LED-Farman-11A	Depreciation & Property Tax Expense Adjustment
Exhibit LED-Farman-11B	Reserved
Exhibit LED-Farman-12	Bond Amortization Schedules
Exhibit LED-Farman-13	Medical & Dental Insurance Premium Adjustments
Exhibit LED-Farman-14	LED Capital Expenditures
Exhibit LED-Farman-15	“Live” Cost of Service model