on the hourly wages and weekly salaries for its full-time equivalent positions at ~~June~~ April 26, 2021 on an annualized basis (through ~~June~~ April 2022) compared to the actual payroll expense in the test year.[12] Despite the fact that it had only 68 full-time equivalent employees at ~~June~~ May and June 1, 2021, it assumed that it had 70 full-time equivalent positions at that date for its adjustment.[13]

In the first step, the Company calculated the average hourly costs in the test year using the per books regular salaries and wages, overtime salaries and wages, and other salaries and wages, divided by the number of hours for the costs incurred in each of those payroll categories.

In the second step, the Company calculated the forecast average hourly costs using the average cost per hour for hourly employees and the weekly salaries divided by 40 hours for the salaried employees for each position at ~~June~~ April 26, 2021.

In the third step, the Company multiplied that forecast average cost per hour times an assumption of 70 positions times 2080 annual hours to quantify the total proforma payroll costs for the next twelve months ending in ~~June~~ April 2022.

In the fourth step, the Company calculated the proposed increase in total payroll costs by subtracting the actual total payroll costs incurred in the test year from the proforma total payroll costs for the twelve months ending in ~~June~~ April 2022.

In the fifth step, the Company calculated the expense amount of the proforma increase in total proforma payroll costs using the actual payroll expense

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[12] Schedule 1.12 Wages and Salaries.

[13] Response to AG 2-10, which shows that the Company actually had 68 full-time equivalent employees at the end of May and end of June 2021. I have attached a copy of this response as my Exhibit___(LK-4).

ratio from calendar year 2020.

Q. Are there problems with the Company's proforma adjustment to increase payroll expense?

A. Yes. There are several problems. First, the total payroll cost calculated in this manner is a forecast annual cost for the twelve months ending in ~~June~~ April 2022 (~~July~~ May 2021 through ~~June~~ April 2022), which extends ~~30~~ 28 months after the end of the historic test year. As I noted in a prior section of my testimony, this is inconsistent with any coherent conceptual framework for a test year.

Second, the calculation methodology results in a hypothetical payroll cost. Typically, the annualization of payroll costs for ratemaking purposes is based on an actual payroll, not a hypothetical payroll. Utilities that rely on a historic test year typically annualize the payroll cost using the last payroll of the historic test year. In this case, the Company did not use an actual payroll cost, or even an actual payroll from ~~June~~ April 2021, or even the actual number of full-time equivalent employees in May and June 2021.[14]

Third, the calculation methodology calculates the expense portion of the *increase* in the hypothetical total payroll cost over the test year total payroll cost rather than calculating the expense portion of the hypothetical total payroll cost compared to the actual test year payroll expense. The Company used the expense

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[14] In his Direct Testimony at 9, Mr. Jeffrey Williams, CFO of the Company, states that the Company presently has 67 employees, yet it calculated the proforma total payroll costs assuming 70 employees without disclosing this fact in its testimony and without providing any support for this assumption embedded in its request.